

**Q&A Session at the Financial Results Briefing
for the Fiscal Year Ended March 31, 2020**

[Time & Date] 13:30 to 15:00, Tuesday, May 12, 2020

[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

1. FY 2020 financial results and FY2021 plan

Q. Excluding special factors, the Americas posted an increase in operating profit of about 3.5 billion yen in FY2020. On the other hand, in FY 2021 plan, operating profit will increase by 0.2 billion yen. What is the overall background?

A. In FY2020, revenue in the U.S. increased by 5 percentage year on year. Revenue increased by 18 percentage in Mexico and 13 percentage in Brazil. Brazil accounts for a large share of operating profit.

In FY2021, we expect revenue to grow strongly on a local currency basis. However, we believe that yen-denominated revenue will either remain flat or not grow significantly due to the completion of U.S. price hike and the impact of the Brazilian exchange rate.

Q. NISSIN FOOD PRODUCTS expects operating profit to increase by about 0.4 billion yen in FY2021. I think there will be some impact from the price hike implemented in June 2019. Also, you explained about marine products as the cost increase factor. Please explain your forecasts for FY2021, including the effects of price hike and improved profits, as well as depreciation and amortization.

A. The target revenue of NISSIN FOOD PRODUCTS reflects special demand due to the impact of coronavirus diseases 2019 (COVID-19) only in April. In May, we are checking the current situation and the delivery plan so far, it has begun to settle down slightly compared to March and April. In the future, household inventories may increase, and sales may be in reaction to this increase. As the trend from next month onward is very uncertain, we have calculated the plan for May and beyond based on the business plan as before.

FY2021 plan is for revenue of 206.0 billion yen, an increase of 4.7 billion yen from the previous fiscal year. Operating profit is 28.0 billion yen, an increase of 0.4 billion yen from the previous

year. The increase in revenue accounted for about 2.2 billion yen of the increase in operating profit. In addition, we expect a decrease in approximately 0.8 billion yen of expenses due to cost savings resulting from a review of SG&A expenses and other expenses. However, we expect costs to increase by about 1.9 billion yen due to rising raw material costs and distribution costs. Depreciation, including the Kansai Plant, will increase by about 0.8 billion yen as planned. Due to a total increase in expenses of approximately 2.7 billion yen, we expect 0.4 billion yen increase in operating profit for FY2021 from the previous fiscal year.

Although our plan for FY2021 seems to be conservative in a sense, we planned this by taking uncertainty of world trends into account; for example, an increase in price of materials, marine products, such as squids, which has already tended to rise since FY2020. We also concerned about the distribution for materials procured from overseas, once the so-called second wave of a pandemic would occur. So, we think it would be better to secure as much as six months' inventory. As a result, we have a slightly conservative plan in anticipation of higher costs, such as management and warehousing costs, as well as higher prices for secondary materials.

Q. Please describe how revenue and sales volume grew with respect to U.S., Mexico, Brazil, Hong Kong and Mainland China in the fourth quarter (January-March) and the full fiscal year.

A. Revenue from U.S. increased by around mid-single digit percentage in the January-March and 5 percentage for the full year. Revenue in Mexico increased by around mid-double-digit in January-March and 18 percentage for the full year. Brazil increased by nearly double-digit growth in January-March and 13 percentage for the full year. Sales volume in U.S. rose in the first half of the single-digit range in January-March, but declined in the first half of the single-digit percentage for the full year. Mexico posted nearly double-digit percentage growth in January-March and nearly double-digit percentage growth for the full year. Brazil saw double-digit percentage growth in January-March, with mid-single-digit percentage growth for the full year.

Revenue in Hong Kong declined in the first half of the single-digit percentage in the January-March, but remained flat for the full year. Revenue in Mainland China posted first half of double-digit percentage growth in January-March and a 15percentage gain for the full year. Sales volume in Hong Kong rose in the first half of the double-digit in January-March, and increased in the first half of the single-digit percentage for the full year. Mainland China grew in the first half of the double-digit percentage in January-March and in the first half of the double-digit range for the full year.

Q. The impact of COVID-19's performance is 5.9 billion yen in revenue. What is the impact of operating profit for FY2020, and how much is the impact of COVID-19 factored into the forecast for FY2021?

A. The impact on COVID-19's operating profit is not disclosed. In terms of the forecast for FY2021, currently, we do not have enough information, so we will be paying more attention to the situation. Demand for April is somewhat strong, so we expect it to increase to some extent, but this is not a certain figure. These figures have not been fully reflected in this upward revision. We expect the current situation in April to be carefully watched to some extent and reflect this in the forecast for FY2021 because the total demand and revenue in May and June are still uncertain. The impact of COVID-19 in FY2020 is at last at an all-out stage, and we have not yet fully ascertained the impact in FY2021.

Q. You are planning to increase the operating profit margin in the overseas businesses for FY2021, but in the Americas and China, you do not plan to increase profitability as much. I think the growth drivers will be overseas businesses under the next medium-term business plan, which begins in FY 2022. How do you see room for improvement in profit margins? Also, please tell me whether capital investment and investment combined to hit a peak of 10.3% in the overseas business for FY2021?

A. The Americas is expected to grow on a local-currency basis. However, due to the uncertainty of the exchange rate, it seems unlikely that profitability will increase on a yen basis. In China, it is not possible to provide a clear answer due to the issue of independence. As a result, the Americas and China appear slightly flat on a yen basis. Overall, although there are uncertainties, such as foreign exchange risks and rising raw material costs, we are adopting premium strategies, so we intend to increase our profit margin.

Q. In Brazil, was there still strong demand in the fourth quarter (January-March) for FY2020? What are your views on revenue for FY 2021, and what measures are you taking to increase costs due to the depreciation of Brazilian real?

In addition, Brazil's recession tends to increase the need for lower-priced products rather than instant noodles. Please tell me if we should be concerned about the negative aspects caused by the deterioration of business sentiment.

A. Looking back at Brazil's performance, I think FY2020 was a very good year, with revenue and operating profit reaching record high on a local currency basis. However, prices of some materials have been pushing up due to the depreciation of Brazilian real toward the end of FY2020. Domestic procurement accounts for a large proportion of raw materials and materials, but external procurement has an impact on purchasing. Under this environment, we plan to raise

prices in this May. Originally, we had planned to raise prices in this April, but we have judged that negotiations with distribution are becoming difficult due to the impact of COVID-19, and we are moving ahead with raising prices starting in May. We will compensate for the increase in costs by raising prices and aim for record-high revenues and profits on a local currency basis in FY2021 as well.

In Brazil, *CUP NOODLES* was sold very well last year, exceeding 100 million meals, and brand recognition rates have been rising. Among NISSIN FOODS Group outside Japan, the image of companies and brands for Nissin Brazil is closest to that of the Japanese NISSIN FOOD PRODUCTS and is recognized in Brazil as a company that conducts unique marketing. In this way, we would like to boost demand in Brazil as well.

Among our overseas bases, Brazil is the only one with sales risk when the economy becomes unstable. In the past, when the economy worsened, sales fell in tandem. Some poor people tend to eat cheaper than instant noodles, for example, by having a self-sufficient life to fish and eat their own. In recent years, however, we have been focusing our efforts on marketing, so we have targeted a little higher than the poor as our main targets and have been stimulating demand through marketing. Therefore, we would like to increase revenue, sales volume, and sales amount even if the economy becomes somewhat worse. In addition, similar to NISSIN FOOD PRODUCTS in Japan, we are offering top-brand products and products that appeal to consumers at slightly lower prices, and we will utilize these products to achieve record-high sales and profits.

Q. In China, we expect a relatively high rate of revenue growth in FY2021, but profits are projected to remain flat. However, as a matter of fact, is the idea that profits in China will increase due to sales growth in FY2021? Or does it incur some costs and moderate profit growth?

Also, I think the special demand for COVID-19 is positive for your company because the name recognition of *CUP NOODLES* is not as high in China as in Japan. Do you think this will not lead to temporary special demand, but to a continuous increase in demand?

A. Operating profit in the China is expected to remain unchanged from the standpoint of independence due to its listing in Hong Kong. However, we do not believe that there will be any significant changes from the past. Hong Kong is flat, but Mainland China is experiencing growth in demand amid the penetration of *CUP NOODLES* pricing range, and we believe there is considerable room for growth in the future. I feel that operating profit is somewhat conservative. We believe that this special demand for COVID-19 will contribute to steady growth in demand, such as expanding our geographic coverage. I have heard the explanation that such special demand has one impact, but it will be utilized continuously.

In the future, there will be new investment projects for sales divisions and facilities, so costs may

also be incurred. Overall, I think we will grow steadily, but there is the possibility that it will change accordingly.

2. Domestic Business

Q. Please tell us about SKU reduction. Currently, SKUs are being unintentionally reduced due to the impact of COVID-19, but what kind of impacts will SKU reduction have on profitability, after returning to normal in the future? Regarding SKU reduction, is there any relation with the productivity of the Kansai Plant, which the third phase of construction has completed?

A. At the financial results briefing for the first half of FY 2020. I said it will reduce SKUs in NISSIN FOOD PRODUCTS for FY2021. Under the circumstance that Japanese government declared state of emergency over COVID-19, we have no choice but to narrow down SKU of the product and concentrate on core brands by chance. If there were no COVID-19 contingencies, we were planning cost reductions of nearly 1.0 billion yen per year through SKU reduction. However, as the situation changes depending on COVID-19, it is not clear at this point in time. We believe that the effects of cost reduction will emerge, including the narrowing down of products through the declaration of emergency situations in FY2021.

The new products were reduced by 25 percentage (one-fourth) and the product as a whole was planned to be reduced by about 10 percentage prior to COVID-19 outbreak. However, it can be said that this is not the case after the spread or termination of COVID-19.

Consumers will also be bored unless new stimulus comes in, so we would like to launch new products that are somewhat enjoyable, including those that were postponed from this June.

Construction of the Kansai Plant does not lead to direct SKU reductions. The decision was made to reduce SKUs as part of our work style reforms. Before COVID-19 expanded, smart work became the mainstream. In the large burden on our sales staff, we decided to reduce SKUs by promoting efficient management and employees' smart work. However, we have built a large-scale, highly productive plant called the Kansai Plant in a timely manner, which will lead to efficient production.

Q. What are your thoughts on the operating profit margin in the domestic businesses? For example, do you have any image to improve it in the next three years, or will you focus on expanding the top line? In addition, as a strategy for NISSIN FOOD PRODUCTS, you have added “targeted marketing to price-conscious customers.” Why are you strengthening your strategy to price-conscious customers at this timing?

A. We have aimed to maintain and increase operating profit margin in domestic instant noodles business by approximately 12% from the start of the Medium-Term Business Plan through

FY2021. Although we invested in the Kansai Plant and increased depreciation costs, we have done so. We intend to maintain an operating profit margin of around 13% in FY 2021 and in FY 2022 and beyond, with the aim of increasing revenue and operating profit. However, distribution cost is on the rise, and the cost of raw materials spread after COVID-19 and expiration is very uncertain. We are currently in the process of examining, but in the future, we must also consider systems-related expenditures related to remote work, which will continue to prevail and end COVID-19. Under these circumstances, we will strive to maintain the current operating profit margin as much as possible.

Looking back on products for price-conscious in FY 2020, for example, we saw a very challenging year such as price revisions, the occurrence of typhoons and other disasters, the consumption tax hike in October, and the pandemic of COVID-19. In this situation, consumer sentiment also experienced intense upswings and downs.

For the same *CUP NOODLE*, we have two leading brands, *CUP NOODLE*, and a low-priced version, *ASSARI OISHII CUP NOODLE*. *NISSIN NO DONBEI* has also two main brands, *NISSIN NO DONBEI* and a low-priced version of *NISSIN NO ASSARI ODASHI GA OISHI DONBEI*. We would like to conduct our business that satisfies the needs of consumers in both cases. We manage our business based on the concept of providing flexibility, providing the same brand line, and possessing high-priced and low-priced products. If COVID-19 crisis continues for a long time, consumer sentiment may also decline. When the need for low-priced products increases, we will cover sales and profit with our inexpensive versions of *ASSARI OISHII CUP NOODLE* and *NISSIN NO ASSARI ODASHI GA OISHI DONBEI*. We believe that after a certain period of time, sales of the leading brands *CUP NOODLE* and *NISSIN NO DONBEI* will be recovered. We are strategically introducing low-priced products with the aim of flexibly managing our operations on both needs.

Q. I think this is an area where there are many competitors for low-priced products. Please comment on the competitive environment, such as whether you should be aware of the risk of intensifying competition and whether you have measures to avoid it. By offering low-priced products, can we draw up to the strategy of raising the price range of regular *CUP NOODLE* and *NISSIN NO DONBEI*?

A. With regard to the competitive environment it will become an extremely powerful strategy to attack sales floors from the two sides of the leading brand *CUP NOODLE* and the low-priced *ASSARI OISHII CUP NOODLE*. Therefore, I believe that this will become an essential part of our competitive strategy.

The leading brands of *CUP NOODLE* and *NISSIN NO DONBEI* have been increasing in volume after the price revision, while the price has risen firmly. Moreover, although it is not a polarization,

we expect that the number of customers who prefer low-priced products will increase in the future or will temporarily increase. By receiving them on both sides, the top brand is not rising as a result of the launch of low-priced products, but the top brand is already clearly rising.

Q. Strong brands are gaining market shares amid COVID-19 conditions. Your company has also strong brand power, but what kind of latent measures will you take to increase market share and increase penetration rates?

A. It is not exceptional in Japan to increase the number of products with strong brand power. Especially in such an emergency, manufacturers like us will maintain the supply products by reducing SKUs. Such products may also grow by focusing on such mainstay products as *CUP NOODLE*, *NISSIN NO DONBEI* and *U.F.O.* Consumers, on the other hand, have the psychology of stockpiling them, so they choose products with brand power from the viewpoint of products that they can eat with trust.

We believe that brand investment is essential for a strong brand to remain a strong brand. In a sluggish economy, advertising expenses are the first thing to be cut. However, in our case, while we are watching the situation, we would like to use advertising expenses as planned or increase them. How much to add to a brand depends on the situation, but I do not think that brand investment should be halted.

The impact of COVID-19 can lead to an unprecedented level of consumer sentiment when household consumption and the length of time it takes to eat at home are lengthy, and when the income level is uncertain for a long period of time. We are very concerned about whether a strong brand will remain strong or not, so I would like to adopt a double brand strategy. I believe that we need to flexibly support the brand through both the top brand *CUP NOODLE* and the low-priced *ASSARI OISHII CUP NOODLE*.

Also, I think it will definitely happen about getting tired of eating. If household inventories increase to some extent, sales may fall in the following month as a reaction to this increase. It is necessary to raise awareness of how to consume and not only conventional meal methods, but also of the fun of cooking, such as twist arrange recipes, as well as base material for cooking. In order to do so, marketing will become necessary.

3. Overseas Business

Q. Please tell us about the U.S. strategy for FY 2021.

A. In U.S. business, we will accelerate the shift to premium products. The value ratio of premium cup-type products has exceeded the value of the existing three *CUP NOODLES* for \$1. Currently, we are moving forward with changes in the direction of our products based on the concept of premium (high-value-added) products and the existing base products.

Currently, premium products account for approximately 35 percentage of the total sales, but we plan to achieve a target of 50 percentage or more over the next few years. Premium product, *CUP NOODLES STIR FRY* is becoming the constant seller by very good sales. Similarly, *NISSIN RAOH*, a high-priced product, also performed well. In addition, we also sell *CUP DOOLES SEAFOOD* and *CUP DOOLES CURRY*, which are the same as *CUP NOODLE* in Japan. Also, we will start selling *CUP NOODLES ORIGINAL* from this month. There are several premium products in the lineup, but they are generally priced at \$1 or more, so if they are doing well, I think this is an important strategy that will lead to revenue.

Q. Special demand for COVID-19 is a huge opportunity for the spread of instant noodles worldwide. Please explain this in conjunction with the impact of COVID-19 in order to increase the penetration rate going forward.

A. Regarding the situation of instant noodles worldwide, the total demand for instant noodles is shown on page 23 of Supplemental Data for FY2020, and has expanded to 103.6 billion meals in 2018 and 106.4 billion meals in 2019. This data is as of the end of December, so if we include March and April 2020, we expect it to increase to about 110.0 billion meals.

We believe that the increase in the number of meals sold is because instant noodles are suitable for low prices and stockpiling. Since particularly bag-type instant noodles can be used for cooking, there is strong demand for it as a home consumption. In regions suffering from COVID-19, bag-type instant noodles have high growth potential and cup-type instant noodles products have shown similar movements. I think that total demand, including the emergence of eating habits, will likely increase on a global basis.

Q. Given the increasing penetration of instant noodles worldwide, what are the three countries that are expected to grow?

A. We will accelerate the pace of growth in Brazil and China. We think Thailand will also grow. There are several countries such as India that will focus their efforts in the future. However, we believe that results will emerge in regions where our brand is strong.

4. Next Medium-Term Business Plan

Q. Please tell us more about the EPS of the next medium-term business plan starting from FY 2022.

A. Over the past five years, EPS has grown at a relatively high rate, but we will continue to use EPS as an important indicator.

The next plan does not necessarily need to be called the medium-term business plan, and I would like to talk about a long-term strategic story about how to sustain growth over the medium to long

term. Regarding EPS, we will continue to consider the balance between profit growth and investment in order to achieve sustainable growth.

A new business plan will be launched in FY 2022, and I believe it is necessary to inform you in the second half of FY2021.

5. Shareholder Returns

Q. Please refer to "Considering the timing of stock repurchase" on page 15 of the presentation material. Please tell us about the expansion of shareholder returns.

A. The same as before, we would like to consider shareholder returns if we invest surplus funds based on our investment and business investment strategies. We will strike a balance between profit growth and investment. As cash flow will steadily increase, we will consider how to use it.