February 2023

Financial Results Briefing Q&A Session for FY3/2023 3Q

[Time and Date] 4:00 p.m. to 5:00 p.m., Monday, February 6
[Presenter] Takashi Yano, Executive Officer and CFO

Q. Top-line sales have been growing significantly since 2Q in the Americas, particularly in the U.S.
A. We assumed volume would drop after the August price revisions, but contrary to our expectations, volume has been very strong. On the other hand, while we have room for greater production capacity, there is still a labor shortage. With the price revisions, profit margins for premium products increased. Profit margins for base products also increased due to improved production efficiencies. Overall, we are seeing a shift to premium products, but demand remains strong for both premium and base products.

Q. Profits in the U.S. increased significantly. What is the best way to view how to make this region one of the pillars of your business in the future?
A. The operating profit margin for 3Q was quite high in the U.S., but we understand that this is not a sustainable situation. Currently, we are operating factories almost non-stop, and we do not have the time to even conduct maintenance. We haven't increased salaries or given bonuses out of the increase. But we will incur expenses like these from now on. We believe we have a system in place to maintain a profit margin level of around 10% on a constant basis. And I want to address our outlook once again when I explain the plan for the next fiscal year.

Q. Overall volume growth in the U.S. is in the low single-digit percentage range. What was the growth for premium products in 3Q?
A. The growth rate was close to 10%. On a volume basis, base products were larger.

Q. In terms of capacity in the U.S., it seems you are able to handle the increase in volume at present.

A. There is no problem currently, but we believe there could be supply shortages if this situation continues in the future. We must consider measures including the building of new production facilities.

Q. Can you provide a breakdown by country for the 4.9 billion yen increase year on year in 3Q profit for the Americas?
A. The U.S. accounted for 90% of the increase, with Brazil and Mexico making up the remainder.

Q. What is the breakdown by country for the 5.3 billion yen in non-consolidated core operating profit in the Americas for 3Q?
A. The U.S. accounted for about 80%, Brazil for more than 10%, and Mexico for less than 10%.

Q. The operating profit margin for 3Q in the U.S. was around 20%. How should we interpret that result?
A. We do not believe the 3Q figure is sustainable. If it falls somewhat and levels off, it should remain at around 10%.

Q. What is the ratio of premium product sales in the U.S. as of 3Q?
A. It is around the latter half of 40%.

Q. Unit prices in the U.S. are up about 54-55%. We interpret this to be an improved impact in excess of the price revisions. Is that a correct understanding?
A. The ratio of premium products sale is rising, and the product mix is contributing.

Q. You also revised operating profit upward, but considering the cumulative 3Q results, it seems that operating income will decline in 4Q. What is the reason for this?
A. The 3Q results tend to be higher, but we factored in marketing expenses in Japan before the price revisions for the next fiscal year and higher personnel expenses in Japan and overseas.

Q. What was the impact of the price revision in the domestic instant noodle business on your business performance? Also, what extent should we expect an increase in Domestic Instant Noodles Business costs? Will profit margins return to the previous level of 14%-15%?
A. We believe that domestic raw materials and energy costs will continue to rise over the next fiscal year. Our policy is to pass costs on to our customers in an amount necessary to cover the cost increases and achieve an increase in profits. We intend to maintain profit margins at the same level as before.

Q. Is it correct to understand that the price increases have been made with a view to maintaining profit margin of 14%?
A. While there are some uncertainties, including as soaring raw materials prices, we are aiming for that level.

Q. Did you decide the June price revisions in anticipation of the wheat price changes in April?
A. Yes, that is correct.

Q. What was the average rate of the next price revisions?
A. The average price increase was a little over 10%.

Q. Is it correct to understand that the price increases will be 11%-12% on revenue of 230 billion yen to 240 billion yen, meaning an effect of 28 billion yen on an annual basis?
A. The products to the price increase account for about 90%, and the calculation should be done on a 10-month basis.

Q. Looking back, how do you think last year's price revisions turned out?
A. The price of *CUP NOODLE* easily exceeded 200 yen. The level of acceptance of the price increases for high value-added products such as *CUP NOODLE* PRO and *CUP NOODLE* BIG was high. A customer segment that had not been eating *CUP NOODLE* before is now also entering the market. Low-priced products are also growing, and we need to offer wider product lineup. We think it is important to have a wide range of price, from price conscious products to high-priced products.

Q. What do you think about competition from PB products?
A. We believe that our customers choose our products for factors that include our promotions.

Q. The system appears to be working well currently. Will profit margins accelerate in the next fiscal year? Or will margins remain at around this momentum?
A. There is strong demand for price-conscious products. And we will need to assess that demand.

Q. What are the risks for the next year?
A. I believe that instant noodles are highly regarded in terms of cost performance and time performance. While this general trend is not likely to change, we must keep a close eye on whether these attitudes will change in the future.

Q. What is the outlook for raw materials costs overseas?
A. Raw materials costs continued to rise in 3Q, and began falling heading toward 4Q. We expect that trend to continue in the next fiscal year. Costs have already fallen in some countries, and as a whole, costs overseas are trending downward. As prices overseas are being passed on to customers, the impact of raw materials costs becomes easier to bear in a sense. We are confident we are now in a good position to generate profits.

Q. What are your thoughts on overseas sales volume going forward? Once the impact of unit prices has run its course, volume is likely to grow only by a few percent.
A. Overseas, demand for instant noodles is growing because penetration of instant noodles is still low. Given the situation, I think we can sustain current growth rates. If economies overseas return to normal, demand for high-value-added products—our strength—should be increased.

Q. Both the Confectionery Business and the Chilled/Frozen Foods and Beverage Business increased profits in 3Q. Were there factors allowing you to hold costs (advertising and promotions expenses) down relative to

sales? Was this a pleasant surprise given the challenges in the Confectionery Business in 2Q?
A. We do not think these are temporary factors (focusing/narrowing sales promotions, for example).

Q. The Chilled and Frozen Foods/Beverage and Confectionery Businesses saw rapid performance improvements in 3Q. What was behind this improvement?
A. We just launched *PILKUL MIRACLE CARE* of NISSIN YORK in September. We believe this strong performance will continue for some time. The Confectionery Business had several price revisions. And while competitors have raised prices several times, KOIKE-YA uses domestically produced potatoes and other ingredients less affected by the weak yen. So we captured demand without price revisions even as other companies were implementing price revisions.

Q. To what extent did Miracle Care contribute to the increase in profits?
A. *PILKUL MIRACLE CARE* contributed most of the increase in profit. We will advertise in the future, but we expect performance to remain positive.

Q. Is it correct to assume that profit margins in Chilled and Frozen Foods/Beverage Business will remain at the current level?
A. We expect NISSIN YORK will continue to be strong, but costs are rising, so there are risks in the Chilled and Frozen Foods/Beverage Business as a whole.

Q. What is the breakdown of the increase in core operating profit in your revised plan?
A. Understand that the profit increase is more than 10 billion yen overseas compared to the previous year, with the difference being Japan.

Q. What are the factors behind the increase in operating profit for NISSIN FOOD PRODUCTS?
A. The increase in sales was +9.7 billion yen, while raw materials costs and utility differences were -9.4 billion yen and product mix deterioration was -0.1 billion yen. SG&A was -1.4 billion yen. The combination resulted in a net decrease in profit of 1.2 billion yen.

Q. Brazil recorded increased profit for cumulative 3Q. Did profit decline for 3Q results?
A. The production process encountered some temporary snags in the accelerated production system.

Q. Volume in Brazil was weak this quarter. What is the outlook for the next fiscal year?
A. The weak volume was due to internal factors, including low inventories at the beginning of the period and problems with increasing production speed. Demand has not weakened. We will introduce new products, and volume should return to normal in the next fiscal year. The only risk is wheat. The wheat is produced in South America, but crop yields continue to be poor, so prices may not fall as much as in other regions.

Q. On P.9 of the Supplementary Materials, you show a decrease in CoGS ratio compared with 2Q due to overseas cost on a constant currency basis. What were the reasons for this decrease? Have you turned the corner yet? Are profits growing or shrinking?
A. One of the reasons is the decrease in raw materials prices. While the cost of raw materials appears to be decreasing in a percentage analysis, in absolute terms, the cost of materials increased in 3Q compared to the 2Q due to cost increases in proportion to the increase in sales. However, as an overall impact, we have seen a downward trend in raw materials costs from 1Q to 4Q.

Q. You stated that profit margin in the U.S. is currently in the high 10% range and you expect margins to settle in the mid-single-digits in the future. Can you share the background behind that statement? I'm sure there are other factors that include short-term incentives (STI) and high utilization ratio, but are there any other factors that are causing profit margins to be so high for the October-December period? What factors will contribute to profit margins settling in the mid-single-digit range as the cost of raw materials stabilizes in the future?
A. We have not been able to spend enough on marketing due to a low profit structure. We intend to spend a certain amount on initial marketing expenses as we roll out new products in the future.

Q. Raising marketing expenses and other such costs would be very welcome, but have there been any recent cases of companies refusing to raise prices?

A. There was an article about Whole Foods requesting a price reduction, but we do not distribute our products to Whole Foods. We have not heard of any requests for price reductions in other channels. And since our products are relatively inexpensive, even if there were requests for price reductions from other channels, we do not believe the requests would come to us immediately.