

**Financial Results Briefing Q&A Session for FY 3/2022 2Q**

[Time and Date] 1:30 p.m. to 3:00 p.m., Monday, November 8, 2021

[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, CSO, and Managing Executive Officer

Takashi Yano, CFO

**1. Domestic Business**

**Q. What are your thoughts on the profit margin of NISSIN FOOD PRODUCTS in three to five years' time? Also, how will the profit margin change in the short term when raw material prices rise in the next fiscal year? What do you consider to be the appropriate profit margin level?**

A. The core operating profit margin through the second quarter of this fiscal year was a considerably high 15.6%. This year marks the 50th anniversary of *CUP NOODLE*, as well as the 45th anniversary of *NISSIN DONBEI* and *U.F.O.* These milestones have led to a lot of media exposure and very efficient sales promotion and marketing. I think we have taken advantage of the environment for profits, achieving a high profit margin owing to unique circumstances of these anniversary years.

On the other hand, our current full-year plan for core operating profit margin calls for 13.5%, which is slightly higher than the core operating profit margin of 13.1% after excluding the impact of COVID-19 in the previous fiscal year. But I expect profit margin will change depending on fluctuations in material prices in the future.

We are looking to secure core operating margin of 14% to 15% for FY 3/2031. To this end, we will continue to invest in our brands to enhance our brand power further.

**Q. What percentage of your existing products will you position as healthy products, and how do you position your existing products in terms of health? Also, what is the level of *CUP NOODLE* origin in terms of Health Star Rating? What measures do you intend to take to incorporate Health Star Ratings into your promotions and marketing in the future?**

A. The concept and technology of Complete Nutrition Meals in new businesses are applicable to

all food products. Therefore, we can expand the technology to other businesses such as *CUP NOODLE*, *NISSIN DONBEI*, cereals, confectioneries, and other products in the medium term. We want to evolve our technology so any NISSIN FOODS Group product can be used for preventing presymptomatic. We envision that our existing businesses will be integrated with Complete Nutrition Meals eventually.

We launched *CUP NOODLE PRO* this spring. This is a healthy product, but many customers still have the impression that instant noodles are not healthy. But if we look at the Health Star Rating, which is an Australian health index—and I apologize that I cannot offer a detailed answer since we are not ready to announce specifics—we believe that *CUP NOODLE PRO* would be equivalent to 3.5 or higher. Further, we believe we can achieve levels of 4 to 4.5 for products that incorporate all the technologies involved in our new Complete Nutrition Meals business.

At present, the Health Star Rating is not recognized widely in Japan. Therefore, we will monitor the insights and reactions of Japanese consumers carefully to determine whether we should regard Health Star Rating as an effective promotional tool or criterion representing safety and security. The NISSIN FOODS Group is developing products with this Health Star Rating in mind, and we will report developments in this regard this in the future.

**Q. What are your domestic and overseas forecasts for the current and next fiscal years when considering the sharp rise in the price of raw materials? Also, with the price of wheat flour rising, why are you not revising prices in the Domestic Instant Noodles Business. How do you plan to absorb rising costs? How much of a quantitative increase in costs do you anticipate in the next fiscal year?**

A. As a whole, our group expects to absorb the impact of rising raw material prices by increasing sales and reducing expenses. It is true that the price of wheat in Japan is rising, and the revision of the government selling price of imported wheat announced in September is likely to have an impact on our procurement prices beginning in January 2022. However, due to inventory and other factors, we do not expect to see the actual impact until a little later. The impact of rising prices of palm oil, wheat, and other materials has been factored into our plans for this fiscal year.

It is difficult to address the quantitative impact in general terms, since the environment differs from country to country. But we are factoring the impact into our plans for next fiscal year, which we are formulating currently. There is a possibility that material costs will rise more than expected in the future. We are considering responses through additional price revisions, particularly in overseas markets that tend to be affected directly by price increases.

At the same time, although material costs have risen more than planned in Japan, sales are

growing very steadily and the impact of costs is still within our control. Therefore, we expect to meet plan, due in part to cost reductions and other self-help efforts. We are considering price revisions as an option. But we have made no concrete decisions at this time.

## **2. Overseas Business**

### **Q. How you are responding to cost increases in your Overseas Business.**

A. We raised prices in the U.S. in May this year, but raw material prices, labor costs, and logistics costs have increased more than we had anticipated when we put together our plan. While our top line is growing steadily, we will make decisions regarding price revisions looking at timing and the situation.

In many cases, price revisions can be implemented flexibly overseas, and not only in the U.S. Revisions tend to follow cost increases, so the timing of price revision impact varies from country to country. We expect to cover the cost increases eventually. Overseas, sales have grown steadily in general. Even after price revisions, volume has remained strong, so we believe the market has accepted the changes.

### **Q. I understand you will respond to cost increases by changing the diameter of packaging in China.**

A. There are no plans to raise prices at this time. But we consider price revisions to be an option in all regions. The Beijing Winter Olympics will be held next year, so we expect demand in China will not be so bad in the future. In Brazil and Mexico, we absorbed the steep rise in raw materials prices through increased sales and price revisions. We will monitor the situation closely and consider further price increases.

The decision to change packaging diameter in China was made before the COVID-19 pandemic. Previously, the size of the cup was slightly larger than that of the Japanese *CUP NOODLE*. With this latest change, the size is now the same as in Japan. In China, some consumers would pour water into the *CUP NOODLES* cup and then heat it in the microwave. This is why we designed the size originally to be slightly larger than the Japanese size to prevent spilling. Now it is more common for people to pour hot water into the cup first, so we decided to change the size to the same size as Japanese *CUP NOODLE*. As a side benefit of the size change, salt and calorie intake are effectively reduced due to the decrease in overall content.

Despite cost reduction efforts, unfortunately, soaring material prices and other factors have meant that the change did not contribute to profits as planned. We are developing products for China at higher price ranges, but we may have to make a decision to raise prices when the time is right.

**Q. While profits in mainland China have increased despite the sharp rise in raw materials prices, profits in Hong Kong have decreased. As you have both a wholesale business and an instant noodles business, what is the specific reason for the decline in profits in Hong Kong? Also, why will the Beijing Olympics next year be a positive for your business?**

A. The inflow of tourists and people in the city of Hong Kong has not yet returned due to the negative impact of COVID-19. Although the number of *CUP NOODLES* servings has been increasing steadily, sales volume for *DEMAE ICCHO*, a high-demand product for dining-out meals and souvenirs for tourists, has been more of a struggle. Sales volume in Hong Kong decreased compared to the same period in the previous fiscal year.

We believe that the decline in sales of *DEMAE ICCHO* combined with a sharp rise in the price of palm oil and other raw materials had a significant negative impact on profits. In Hong Kong, the market share of bag-type instant noodles is higher than that on the mainland. Therefore, the impact of soaring palm oil and other raw materials prices is relatively large, putting pressure on profits. However, we are pursuing greater diversification in Hong Kong. This diversification includes sales of frozen foods, snacks and cereals, and beverages. We hope sales for these products makes up for the decline in instant noodle consumption. In addition, the border with the mainland is expected to reopen in the near future. When tourists from the mainland return, we expect profits to recover along with an increase in sales.

We usually conduct promotions during events such as the Olympics, and these promotions have a positive impact on sales.

**Q. Tell us about your diversification strategy in China incl. Hong Kong.**

A. Diversification in Hong Kong in the form of Japanese granola is doing well. We are also developing potato chips and other products through *NISSIN KOIKE-YA* that will be manufactured locally. In this way, we are developing various businesses based on Japanese brand confectioneries, cereals, and cut vegetables, and we will continue to position ourselves properly in the future.

**Q. We have heard that the COVID-19 pandemic has expanded the market and allowed for the capture of new customers on a global scale. It has been interesting to see that, despite the weakening of demand for in-home consumption, demand for your products has been increasing. What is the situation in the major countries where you do business? Also, how long do you expect this demand to last?**

A. We have seen an actual widening and deepening in the markets in every region. I think this is due to an increase in the number of customers who tried *NISSIN FOODS* Group products

during their time at home. We have reached out to people who never took the opportunity to try instant noodles before. Having tried our products and learning how deliciousness the food is, these consumers became repeat customers. I think this indicates a depth to our business that increased without narrowing the market.

After COVID-19 subsides, many people will still eat at home even after the end of stay-at-home orders, etc., and we believe consumers will continue to be cautious in their behavior patterns. Given these circumstances, we expect to maintain demand by monitoring market trends in each country and region on a constant basis. We will introduce new products that meet local needs, and induce demand among existing users through promotional activities. Demand for bag-type instant noodles rose in the previous fiscal year. This year, we have seen demand increase for cup-type instant noodles in every country. After forming a habit of eating bag-type instant noodles, consumers tend to eat cup-type instant noodles outside the home.

The positioning of *CUP NOODLES* varies by country. For example, we are developing premium products in the U.S. such as *CUP NOODLES Stir Fry*, which costs more than \$1 per serving. We understand that this product is popular among young gamers, and we believe that the consumption of cup-type instant noodles will increase not only out of the home, but also in the home. In Brazil, bag-type instant noodles account for the majority of our sales. But we believe that the sales ratio of cup-type instant noodles will increase in the future.

In Asia, *CUP NOODLES mini* is performing well in India. We are seeing growing demand for cup-type instant noodles, even in areas where bag-type instant noodles have been the mainstream. In EMEA, we are seeing a boom in Chinese and Oriental foods such as Asian Blast. We have been developing *CUP NOODLES* and *SOBA* under the concept of *Authentic Asia*, in EMEA. These products have been praised widely, so I think we will see a further shift to Asian flavors in the future.

### **3. Other**

**Q. You explained that the number of labor-hours required for operations has been reduced to less than half through digital transformation (DX). This is a very significant change. What specific measures you have taken to achieve this result? In the future, will we see a significant effect in terms of cost efficiency? Where will this be most apparent in the future?**

A. There are several ways to deal with the labor-hours under business structure reforms. For example, with the introduction of RPA, data that once had been received by fax and input manually input into our system can now be automated. A mechanism to link systems automatically leads to a reduction in the number of employee workdays and a considerable reduction in labor-hours. Many of our procedures were paper-based in the past, which required

employees to come to work physically and affix their personal seals to documents for preparation and approval. By systemizing workflows, processes such as approval and reporting can now be handled with smartphone. The new system has contributed to the advancement of a paperless work. Invoices not only within the company, but also with suppliers are now be processed within the electronic platform instead of issued and processed on paper. This has resulted in fewer work hours and lower costs. Whether employees are engaged in sales or back-office operations, this reduction in work time will ultimately create time to engage in more creative work and pursue more efficient business improvements. This in turn improves productivity. In terms of productivity, we not only reduce the denominator, which is the amount of work hours, but also increase the numerator, which is output. In this way, we are creating synergistic effects.