

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

[Time and Date] 1:00 p.m. to 3:00 p.m., Wednesday, May 12, 2021

[Respondent]

Koki Ando, Representative Director, President and CEO

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Takashi Yano, CFO

1. Mid- to Long-Term Growth Strategy

Q. It appears that core operating profit growth will not be significant over the next few years.

What is your main message regarding groupwide profit?

A. While we intend to be active in making upfront investments in new businesses, it is also important to grow core operating profit for our existing businesses--our base--in the mid-single digit, leading to steady growth. This does not mean that groupwide profit will not increase. In fact, we believe we can plan for sufficient FY 3/2022 growth compared to FY 3/2021, excluding COVID-19, not only for existing business core operating profit, but also for core operating profit across all companies. Our goal to roughly double profit for our existing businesses in 10 years is by no means a low target. We have established a framework to invest between 5% and 10% of profits from our existing businesses into new businesses. In this sense, we are striving for balance between growing our existing businesses steadily in the mid-single digits and overall company growth. Our overseas businesses will be an important driver in achieving mid-single-digit growth. Our goal is to continue profit growth in the high-single digits or double digits over the next ten years, growing our Overseas business sales ratio from the current 30% to roughly 45%.

Q. Looking at the graph on page 47 of the presentation materials, are we correct to understand that we can expect a dramatic growth curve in three to four years, even though your profit outlook for the next few years is very constrained due to investments in new businesses?

A. The graph is just a general illustration. From a basis of existing business core operating profit, our target is 47 billion yen in FY 3/2022, and we are aiming for 12% growth. Admittedly, FY 3/2021 was a high hurdle for operating profit due to the impact of COVID-19. However, we hope to overcome those challenges in the next two to three years. Some may argue that our

target for the next fiscal year is unattractive from a market perspective. However, excluding the impact of COVID-19, we view it as a very challenging target. Special factors may have positive or negative effects, but our intention is to achieve steady growth on a core operating profit basis.

In terms of new businesses, we hope you understand the potential for the development of a variety of new businesses in the future, and that we expect to grow in both profitability and scale of business. For this reason, we believe investing between 5% and 10% of existing business core operating profit will provide sufficient returns, and we hope you will appreciate how we pursue our initiatives in the future.

Q. As the instant noodles market becomes saturated in Japan, it will likely be more difficult to grow top line and difficult to improve profitability. What is your approach to profitability over the medium to long term, including in terms of future capital investment?

A. We expect somewhere around 2% growth in our Domestic Instant Noodles business, which is greater than the average annual market growth rate in the past. In growing profit ratios to levels even higher than this, it is important that we maintain our profit base in a secure manner. This profit base is our strength as a cash cow in our domestic business. To this end, we can look to new capital investment and supply chain initiatives. But we will also see growth through the development of various new products in our existing businesses. We will aim for growth through measures addressing the widening gap due to COVID-19. We will also aim for growth by taking on challenges presented by the new generation.

Q. Several regions overseas appear to have succeeded in becoming profitable and on the right track. Tell us about the stages of business and challenges in each of your major regions. Also, looking at page 67 of the financial results presentation materials, do you see the areas driving profits over the next three years as leaders or seed areas?

A. I think we can divide overseas into several stages. Among our regions, I believe China including Hong Kong and Brazil are at a stage in which it will be effective to take a *leadership* position. In this stage, it is important to grow existing businesses. It is also important to develop high value-added markets and leverage our business foundation, including other businesses, to increase profits. For example, we believe it is important to diversify our business, as we are currently doing in China including Hong Kong. Here, it is important to leverage our group strengths, brands, distribution channels, and presence effectively. We see the U.S., countries in Asia, and mainland China as areas where we can expand our market share as a *challenger*. In these regions, we believe it is important to focus on premium products to gain market share. We

are approaching India, Vietnam, and Indonesia as *seeds*. In Indonesia, we are finally seeing a return to profitability. In these regions, we must position ourselves well with respect to the enormous potential of the overall market. This mix of leadership and seeds is what will drive our overseas business over the next three years. Allow me to offer an example from the recent past. Our growth in Asia is due in part to the impact of our equity-method affiliates. In addition, our business in Thailand is leading the way in many respects. However, the shift to profitability in Indonesia and significantly smaller losses in India also represent successes for us. Each area has a different role to play, and there is ample growth potential in each region over the next three-year span.

Q. Do you feel that India, Vietnam, and Indonesia, which you described as *seeds*, are likely to become *challengers*? And if so, could you tell us the time frame for becoming challengers?

A. In terms of the time frame, I believe the expansion and penetration of the middle-class population will be the most important aspects for each area. Take Thailand as an example. In Bangkok and other urban areas, the middle class has increased due to rising incomes. Products priced at 10 baht and above have become a commercial opportunity. Thailand's GDP per capita is roughly \$7,000. But this figure is in excess of \$10,000 in Bangkok and urban areas. So, in this sense, we expect to see rising sales of high-value bag-type instant noodles. The same is true in India, where the middle-income class is expanding at a very fast pace. The challenge here is how to penetrate this segment.

2. New Businesses

Q. There seems to be a strong potential for new businesses. Can you tell us your quantitative goals for 2030, ten years from now? Also, what are the current KPIs that serve as a decision indicator as to whether the business is successful from an external perspective?

A. Over the next ten years our conceptual goals are to personalize food or to create a platform for personal data for meals and health. At this point, we have not set a clear time frame or financial goal for profitability over the medium to long term. However, we have five touch points founded on the basic concept of complete nutrition meal technologies. Here, we expect to confirm signs of profitability in five to seven years and determine whether these touch points can become a business. While we cannot provide clear KPIs at this time, the number of meals sold or the number of app accounts, etc., could become KPIs based on our platform concept. With respect to the size of our businesses, we are looking to foster a multiple number of businesses on the order of 10 billion yen each. For example, *CURRY MESHII* has performed well in recent years. This business has grown to a scale of 10 billion yen in sales over about seven years. We consider 10 billion yen in each touch point to be the benchmark in this

business. While we are in the development stage, we cannot provide detailed KPIs at the current stage. We will be able to share KPIs at presentations in the next six months or next year.

Q. Regarding the five touch points described on page 32 of your presentation materials, where do you have the highest expectations in terms of monetization?

Also, there appears to ample future potential for converting existing products in Japan and overseas to complete nutrition meals. This is an area in which your company can leverage its strengths. Why did you decide on five touch points in particular?

A. We have not prioritized any of these touch points over the others due to the new nature of the business concepts and the difficulty in predicting the future scale of monetization. From the standpoint of profitability, the businesses with the highest potential are those related to our existing distribution. While it is easy to calculate that *CUP NOODLE* in convenience stores and supermarkets, or *CURRY MESH*, or perhaps even frozen foods, will become complete nutrition meals, we cannot say whether this business model will become the largest.

This is a difficult issue, and based on consumer insights, the results show that converting existing brand products into complete nutrition meals may not necessarily mean strong sales. Consumers understand intellectually that healthier products are better, but that doesn't necessarily mean consumers buy these products. For this reason, replacing existing products with complete nutritional meals may not necessarily increase sales of *CUP NOODLE*, etc. We must be careful in growing each individual service. We believe we must first popularize the idea of complete nutrition meals before we can replace existing products.

From the standpoint of profitability, new businesses are more difficult than existing products. But of the five touch points on page 32 of our presentation, our D2C intensive illness prevention program, shown at the top left, targets a consumer segment that is willing to pay for added value in terms of health. This is why we believe this touch point will generate profits relatively quickly. Attempting to replace the *CUP NOODLE* currently enjoyed by a mass of consumers with health products will be quite challenging, and this will be the next step, I believe.

Another reason we have not started converting our existing overseas products into complete nutrition meals as quickly as possible is that the sales price of instant noodles in Japan is completely different from the sales price of instant noodles overseas. The process of converting to complete nutrition meals will involve an increase in cost ratios. Under our current development and technological capabilities, we are not yet able to make products cheap enough to compete with cheap instant noodles overseas. We will wait until we move forward slightly further in technological innovation and cost reductions before we offer complete nutrition meals overseas.

Q. While you are already in the field of long-term care food, is it correct to understand you have come to the conclusion that to become the only player in the intensive illness prevention field--to capture that market--you have opted to provide complete meals rather than, say, dry food products?

A. Our Intensive Illness Prevention Program includes not only fresh meals, but also dry, frozen, and chilled products. To the greatest extent possible, it is important to replace meals with complete nutrition meals in a way that does not require behavioral changes. Unlike long-term care food, the approach to prevent illness in healthy people is a unique and solely NISSIN FOODS Group concept. When we talk to overseas venture capitalists, we have been told that we are the only company they have ever heard of that possesses vital data that includes improvement data from clinical trials, so we expect to move forward with this advantage.

3. Approach to Capital Investment

Q. You indicated that your current CAPEX is roughly 40 billion yen. What do you expect for CAPEX over the medium to long term?

A. During FY 3/2022, we intend to make capital investments based on operating cash flows of between 54 billion yen and 56 billion yen, while also paying a stable dividend and conducting share buybacks. Under our Mid-Term Business Plan 2021, we made approximately 230 billion yen in capital investment of five years, including a 65.5 billion yen investment in our Kansai Plant. Over the next five years, we expect to make capital investments on the order of approximately 200 billion yen. I believe that such capital investments will include investments for production capacity expansion and renovations. Please understand that we will make investments while maintaining the right timing and balance for each of the projects in our mid-to long-term growth strategy.

Looking ahead over the next five years, we will see a natural increase in EBITDA and cash as we aim for growth in the mid-single digits. Looking at the whole, we will invest on a cash basis, using three value decision factors: (1) Whether the investment will increase value; (2) whether said value can be sustained; and (3) whether there is potential for a leap ahead in value. Also, as stated in the presentation materials, our approach will include borrowing up to twice EBITDA as necessary. We will proceed based on these three value decision factors, our cash position at the time, and the order and priority of the investments in our overall plan.

4. Dealing With Rising Costs

Q. You have discussed price policy in the U.S.; however, you mentioned earlier that when raw material prices rise, you might raise prices if consumers accept the price increases. Materials prices are on an upswing not seen in several years. What are your thoughts

regarding price increases, including prices in Japan, as you look to generate core operating profit of 47 billion yen for FY 3/2022?

- A. At present, the material prices for palm oil and other raw materials are on an upward trend. At this point, however, we believe we can absorb this increase.

Just as the price increases in the U.S. in May were accepted, the relationships of trust with our distributors are an important factor in price revisions. In the midst of the COVID-19 disaster, we deepened our relationships of trust with our distributors through the stable supply of our products worldwide. The rise in material prices affects not only instant noodles, but also various other industries. We will make decisions on price increases when and if necessary, while monitoring the market environment. In Brazil, we increased prices three times in FY 3/2021. I believe we were able to do so because of the trust we built with our distributors.

On the other hand, in Japan, we tend not to pass on raw material price increases to consumers immediately. If the price of raw materials rises to such an extent that it outstrips our own efforts to absorb the cost, we will have no choice but to increase prices.