

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

[Time and Date] 1:00 p.m. to 2:00 p.m., Friday, February 4, 2022

[Respondents]

Yukio Yokoyama, Director, CSO, and Managing Executive Officer

Takashi Yano, CFO

1. Domestic Business

Q. NISSIN FOOD PRODUCTS will revise prices in June. You stated that volume would remain flat, even with increased prices. What measures have you considered to prevent a decrease in volume.

A. We are seeing a certain positive impact of the sales promotions implemented by NISSIN FOOD PRODUCTS. These promotions include data-driven/multi-insight strategy initiatives and sales floor entertainment measures. We believe the successful combination of NISSIN FOOD PRODUCTS strengths with digital content in stores is an approach that no other company can match. We expect customers to be reluctant to buy our products initially immediately in the wake of price revisions. We believe it is important to control this decline and produce positive effects from our price revisions. To this end, we are considering a variety of measures to limit the decline as much as possible. For example, value-added products not available from other companies, such as *CUP NOODLE PRO*, have had a very welcome response from consumers and strong sales. And we intend to capture new demand through these value-added products. Further, we have a full lineup of products, including value-added products, standard products, and price-conscious products. As has been the case with previous price revisions, we believe we will make up for the decline in volume by correctly interpreting the mindset of consumers and selling products attractive to them.

Q. The general impression is that NISSIN FOOD PRODUCTS is bullish with its price revisions at an average increase of 10%. Can you tell us more about this 10% price increase?

A. While I cannot provide the exact formula, we have been monitoring the cost of wheat and other raw materials, distribution costs, and other rising costs. We have been making efforts internally to deal with these cost trends, but the impact of rising costs is still considerable. In fact, costs are rising at a pace that exceeds our efforts to cope internally. The impact of the wheat price hike will be felt in earnest in the next fiscal year. The average price revision of 10% was the result of a search for a level that both acceptable to consumers and capable of absorbing cost increases. We

do not think this level is overly aggressive.

Q. What are your thoughts and measures regarding SKUs in relation to price revisions?

A. As I explained in our previous briefing, we have already reduced the number of SKUs as planned. Our basic intention is to maintain the same level as in the previous year. However, we will continue to reduce and replace products that are not profitable. Having a large number of SKUs is quite a heavy burden, and we want to manage SKUs while maintaining a good balance with profitability.

2. Overseas Business

Q. You are pursuing a premium strategy in the U.S. When do you expect to see a positive profit contribution and how much earning power do you expect, once the price revisions have settled in to some extent?

A. The premium strategy itself is heading in the right direction, and sales of premium products are growing steadily. In fact, even though the rise in raw material and logistics costs, as well as the increase in labor costs, has been higher than expected, sales have been strong. Once the cost increases settle in, we believe certainly that earnings will grow. In the U.S., we set a higher marginal profit target than before. Demand for premium products is very strong, and we believe that achieving this target is only a matter of time.

Q. You implemented the second price revision for the current fiscal year in the U.S. in January 2022. Given the sharp rise in raw material and logistics costs, are you considering a third price revision?

A. I cannot say anything about the specific timing, but it is a fact that costs have continued to rise. So, I think it would be prudent to consider whether to implement price revisions in the future.

Q. There was a significant increase in results in China during the October-December period. It appears that the figures for both Hong Kong and the mainland grew by more 10%. What was the reason behind this growth? Also, has performance been affected by “Zero COVID” policies or other external environmental factors?

A. Performance in China was based on the fact that business was strong, particularly on the mainland. Hong Kong is also on a track toward recovery. We have been cutting back on advertising and other expenses, so we saw a significant increase in both sales and profits. Furthermore, the company being listed in Hong Kong and having a December fiscal year end are other factors as to why we saw solid numbers during the October-December period, which is the end of the fiscal year.

Q. You mentioned that you are developing high value-added products in Asia. Tell us about the status of your high value-added strategy in each country.

A. In Thailand, for example, premium products such as 10-baht products are selling well, and we are establishing a structure to generate strong profits. We expect Indonesia will also become profitable in the future, and we believe our premium strategy in Asia is changing firmly into a profitable model.

3. Strategy, Other

Q. What is the current status of global demand for instant noodles and what is the future outlook?

A. We believe the global instant noodle market is expanding in terms of both breadth and depth due to in-home consumption demand during the COVID-19 pandemic. The U.S. and European markets are also growing steadily. In the U.S., for example, demand for premium products, as well as base products, is increasing. Top line sales of premium products are growing very well. Demand in mainland China has maintained the breadth and depth that expanded in the COVID-19 pandemic. We think the market is on a track toward recovery after a period of weakness. In Hong Kong, demand was weak for a while due to the effect of lockdowns, but we believe demand is returning. In Asia, the overall market has expanded, and we believe overall demand is growing. In South America, Brazil appears to be growing steadily. Looking at the overseas markets as a whole, we believe countries with lower GDP per capita have room to grow in the future as incomes improve.

Q. How much do you expect costs in FY 3/2023 to increase at this point?

A. We are currently in the process of formulating our plans for the next fiscal year, so I cannot provide detailed answers at this time. However, we believe that the effects of soaring material costs and logistics costs will continue in FY 3/2023.

Including the price revisions announced by NISSIN FOOD PRODUCTS, business rationalization, and measures for greater efficiency, we intend to formulate our plan in a way that facilitates sustainable mid-single digit profit growth for the group as a whole, as we described in our Mid- to Long-Term Growth Strategy.

Q. What are your thoughts about what will happen after the end of COVID-19 (Omicron variant)?

A. I think that the perception of the Omicron variant differs greatly from country to country. However, COVID-19 has increased opportunities for consumers to eat, which has expanded the

breadth and depth of instant noodles. In this light, we believe demand for instant noodles will continue to grow in the future. The key to growth will be per capita consumption. We also believe that increased awareness regarding immunity and health will increase interest in our value-added products, and that value-added products offering nutritional considerations will grow.

Q. Your product development efforts are shifting to value-added products. Does this mean you will take market share away from existing instant noodle products? Or will it be the case that you take away from other categories? What will the impact be in the U.S. and Japan?

A. First, premium products in the U.S. target middle-class consumers, which is different from the customer base of our conventional products. We are developing and expanding the market steadily as a new customer base. In addition, premium products sold in the U.S., such as *CUP NOODLES STIR FRY RICE with NOODLES*, are taking market share away from other food categories as meals. Given these circumstances, we think that the increase in sales of premium products in the U.S. represents a different demand base compared with basic products of the past. With NISSIN FOOD PRODUCTS in Japan, our perception is that the company has captured more health-conscious consumers in particular. For example, *CUP NOODLE PRO* is attracting customers who go to the gym, a segment that does not eat *CUP NOODLE* traditionally. And we have been attracting more female customers for *OSHA MESHI*. In this way, we are not taking market share from our existing instant noodles products, but rather, we are attracting new customers and expanding the customer base.

Q. Given that the need for instant noodles is expanding due to the impact of COVID-19, as well as share buybacks being conducted by your company, do you think you could raise your plan targets under the Mid- to Long-Term Growth Strategy?

A. It was about this time in FY 3/2021 when we debated the extent to which COVID-19 would affect us in the future. At the time, we did not expect inflation to be as high as it is now. But we expected the global economic recovery to form a K-shape, and we discussed possibility of downtrading in food, not only in Japan, but also overseas. In this sense, matters are progressing to a certain extent in the direction we envisioned, and we formulated our Mid- to Long-Term Growth Strategy based on these assumptions. As we continue to grow domestically, we set a major goal of growing the share of profits from overseas operations from 30% to 45%. This is because we believe there is more room for growth overseas where the penetration rate of instant noodles has been low so far. We are in the process of moving toward this goal, so we do not think there is any call for a change in direction at this stage.

Q. You mentioned your aim to achieve mid-single digit profit growth over the medium to long term. What factors do you consider, for example, when you forecast a double-digit upside?

A. We believe the most significant factor is raw materials costs. We don't expect the current high raw materials costs will last forever, so any drop in wheat and palm oil prices, for example, will have a certain impact. Other factors we can expect to have an upside impact include consumers who embrace value-added products more than we anticipate.

4. New Businesses

Q. You stated that you will invest between 5% and 10% of core operating profit of existing businesses in new businesses. I believe that calculates to between 2.5 billion yen and 4.5 billion yen for this fiscal year. At the same time, it does not appear that much progress occurred until the third quarter. How much do you expect to invest in the January-March period? Also, what is your policy for the next fiscal year?

A. While I cannot provide details, you can assume at this point that we plan to invest within the scope of our plan. We are seeing some results, and we are on track to launch several businesses. We have also conducted test sales of a product called *KANZEN MEAL* at some Seven-Eleven stores, which has had a certain level of success. Although we are unable to disclose detailed information at this stage, we will discuss the specific progress of new businesses when we conduct our financial results briefing in May.

Q. Is it correct to infer that investments in new businesses will accelerate in the next fiscal year as the businesses begin in earnest?

A. Rather than accelerating investment, we believe that the details of investment will change. We hope to maintain investments within the range of 5% to 10% of core operating profit of existing businesses in principle.