

February 2020

**Q&A Session at the Financial Results Briefing
For the Nine Months of the Fiscal Year Ended March 31, 2020**

[Time & Date] 16:00 to 17:00, Wednesday, February 5, 2020

[Respondent] Yukio Yokoyama, Director, CFO and Managing Executive Officer

1. Domestic Business

Q. As the downtrend in the domestic consumer goods market continued, the instant noodles' sales have been robust since October. What is the background to this?

A. As instant noodles were subject to a reduced tax rate, there was no impact from the consumption tax hike. While the instant noodles business was able to appeal to national brands (NB) with strong brand power, sales of low-priced products such as *ASSARI OISHII CUP NOODLE* and *MYOJO HYOBANYA* were also robust. In the market environment affected by economic trends such as the consumption tax hike, the instant noodles business maintained its sales volume even after the price increase, and steadily increased both NB products and low-priced products, which led to revenues.

Q. Despite the price revision, I think this is an environment in which the volume is steadily increasing, while the costs of operations and raw materials are gradually increasing. Are there any possibilities of raising prices again?

A. We are not considering raising prices at this point. If the business environment changes significantly in the future, there is a possibility that we will consider raising prices, but there is no particular plan.

2. Overseas Business

Q. Please describe how revenues and sales volume grew with respect to U.S., Mexico, Brazil, Hong Kong and China in the third quarter (October to December) .

A. In U.S., revenues grew by mid-single digits percentage, and sales volume sold fell by the first half of a single digit percentage. Mexico saw double-digit percentage growth in revenues and a single digit percentage increase in sales volume. In Brazil, revenues grew by the latter half of the single digit percentage, and sales volume grew by the first half of the single digit percentage. Revenue in Mainland China grew by double-digit percentage, and the sales volume increased by

the first half of the single digit percentage. In Hong Kong, revenues were on par with the previous year, and sales volume grew by mid-single digits percentage.

Q. Please describe if you raised prices in major countries between January and March 2020. What are the countries that have the potential to raise prices?

A. Currently, there are no countries or plans to raise prices. We would like to decide whether to raise prices in light of the state of inflation and materials in each country in the future. We will decide to raise prices in accordance with changes in the environment, taking into account timing and market conditions.

Q. Please tell us about the Americas' cumulative operating profit for the third quarter of FY2020, which is 3.7 billion yen higher than the previous fiscal year, divided into U.S. and Brazil. Also, what is your assessment of revenue in Brazil? Specifically, do you see the effects of the price hike, whether there was a rebound following the truck strike that occurred in the first quarter of FY2019, and whether the tax refund had an impact on third quarter?

A. The ratio of operating profit growth in U.S. and Brazil was 6:4.
Both revenue and operating profit in Brazil are strong. However, as tax refunds are also included in third quarter, the width of increase in operating profit appears to be large. Revenue has also been favorable, and *CUP NOODLES* has grown by nearly 30% compared to the previous year. Bag-type instant noodles products and cup-type instant noodles products were generally strong without cannibalization. We think our business is growing steadily despite the Brazilian economy is not growing rapidly.

Q. In the third quarter (October to December), the Americas' operating profit increased by 1.1 billion yen compared to the previous quarter, but if it were divided into U.S. and Brazil, please tell us about the ratio of the increase in operating profit.

Brazil accounts for almost all of the absolute amount of profit. The ratio of the increase in operating profits is 60% of U.S. and 40% of Brazil.

Q. Please tell us about the status of *CUP NOODLES STIR FRY* sold in U.S. and the composition of premium products.

The ratio of premium products in U.S. has been steadily rising, accounting for about 30% of total sales. Slightly less than 30% of premium products in the past increased to more than 30%. For *CUP NOODLES STIR FRY*, it is steadily expanding its sales channels in addition to retailers.

Q. What was Brazil's operating profit growth in the third quarter (October to December)? We would like to confirm whether the operating profit margin of more than 10% in 1H continues in 2H. Please tell us about the composition of CUP NOODLES. Despite a 3% increase in total sales volume (both cup-type and bag-type instant noodles products), the impact on results appears to be somewhat weak.

A. Profitability in Brazil remained unchanged since the first half of the fiscal year. *CUP NOODLES* accounts for about 7% of the total. Although the total volume is up 3%, it is performing better than our plan. In Brazil, the volume of cup-type instant noodles products is small, and the volume is not large enough to have a significant impact on the revenues as a whole.

Q. Regarding operating profit in China, what are your quantitative results for Hong Kong and Mainland China? Also, will the decline in profits in Hong Kong improve in the next fiscal year?

A. Two-thirds of operating profit in the China comes from Mainland China, which is 3 billion yen in the third quarter. The cost in Hong Kong seems to be expensive, since Hong Kong side, which is in charge of overall control of the Chinese business, bears the costs associated with the M&A in Mainland China.

Q. I thought Indonesia business was growing steadily, but revenue in Indonesia declined in the third quarter. What are the reasons for this?

A. It is slightly below initial expectations. The mainstay product *GEKIKARA* has struggled somewhat with the entry of competing products. Indonesia is considering measures to expand flavors in the future.

Q. In EMEA region, operating profit recovered in the third quarter (October to December). What are the reasons for this recovery? In addition, the EMEA region has already achieved its full-year forecasts for the third quarter. Is there any reason for the decline in operating profit in the fourth quarter (January to March)? Or will the fourth quarter continue to perform well, and will it outperform?

A. The main reasons of the favorable results were that the Hungary plant, which did not operate well in the past, gradually got on track. In addition, *Soba* and *CUP NOODLES* were steadily growing, by expanding its sales area, which had previously centered on Germany, to France and the United Kingdom.

3. FY2020 Results Forecast

Q. Please tell us about the forecasts for the fiscal year ending March 31, 2020(FY2020). It is difficult to make comparisons organically due to the emergence of special factors in FY2018 and FY2019. What do you think is the normal level of operating profit as CFO?

In addition, consolidated operating profit in the fourth quarter (January to March) is expected to be at the level of 2.0-3.0 billion yen, excluding special factors. Unless there is an impairment loss, I think it is easy to achieve the operating profit target of 37.0 billion yen in the full-year plan. What do you think about this?

A. Various non-recurring incomes and expenses might be generated and business might be affected by the market environment, so it is difficult to say it in general. Although there are many variations in the domestic business, I think that the consolidated operating profit excluding non-recurring incomes and expenses is the current actual capability.

The outlook for FY2020 is that part of the domestic business such as chilled and frozen foods and confectionery and beverages is slightly weak, but overall, they are likely to be slightly higher. However, it is unclear at this point because costs in the domestic business were carried over and costs such as raw materials, distribution costs, and other items have been rising. We are also careful because the spread of the pandemic coronaviruses (COVID-19) affects the procurement of materials. Targets for FY2020 may be met, but I'm never optimistic.

4. Impact of the pandemic coronaviruses (COVID-19) on our business.

Q. How will the outbreak of coronaviruses affect your business performance? I think that there are plants in China, which will affect both demand and supply. Please tell us about the current situation in China and your outlook for the future. Also, what measures will you take for raw materials from China?

A. The plant has been approved for operation after holidays of the spring festival in China, and although there is a shift in the operation timing depending on the area, it has gradually started to move. In China, demand for instant noodles appears to be strong, as coronaviruses tend to prevent people from going out. At present, the supply is made in the inventory before holidays, but we would like to pay close attention to the operation of the plants in the future. In addition, distributions are expected to continue to be in turmoil, so we would like to respond while watching the situation.

With regard to the procurement of materials in Japan, we have secured inventory, so there are no problems with our main products. However, for materials imported from China, we are considering changes in production areas to other countries. As a result, material costs may rise slightly.

5. Management and sales strategies

Q. Please tell us about your sales strategy for the domestic business in FY 2021. For example, what specific measures are planned to be taken regarding the reduction of SKU and the strategy for new products? Also, are there any changes or features unique to this year?

A. While we cannot speak specifically about SKU reductions at this point, I think we can clearly formulate plans for the full fiscal year ending March 31, 2020. The basic stance remains to strengthen core brands such as *CUP NOODLE*, *NISSIN-NO-DONBEI* and *U.F.O.* with aim at growing revenues through brand strategies targeting the three strategic targets of next generation, active senior, and female. In FY 2021, we believe that SKU will be reduced, products related to Tokyo 2020 Olympic and Paralympic Games will be emerged.