

August 2021

Financial Results Briefing Q&A Session for FY 3/2022 1Q

[Time and Date] 1:00 p.m. to 2:00 p.m., Friday, August 6, 2021

[Respondent]

Yukio Yokoyama, Director, CSO, and Managing Executive Officer

Takashi Yano, CFO

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1. Overseas Business

Q. In the financial report, operating profit increased in Brazil and Mexico and decreased in the U.S. in the management accounting basis (Constant currency basis, Less C-19). Isn't the U.S. in the red? Also, is the price revision implemented in May in line with your plan? Please tell us whether the U.S. market will remain in the red for the full year, and whether it will be possible to implement another price revision in the second half.

A. In the U.S., revenue increased and there was a slight deficit, but it is not a large amount. The reason is that the price revision has not yet been widely adopted. In the past, it took almost a year for the price revision to penetrate the market, but with improved relationships with retailers, but it is smooth now. We assume that the effect of the price revision will gradually become apparent from the second quarter. The current material price hikes will be covered with this price increase. But if material prices continue to rise and labor and distribution costs do not come down, we may need to revise prices again.

Q. The premium products in the U.S. is doing very well. Please tell us the background. Also, I heard before that by aiming for a 50% sales composition ratio of premium products, the operating profit margin will increase, and the company will change its structure to ensure profits. Has there been any change in that time span?

A. As for the background of the strong performance of premium products in the U.S., we believe that we have been able to develop new markets rather than substitute products for base products. Sales of base products have returned to a normal pace due to the reaction to the increase in demand caused by C-19 in the previous fiscal year, but premium products have continued to grow since before C-19, and the ratio of sales to total sales has been increasing every fiscal year. In terms of the target consumer, base products were mainly purchased by relatively the poor, but premium products tend to be purchased by the middle class, whose prices are also relatively high. In other words, people who have never eaten instant noodles before are starting to eat them as an

alternative to other foods. In this sense, this is a stage where we are expanding our market.

We are also expanding our channels for premium products including grocery store. We have also launched premium products other than *CHOW MEIN* and *HOT&SPICY*, such as *Top Ramen Bowl* and *FIRE WOK*. We expect these products to grow very rapidly in the future. The price range of *FIRE WOK* is over \$1, a little higher than other premium products, and we can expect more growth in such high-priced products. In addition, new products will be released in the fall, so we can expect more growth in the future.

As these premium products are growing, the overall profit margin will also improve. However, the current distribution costs, labor costs and material prices are rising, so we will keep a close eye on such costs while making decisions on price increases. We are also mindful of securing a certain marginal profit margin for both base and premier products, so we do not have to worry about profit margins. In addition, while we should have increased the ratio of premium products in the last fiscal year, base products also performed very well due to the C-19, so it may appear that the growth in the composition of premium products has slowed down. While both premium and base products are growing, some premium products are not being switched as much as expected. However, we do not see this as a negative, but as one of the ways to strengthen our relationship with retailers in order to sell more premium products in the future. In the past, it was difficult to revise prices, but now that we have responded to the demand from retailers, we believe that if costs rise further in the future, we will be able to revise the prices of premium products again at the right time. Therefore, we can also control the profit margin.

Q. In Brazil, prices were revised three times in May, November, and February of the previous fiscal year, and prices for bag-type instant noodles will be revised in July of this fiscal year. And benefits payments from the government are still available. Could you tell us about the competitive environment by area and the current situation? The repeated price revisions may have an impact on areas with lower incomes, such as the northern part the country.

A. The growth rate by region from the previous year is expected to be evenly distributed throughout the country. Of course, the growth rate of *Nosso Sabor*, low-priced bag-type instant noodles, *Nissin Lamem*, high-priced bag-type instant noodles and *CUP NOODLES* is also very high. It seems that people who have purchased the high-priced products and found them to be good taste are buying them again and again. Even in the north, where incomes are said to be relatively low, there has been solid growth, so we believe that the price revision has been well received. Also, since the inflation rate is high. We feel that resistance to the price revision is overwhelmingly low compared to other countries.

As for future risks, for example, *Nissin Lamem* is doing well in the north, but consumers may return to the cheaper product *Nooso Sabor* when benefits payments from the government are

suspended. In that case, the unit sales price per unit may go down a little, but the profit margin will not change much, so it will not have much of an impact. In addition, the south is an area where people with high incomes originally live, so even if the benefits payments from the government are suspended, the overall impact will not be too great.

Q. Costs are also rising in China incl. Hong Kong, but considering the competitive environment, I think it will be difficult to revise prices. I think that costs will continue to rise in the future, but please tell us about your measures to absorb cost increases.

A. The situation is more severe in Hong Kong than in the Mainland China, considering that the C-19 has completely stopped the flow of people. However, when the C-19 comes to an end, it will certainly be a factor in raising the bottom line. In Mainland China, there was an increase in demand due to the C-19 last year, but the demand for bag-type instant noodles was higher than that for cup-type instant noodles. In the current fiscal year, there seems to be a slight decrease in bag-type instant noodles compared to the previous fiscal year, but we are stronger in cup-type instant noodles, so the key point is how to expand this business. After the convergence of C-19, we will finally return to our normal sales activities and we would like to secure a solid volume. In terms of costs, palm oil and paper prices have certainly risen, but even though it is difficult to revise prices, we are considering ways to improve production efficiency and other measures to absorb the increase. We think we will start to see the effects of cost reduction in the manufacturing cost from approximately the second quarter. Under the assumption that costs will remain high in the future, we will be able to absorb the increase to some extent from the second quarter.

2. Domestic Business

Q. The plan is to invest about 5-10% of core operating profit of existing business in new businesses, but it seems that you did not use much of it in the first quarter.

A. New businesses do not use expenses on an average basis throughout the term, but the timing of recording them varies depending on the progress of research, commercialization, and other factors. Looking at it from that point of view, it seems that the expenses were not yet necessary to that extent in the first quarter. But there is no change at this point in our initial plan to use up to 5-10% of core operating profit of existing business, and since timing and other factors are related to future measures, I cannot provide any specifics at this moment.

Q. Please tell us about your future measures, including strategies for the Non-Instant Noodles Business and synergies from the new consolidation of KOIKE-YA.

A. As for the confectionery business, CISCO, BonChi and KOIKE-YA together represent a large scale of business in Japan. Taking advantage of this scale, we are considering various possibilities

such as creating synergies in existing businesses, overseas expansion, M&A and alliances. As for the Chilled foods business, I feel that people have reevaluated the merits of chilled products after C-19. On the other hand, there is a lot of room for efficiency improvement in production, so we expect to increase our profit margin. At the same time, we see it as important to develop products with high added value and approach the channel.

We are currently in the process of discussing synergies with KOIKE-YA, but we will be able to benefit from joint purchasing of materials and joint delivery.

Q. Please tell us about the selling expenses in the Domestic Instant Noodle Business. We think that you have been able to control selling expenses more than expected in the first quarter of this fiscal year, but is there still any impact from C-19? Including the new normal situation, how do you see the environment in which selling expenses are being controlled becoming established, or is there a possibility that selling expenses will decline?

A. At this point in time, we think that the impact of C-19 is still lingering in no small part. Retailers, for example, are restricted from making multiple visits to the store, and the environment continues to make it difficult to conduct sales promotions. Under such circumstances, instead of special sales, we are promoting the value of the brand, cross-marketing, and proposing ways of eating at each sales floor. Going forward, we believe it is important for us to strengthen our promotional proposals and provide added value through these new sales methods. As for how things will change in the new normal, it is very difficult to say at this point, but we will aim to expand demand by proposing ways of eating.

Cross-selling products such as *Chomolungma U.F.O.* is a win-win situation for both us and the retailers because we can sell them as a set. In the future, we think the way we propose products will change. In addition to supermarkets, we would like to make a variety of proposals for instant noodles and frozen foods to convenience stores to expand our business.