

February 2021

**Q&A Session at the Financial Results Briefing
for FY 3/2021 3Q**

[Time & Date] 3:00 p.m. to 4:00 p.m., Thursday, February 4, 2021

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

1. FY 3/2021 3Q financial results

Q. Please tell us how much coronavirus diseases 2019 (COVID-19) affected operation profit in the third quarter? I estimate that the impact on operating profit would be around 5.0 billion yen when combined with unused sales expansion costs. The impact of COVID-19 on revenue is 12.2 billion yen in the first nine months of the fiscal year. Assuming a marginal profit margin of 30%, operating profit will be 3.6 billion yen.

A. We are currently verifying the impact of COVID-19 on operating profit, and we will calculate it after a thorough examination. However, we believe that base demand is growing due to COVID-19, and we want to capture this demand in the next fiscal year. For example, the next fiscal year will mark the 50th anniversary of *CUP NOODLE* and the 45th anniversary of *NISSIN NO DONBEI* and *U.F.O.* at NISSIN FOOD PRODUCTS, so we want to make sure that sales increase and profits are achieved. In the current fiscal year, the impact of COVID-19 has been manifold, including an increase in top-line sales due to increased demand, a decrease in costs due to unused sales expansion costs and other factors. We want to steadily increase profits excluding such impact of COVID-19.

2. Domestic Business

Q. In the domestic business, please explain the reason for decline in the "Domestic others" operating profit in the October-December period.

A. As for the reason for the decrease in operating profit in "Domestic others," UJI KAIHATSU DEVELOPMENT, which operates a golf course, was negatively affected by COVID-19, and the number of visitors to the CUPNOODLES MUSEUM and other facilities decreased due to temporary closures.

3. Overseas Business

Q. Please tell us the growth rate of revenue and sales volume in the United States, Mexico, Brazil, Mainland China, and Hong Kong for the October-December period.

A. The revenue growth rate in the U.S. is close to 20%, while sales volume is a little lower. Mexico shows a similar trend, with revenue growth in the upper 10% range and sales volume a bit lower.

In Brazil, revenue is up in the high 20% range, and in terms of sales volume, it is up in the high 10% range. Hong Kong's revenue growth rate in the third quarters is in the mid-single digits, while Mainland China's revenue growth rate is in the double digits. The total sales volume in the third quarters was in the low single-digit growth rate for both.

Q. The overseas business for the October-December period saw a decrease in operating profit, but I think there was an increase of about 1.0 billion yen in the CoGS ratio. Could you tell us the quantitative factors? There is also a concern that the operating profit margin will decline in the next fiscal year due to the recent rise in the price of raw material cost. What is your outlook for the next fiscal year and after that?

A. The main reason for the decrease in operating profit in the overseas business for the October-December period was due to the reasons in the Americas and China including Hong Kong. Operating profit in the Americas decreased by approximately 0.6 billion yen compared to the previous fiscal year. It was largely due to changes in the CoGS ratio and higher distribution costs, despite the positive effects of increased sales and lower general and administrative expenses. This was mainly due to an increase in raw material costs, mainly in Brazil and Mexico. The main reason for the increase in distribution costs was an increase in the U.S. In China including Hong Kong, the increase in general and administrative expenses also had an impact. For example, labor costs are increasing due to the strengthening of the workforce. The October-December period is slightly negative compared to the July-September period due to changes in revenue and other factors. As for the rise in raw material costs in the next fiscal year and after that, we plan to respond by the price revision in Brazil in February 2021. Although there is a time lag, we have been revising prices in response to rising raw material and other costs. Therefore, although the rise in raw material costs will once again have a negative impact, we are able to make up for it through price revisions.

Q. Regarding the change in the CoGS ratio overseas, the October-December period has seen a sharp negative impact compared to the July-September period. In Brazil, the impact of raw material costs in the October-December period, despite price revisions in May and November, seems abrupt, please explain in detail. Also, will the range of poor CoGS ratio shrink in the future due to price revisions?

A. In fact, although the sharp rise in raw material prices has had a major impact in Brazil, we feel that the demand for instant noodles itself is very strong. We have heard that the current situation in January is not that bad at the moment, although we think that the end of government benefits will have a negative impact. In terms of raw materials, the prices of wheat and palm oil have risen sharply since this September, which we believe had an impact on the October-December period.

It depends on the timing of the penetration of the price revision, but if the price revision scheduled for February goes well, we expect to see the effect of one month's worth by March.

Q. Please tell us about your pricing strategy in each country. I believe that the cost of raw materials will increase in all areas in the next fiscal year. What is the range of price revision in Brazil? Also, what kind of pricing strategy do you have in mind for major areas such as Japan, the U.S., and Asia?

A. The range of the price revision in Brazil is not disclosed, but it is not significantly different from the past and is expected to be in the mid-single digits. For each major area, we are making decisions on the implementation of price revisions while monitoring the respective market trends. Since the cost of raw materials is relatively stable in Japan, we will wait and see before considering price revisions, but at this time we have no plans in the domestic instant noodles business.

Q. Regarding revenue in the U.S., the rate of increase has slowed down in the October-December period. I would guess that the rate of increase would be in the 10% range. Could you give us some background on this?

A. In the U.S., the revenue growth rate is nearly 20% in the October-December period. It has calmed down compared to the panic demand in the April-June period. It is difficult to say for sure because the situations vary from state to state, for example, some areas and states have curfews, while others allow people to go out without wearing masks. However, we believe that revenue in the U.S. is strong. Sales of premium products have been particularly strong, with relatively steady growth in the U.S. As is the case in all countries, the impact of the COVID-19 was significant in the April-June period, and has been relatively steady since then, with base demand remaining elevated.

Q. Please tell us about the sales growth rate and market environment in Mainland China for the October-December period compared to the previous fiscal year, excluding the wholesale business. In China including Hong Kong, the October-December period is the fiscal year end for the Hong Kong side (NISSIN FOODS Co., LTD), and I think that inventory build-up will have some impacts. When do you think the inventory buildup will be resolved, and the market will start to grow on a normal basis?

A. As for the revenue for the October-December period, the Hong Kong side is not disclosing it at this time, so we will refrain from disclosing specific figures. In mainland China, the growth rate of revenue excluding the wholesale business is slightly negative in the October-December period due to the impact of COVID-19. However, the overall base demand is growing, and we believe that it will continue to grow steadily in the future. Although there are some discrepancies such as the timing of the Spring Festival, we think that the January-March period will see steady growth

compared to the previous period. We have heard that the expansion of the area is progressing well, so we believe that the numbers will show up.

4. Forecast for FY 3/2021 Results and FY 3/2022

Q. Do you expect a decline in revenue excluding the new consolidation of KOIKE-YA in the January-March period? Also, I think there might be various risks, but what are the risk factors other than the panic demand in March 2020? In addition, what are your thoughts on the short- and medium-term synergies of making KOIKE-YA a consolidated subsidiary?

A. Although revenue have been growing without much decline, it is difficult to foresee how long the sell-out will last. Although a state of emergency has been declared, the situation in stores is calmer than last year. In other words, sell-in is relatively growing, but we need to take a more sober look at the future market situation. We assume that the panic demand that occurred from February last year to the April-June period of this fiscal year will not occur, and given such a situation, we think there is a possibility that revenue will decline in the January-March period. We think the risk factor at this point is nothing more than a reaction to such panic demand. In the future, NISSIN FOOD PRODUCTS will launch new products, so we believe that the market will still grow.

As for synergies from the consolidation of KOIKE-YA, we will first see synergies in production, procurement of raw materials, and distribution. In addition, we believe that it will enable us to benefit from overseas expansion and the development of collaborative products.

Q. What are your thoughts on operating profit for the next fiscal year? There have been affected by COVID-19 in this fiscal year. In addition, there are concerns about rising raw material costs, and I think that operating profit will decline in the next fiscal year. What are your thoughts on whether the next fiscal year will be a year of reduced operating profit or a year to move up a stage and go on the offensive?

A. Since the impact of COVID-19 was significant in this fiscal year, we are aiming to increase operating profit on the next fiscal year excluding the impact of COVID-19.

Q. With the development of the vaccine, stay-at-home demand will be ended, and in light of the reactionary decline in demand for instant noodles, is there a possibility that we will return to the level before the spread of COVID-19?

A. We can't say that it doesn't happen at all. After vaccinated, people will have more opportunities to go out and spend less time at home. In that case, we think we can capture the demand for eating out by developing and selling more attractive cup-type instant noodles. For example, in Asia, when people go out at night, there will be opportunities to eat instant noodles at convenience stores. Currently, due to COVID-19, there is a growing need for bag-type instant noodles that are easy to

eat at home, but there will be a need for cup-type instant noodles in the future. We will be watching closely to see how much of a positive and negative impact this will have.

Q. There is an opinion that the impact of COVID-19 may be a transitory factor on a global scale, but what is the CFO's opinion on the persistence of the impact when looking at the third quarter?

A. It varies from area to area and country to country, but in general, we still believe that the "frontage" has been expanded. With the spread of COVID-19, more and more people are eating instant noodles, and we think some of them have become repeat customers. In terms of persistence, the impact of COVID-19 has once widened the "frontage". Also, in terms of "depth", it depends on our strategy. In the future, the market is expected to expand, and we also want to make sure we capture the demand. We believe that growth will be sustained by expanding base demand as well as by capturing new demand. For example, in Brazil, where we have a high market share, we continue to see high room for growth. Benefits from Government ended in December 2020, and those who have been buying the high-margin *Nissin Lamem* may shift to the lower-cost *Nosso Sabor*. On the other hand, there is a possibility that the need for *CUP NOODLES* will also increase due to the expansion of new demand, including repeat customers, mainly in the south where there are people with comparatively higher-income level. In this regard, we believe that we can continue to grow in areas where we have a high market share.

Q. What is your approach to operating profit for the next fiscal year? The high cost of raw materials will increase costs by 1.0 billion yen in the domestic business and 7.0 billion yen in the overseas business, for a total of 8.0 billion yen. On the other hand, I estimate that the effect of the 2.0 billion yen increase in operating profit in Brazil and the 1.0 billion yen in cost reduction effects will result in a net decrease in operating profit of 5.0 billion yen.

A. We assume that the raw materials will also increase especially wheat and palm oil, but we are currently making cost estimates from various perspectives. We will let you know when we can verify more clearly.

Q. Please give us a quantitative image of the cost increase in the next fiscal year.

A. Although we are still verifying the quantitative cost reduction effects, we are reducing the cost of various materials, and we are seeing some cost reduction effects in the domestic business. Therefore, we will mention the impact of the cost increase when we provide you with a clear plan for the next fiscal year. We assess the situation, read the demand, and calculate the cost reduction effect.

Q. General and administrative expenses in the domestic business increased by about 1.3 billion yen in the October-December period. I understand that this is partly due to the consolidation of KOIKE-YA, but can you give us more details about the factors that led to the reduction in expenses during the October-December period and the increase in expenses associated with the consolidation?

A. In the October-December period, in addition to the new consolidation of KOIKE-YA, there was an increase in expenses at NISSIN FOOD PRODUCTS and a large expense at NISSIN FOODS HOLDINGS.