

May 2023

Financial Results Briefing Q&A Session for FY3/2023

[Time and Date] 2:00 p.m. to 3:30 p.m., Thursday, May 11, 2023

[Presenters]

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

Domestic Business

- Q. NISSIN FOOD PRODUCTS operating profit margin for FY3/2023 was around 12%. I believe it's generally around 14% normally. Was the most-recent result only temporary due to rising costs, etc., and will operating profit margin return to former levels in the future? Also, what measures do you have in mind to increase profitability?**
- A. Prior to COVID-19, operating profit margin was between 13% and 14%. Due to the unforeseen impact of the Russia-Ukraine conflict, raw materials and material prices rose to levels not covered by price revisions, resulting in an operating profit margin of 12.1% for the previous fiscal year. This year, we plan to revise prices for a second year in a row, but profit margins will likely remain at the same level. Of course, we intend to raise operating profit margins, and we will also emphasize top-line revenues and profit. Improving product mix is another measure necessary for increasing profitability. In addition, price revisions led to better sell-through of low-priced and price-conscious products. After two consecutive years of price revisions, we're not quite sure how products will sell, honestly. But we are projecting profit margins conservatively, and if raw materials prices rebound downward, profit margins will improve gradually. Therefore, we haven't changed our policy aiming for a 15% operating profit margin over the medium to long term. We hope to reactivate sales floors through the unique NISSIN FOOD PRODUCTS marketing and improve product mix as quickly as possible.

Q. It appears that NISSIN FOOD PRODUCTS volume was down in Q4 of FY3/2023. Can you comment on that observation?

A. We saw a significant increase in volume in Q4 of FY3/2022 in the demand rush prior to price revisions. So, we don't see the decline in Q4, FY3/2023 as particularly surprising.

Q. What are the current consumer purchasing trends in the instant noodles market?

A. At the moment, we see a growing demand for price-conscious products. However, sales of higher-priced products are also growing, as far as NISSIN FOOD PRODUCTS is concerned. These higher-priced products include *CUP NOODLES PRO*, *SAIKYONO DONBEI*, *ZEROBYO CHICKEN RAMEN*, and *NISSIN KORE ZETTAI UMAIYATSU*. We are seeing a polarization in consumption. Among the major manufacturers, only NISSIN FOOD PRODUCTS has increased market share by monetary value, and we feel that we are in control of the market.

Overseas Business

Q. How do you expect the U.S. business to develop with the construction of a third plant?

A. With the start-up of a third plant, we expect the percentage of premium products in the U.S. to increase, and the profit gained thereby should be greater. Our plan is to increase core operating profit in the high-single digits while absorbing higher depreciation costs in the process. We intend to increase our market share by offering more variations of premium products in the future.

Q. It appears that the U.S. business must defend itself against competition. What are your thoughts on dealing with the competition?

A. We formed good relationships with retail and distribution partners at the beginning of the pandemic. Using these relationships as a foundation, we plan to maintain sales of base products, while growing sales of premium products. To maintain base product sales, we expect to spend some money in terms of marketing expenses to stimulate consumption. At the same time, we don't intend to compete on price with base products. We will leverage our brand value and build further on our good relationships with retailers and distributors.

Strategy/Other

Q. It seems that your sales base and instant noodles brand position have risen significantly over the past few years. You have already achieved your medium- and long-term KPIs for ROE and Overseas Business sales ratio. To what extent will you be aiming in the future?

A. We planned for 60.2 billion yen in core operating profit of existing businesses for FY3/2023 and 64.0 billion yen in FY3/2024. We hope to grow in the mid-single digit range through FY3/2031, and we expect ROE to be around 10% after taking the depreciation burden into account. Overseas Business sales composition ratio will depend on the exchange rate, but we expect it to rise to between 45% and 50% of total sales.

Q. What is your approach to capital investment and returns in FY3/2024 and beyond? Also, it seems that investment in Japan is more difficult to recover compared with investment overseas.

A. Our FY3/2024 plan calls for roughly half of our investments to be in Japan and half overseas, mainly for land purchases. The majority of our investments in Japan will be in our Instant Noodles Business, while the majority overseas will be in our business in the Americas, over half of which be for purchasing land to construct our third plant in the U.S. We believe we must improve production efficiency, improve BCP, and respond to all types of demand both in Japan and overseas. Our capital investment will not be made all at once, but gradually in several phases, giving priority to each geographical area based on demand. In the future, we will likely need facilities that incorporate CO₂ reductions, for example. In Japan, we will need to improve supply chain functions in light of global risk and global supply chains. We are currently discussing the kind of investments we will make in these areas, and we will issue an announcement as soon as plans are finalized. At this point, we do not expect depreciation expenses to grow, as the focus is on land acquisition. But in the medium to long term, we plan to prioritize line installations and building construction in consideration of depreciation expenses. In any case, we will proceed in a way to grow profits in the mid-single digit range, and we intend to ensure a solid profit margin on individual investments. In Japan, we must consider our position in the global supply chain. We will divide our approach into several phases, looking at the stable supply of materials, how to control raw materials price increases, how to deal with gradually increasing distribution risk, etc. In the future, we hope to create plants that solve the various problems faced by Japanese food manufacturers.

Q. There appears to be room to expand the NISSIN FOOD PRODUCTS marketing methods horizontally within the Group. What is the Group's overall marketing approach?

A. Certainly, the more horizontal expansion we leverage, the more profitability will change. And we have the underlying expertise. But marketing is not something one simply extends laterally, since conditions are completely different from country to country. Brand marketing only begins when we find an ignition point after carefully monitoring the target audience, media usage, and other conditions that differ from country to country. We feel we are making progress in brand marketing in Hong Kong and Brazil, becoming more capable of value-added business differentiated from other companies. We are also seeing gradual progress toward profitability in Southeast Asia and Europe. But it will take more time to bring these regions to the level of Hong Kong and Brazil. However, the speed of brand marketing for *CUP NOODLES* overseas will clearly change if we compare the past 10 years to the next 10 years, since profits are growing and we are able to invest more in marketing costs.

New Businesses

Q. Compared to your initial assumptions, what about *KANZEN MEAL* is working well? What have been the challenges?

A. One favorable point is that we introduced *KANZEN MEAL* at a higher price point than traditional instant foods. We are receiving positive feedback from our distributors. Having mentioned higher price points, one challenge is that we must gain wider consumption by keeping price down the 348 yen to 298 yen price range. We use many OEMs currently, but we will need to determine the best-selling items over the next three years or so, drawing on our own production lines to mass produce these products at reasonable prices. We are also looking at new commercial distribution channels for the *KANZEN MEAL* series, including employee cafeterias and vending machines. We recognize that new commercial distribution channels and collaboration with partners may not always proceed as expected. But we are also aware of the challenge in working with a sense of urgency to create a 10 billion yen brand by FY3/2025.

Q. Would you consider a subscription service for *KANZEN MEAL*?

A. As an example, we would like to sell a 10-meal set subscription. But this is a new business model for us, so it is difficult to say exactly how quickly such a model will take shape. A *KANZEN MEAL* subscription service will require a new form of marketing, different from conventional approaches, so we have the opportunity to build a new base of expertise.

Furthermore, we must create a direct marketing model unique to NISSIN. We believe the customer segment for a health food subscription service is different from the traditional NISSIN FOOD PRODUCTS target. Our challenge will be how to convey the message that *KANZEN MEAL* options are satisfying and nutritionally balanced.

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