

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

[Time and Date] 1:00 p.m. to 2:30 p.m., Monday, May 16, 2022

[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, Executive Officer and CFO

1. Domestic Business

Q. What is your view on the ideal profit level for NISSIN FOOD PRODUCTS?

A. Our core operating profit margin for FY 3/2022 was 14.5%, and we plan to achieve 14.4% in FY 3/2023. We believe that this is the result of our ability to capture a steadily expanding customer base due to the COVID-19 pandemic. The outlook over the short term is uncertain due to soaring raw materials and logistics costs, the impact of the situation in Russia and Ukraine, and other factors. However, considering improving sales promotion efficiencies and marketing accuracy, as well as the fact that high-value-added products are beginning to become more popular, we want to aim for around 15% in the mid- to long-term.

In terms of domestic consumption trends, our high-value-added products such as *CUP NOODLE PRO* and *NISSIN NO SAIKYO DONBEI*, which we price 20 yen to 30 yen higher than regular products such as *CUP NOODLE* and *NISSIN NO DONBEI*, are doing very well. We believe that this is due to the popularity of "small indulgence" products in the home dining market, particularly during the COVID-19 pandemic. In fact, looking at retail data, we see trending sales of premium ice cream or high-priced domestic beef that consumers don't normally purchase. This indicates that small indulgence has become a boom, gradually becoming entrenched. As a result, we believe sales of high-value-added products are expanding. We have no doubt that consumers will have some reluctance in making purchases after the price revisions in June. But it is up to us to communicate clearly to consumers that instant noodles are undervalued among food products and that they represent high-value-added products with good cost performance. This is especially true for cup-type instant noodles. This type of communication is where we excel, so we plan to execute well and aim for a profit margin of between 14% and 15%.

Q. Do you think consumption trends may change in the second half of FY 3/2023? Also, do you think the small indulgence boom will continue in the future?

A. I believe consumers will tighten their purse strings and become reluctant to make purchases. This is a point about which retailers are also very concerned. And it will be very important to make sales floors more entertaining, beyond the terms of price. The ability of a manufacturer to engage in data-based sales will be the biggest difference. We want to make sure that NISSIN FOOD PRODUCTS has a strong presence. As for the small indulgence boom, I think it will decrease gradually in the future. However, depending on marketing, if we help consumers remember the delicious tastes, we believe that high-value-added products such as *CUP NOODLE PRO* and *NISSIN NO SAIKYO DONBEI* will still drive sales under any consumer sentiment.

Q. Tell us more about NISSIN FOOD PRODUCTS and mid-range/low-end product measures.

A. In an environment of price revisions, we believe consumers will shift to lower-priced products. But we also believe that the key to success of price revisions is increased exposure of standard-priced products such as *CUP NOODLE*, *NISSIN NO DONBEI*, and *NISSIN YAKISOBA U.F.O.* I cannot discuss exposure methods in detail at this time, but we believe the key is to make sure that marketing communications reach consumers through consistent exposure. We are confident that we can do this, and we believe this is our greatest strength. In addition, we must communicate high-value-added products in a fun way.

2. Overseas Business

Q. Looking at FY 3/2023 Forecasts by Segment on page 13 of the presentation, it appears that revenue forecasts for your Overseas Business is modest in light of January-March results. What are your thoughts here? If there are any matters related to the Americas, please address the United States and Brazil in particular.

A. We made these forecasts before the situation in Russia and Ukraine, and we are being conservative in our thinking overall. For example, in the U.S., we implemented a price revision in January. Even looking at overseas markets as a whole, we put together a conservative plan based on the possibility that price revisions will slow demand and restrain growth in the instant noodle market to some extent. One point where we differ from other companies is the extent to which we take into account market growth and the impact of price revisions. While some companies may implement several price revisions in a row at levels up to nearly 20%, we do not consider implementing price revisions to that extent. However, if the company with the top market share implements aggressive price revisions, we may follow suit

as the No.2 company. Depending on the range and timing of the price revision, forecast figures may change significantly if the revisions are reflected in revenue.

Q. Regarding sales revenue and number of servings for the January-March period in the U.S. and Brazil, given that unit prices have grown by more than 10% in both countries, is it safe to assume you will maintain double-digit growth, even though the revenue forecast is in the single-digit range?

A. We believe that we will eventually land in that range, but we are planning conservatively at this point. However, there are some countries where price revisions have not been incorporated in our business plan. Considering that price revisions in each country will be in response to soaring raw materials costs, it is highly likely that revenue will also be higher than expected as a result.

Q. Would it be easier to implement price revisions overseas? For example, will you be able to implement flexible price revisions in areas such as China, Asia, and EMEA in response to soaring raw materials costs?

A. The status of major overseas price revisions is as described on page 42 of the financial results presentation materials. The information is limited to what we are able to disclose, but we are now in an environment where price revisions can actually be implemented in a variety of countries. Unlike in the past, higher overseas inflation rates, including labor costs, mean that prices are rising not only for our products but also for FMCG (daily consumer goods). We will respond accordingly. In terms of our relationship with our competitors, our products are mainly cup-type noodles with high added value and a low ratio of noodles to material costs overseas. Other companies are mainly selling bag-type instant noodles with low added value, using a very high ratio of wheat and palm oil. In this sense, other companies are relatively more susceptible to material cost increases, and we believe that this is an environment where we can take advantage.

Q. It appears that the U.S. infrastructure is still fragile. Will you be able to improve profits in FY 3/2023, even though the supply system remains imperfect? Tell us more about the differences between FY 3/2022.

A. We experienced an unexpected surge in raw materials and logistics costs during FY 3/2022 as we pushed forward with our shift to premium products. And we believe the range of price revisions in response to these cost increases was not sufficient. Even so, we feel that we delivered solid sales of such distinctive products as *CUP NOODLES STIR FRY* and others. Other companies have also implemented price revisions. We are determined to proceed in a

manner in which price revisions ensure a sufficient level of profit. This should improve our profit margins. And given that demand did not decline despite the price revisions, we believe we can still increase sales. However, with the situation in Russia and Ukraine, we need to consider how wide and how many price revisions we will implement in the future. Our aim is to generate profits while offering a solid lineup of attractive products.

Q. Tell us about the impact of the Shanghai lockdowns on your company's operations, production, logistics, and sales. Also, what impact do you think the quality problems at the top manufacturers will have on demand and your company's market share?

A. I am aware that certain companies, including Japanese companies, are experiencing production difficulties. But we do not have a production center in Shanghai, so our factories are still in operation. While the lockdowns have increased demand, the overall supply may be slightly stagnant due to logistics disruptions. However, we believe this is a temporary situation and that the lockdowns will be lifted beginning in June. So in that sense, we expect logistics disruptions to be resolved gradually. Overall, we believe demand will rise steadily as the flow of people returns to Hong Kong and the mainland. We also believe that the COVID-19 pandemic has expanded the breadth and depth of our business, and that we will differentiate ourselves from competitors in terms of quality and taste. Of course, there may be a drop in demand at home as people start going out more. But we believe that demand for high-value-added products, centered around *CUP NOODLES*, will remain relatively stable. Regarding the issue of quality, we believe our products offer a sense of benefit in terms of safety and security.

3. Strategy/Other

Q. What will the consumption trends for instant noodles be in FY 3/2023?

A. At first, we assumed demand would decline as COVID-19 subsided over time. But in fact, the COVID-19 pandemic has expanded the breadth and depth of our business. In this context, we believe that premium products have increased the number of eating opportunities compared to the past, leading to repeat business. As inflation rises, demand for instant noodles products that can be eaten easily will increase worldwide. We believe the global trends toward instant noodle consumption will be firm. In particular, we believe that premium products have increased the opportunities, now more than ever, for new customer segments to eat these products, leading to repeat purchases.

Q. If the price of wheat continues to rise, you will likely be forced to implement further price revisions. Can NISSIN FOOD PRODUCTS make a second round of price revisions?

A. Price revisions are largely divided between overseas and domestic markets. Overseas, inflation is extremely high and incomes are also increasing. So we believe that the environment is becoming more conducive to price increases. Fundamentally, we believe we will be able to pass on higher raw materials costs to our customers. For the domestic market, on the other hand, our top priority is to implement June price revisions steadily and successfully. Certain companies already implement price revisions several times a year, and we believe this creates an environment conducive to price revisions. However, we will carefully consider the possibility and timing of additional price revisions as we monitor consumer reactions to the June price revisions. We have not ruled out the possibility of additional price revisions, but at this time we are unable to comment on the likelihood or timing.

Q. What are the issues that NISSIN FOODS Group must address and strengthen in the future?

A. (Ando CEO) As our COO already explained regarding the Instant Noodles Business, we believe the Non-Instant Noodles Businesses will be another steadily growing business. For the company as a whole, innovation and marketing will be key factors. Marketing is important in each business, of course. But innovation to support marketing is also important, and this is where technological development comes into play. In this sense, we invest on a constant basis to create high-quality, high-value-added products.

In our Overseas Business, we believe we need to strengthen our sales force. Countries with strong sales capabilities are growing very fast, but certain countries remain where sales capabilities are still weak. In the medium to long term, we aim to strengthen our sales force and expand our business, including M&A activity. In addition, we formed a platform in which officers and chief officers from the holdings company provide global support to domestic and overseas operating companies. We believe this platform will lead to further success as it functions and we make improvements.

(Noritaka COO) We believe we have made much progress in strengthening overseas development capabilities, digital transformation, sales, and marketing. But the most important thing is to develop and secure human resources. Unless we develop and increase the number of employees, the group will not grow. Therefore, we established a new in-house educational institution called NISSIN ACADEMY several years ago, and we have been making investments in human resource development. In addition to NISSIN ACADEMY and other

measures to develop our human resources, we believe we must recruit and hire flexible human resources as quickly as possible. We cannot make a leap forward without increasing the number of marketing and sales personnel, especially overseas.

4. New Businesses

Q. What is the business model for *Complete Nutrition Meals*? Is it correct to say that the business model for packaged foods is to generate earnings while holding tangible assets, while the business model for boxed lunches and meal kits is to generate earnings through intangible assets such as recipes and technology?

A. For *KANZEN MEAL* products, which we will launch on May 30, we use our own product lines such as *NISSIN CURRY MESHU*, *NISSIN RAOH*, granola, etc. We do not have a beverage line, so smoothies will be OEM. Since some types of products can be produced in-house and others cannot, we plan to outsource production under the OEM model initially, and invest in equipment as we see how things go. We are also considering a business model that generates earning from intangible assets such as recipes. However, we intend to grow the business as we engage in in-house procurement of the black box components such as recipes and basic ingredients.

Q. Where do you include the 3 billion yen sales target in FY 3/2023 Forecasts by Segment?

A. That target has not been included in that information at this time. We are discussing which segment to include it in moving forward.

Q. You mentioned sales of 10 billion yen for FY 3/2024. Please explain the basis for 10 billion yen in detail.

A. We are considering the introduction of a product for retailers nationwide starting in the second half of FY 3/2023. However, due to production capacity issues, we are projecting about 3 billion yen for FY 3/2023. We believe we can achieve this figure, given the strong interest received from retailers. And we are confident in the 10 billion yen range for sales, based on the past performance of *NISSIN FOOD PRODUCTS* high-profile brands. For FY 3/2024, we project sales of 10 billion yen based on the assumption that we will meet demand. And while we are at the limits of production capacity now, we believe we will achieve this level of sales in FY 3/2024.

Q. Is there any need to worry about cannibalization between the *KANZEN MEAL* brands and other existing brands?

A. There is a possibility that the *KANZEN MEAL* will compete with *CURRY MESHU* in the future,

but since we have yet to make *KANZEN MEAL* for *CUP NOODLE*, I don't see that there will be any conflict.