August 2023

Financial Results Briefing Q&A Session for FY3/2024 1Q

[Time and Date] 4:00 p.m. to 5:00 p.m., Thursday, August 3, 2023
[Presenter] Takashi Yano, Executive Officer and CFO

Financial Results

Q. How did 1Q results compare to plan?

A. Overall, core operating profit of existing businesses was about 50% higher than plan. U.S. performance, in particular, was highest compared to plan. NISSIN FOOD PRODUCTS was somewhat higher than plan. KOIKE-YA was minor in terms of monetary value, but was considerably higher. NISSIN YORK and equity-method affiliates Mareven and Premier Foods also outperformed.

Domestic Business

Q. What were the factors behind the 1Q change in profit for NISSIN FOOD PRODUCTS? Also, tell us more about developments leading to more positive signs recently.

A. After price revisions in the previous fiscal year, we saw a slight reduction in volume. This fiscal year, however, we experienced a slight increase in volume. The current trend in consumer needs is toward polarization between price-conscious products and high-value-added products. We are responding to this trend. While high-value-added products are one of our strengths, growth in price-conscious products is likely due to our capture of demand for the NISSIN Brand through effective marketing. We intend to bring the trend toward price-conscious products back to our regular products. We believe this is a positive sign in light of the current environment.

Q. In June this year, you implemented a second round of price revisions in your Domestic Instant Noodles Business. Have you seen any indication of a down-trade?

A. We noted an overall down-trade in the sense that price-conscious products continue to grow in sales, and the mix is weakening slightly as a result. We intend to take measures to shift sales back to regular products.

Q. Will the KOIKE-YA market share growth peak due to the price revisions in this July? What are your plans for the future of KOIKE-YA? Also, will a shrinking gap

in retail prices with competitors change the future behavior regarding mainstay potato chip products?

A. In general, the potato for KOIKE-YA are domestically produced, so these ingredients are not affected by foreign exchange rates. This gives the company a price advantage over other companies that use imported ingredients. Compared to the past, KOIKE-YA sales and profitability have increased along with the company's recognition and brand power. The KOIKE-YA brand image ranking is superior to that of the competition, and the company believes it will maintain competitiveness and continue strong sales.

Q. What is the sustainability of the upward swing in the Chilled/ Frozen Foods and the Confectionery Businesses? In particular, the Chilled /Frozen Foods and beverage Business appears to be on quite an upswing. What is the background behind this performance?

A. PILKUL Miracle Care was launched in September last year, so this product was not in 1Q results of the previous year. The product is purely an add-on to financial results this quarter. In addition, the PILKUL brand in general is doing well, but Miracle Care is in high demand, even without rebates. Miracle Care's share of sales is rising due to the suspension of sales of certain other products. We will monitor future sales trends closely since we raised the price of products at the end of June in accordance with the revised milk prices.

<u>Overseas Business</u>

Q. It appears that your CoGS ratio is contributing to higher profits overseas. What is your outlook for the future?

A. CoGS ratio changes include not only materials costs, but also labor and other personnel expenses. Materials costs were lower than the previous year, but labor expenses were up, resulting in a slight increase in total costs. The situation differs from country to country. For example, in the U.S. and Europe, we booked certain materials in 1Q of the previous year, before the impact of Russia-Ukraine. So, we did not see a significant positive impact on 1Q as compared with the previous year. On the other hand, we conduct a high ratio of spot and other short-term procurement in Asia. Here, we are beginning to benefit from the more recent decline in materials prices.

Q. Is it correct to understand that the "low-double digit" decline in overall units overseas means somewhere around 10%? How do you expect sales volume to develop in 2Q and beyond? Is it correct to assume that you see the decline in 1Q as large, but that the trend will be toward gradual improvement?

A. The decline in overall units overseas was in the low 10% range. Since we implemented price revisions in each country, we do not expect volume growth to be significant overall overseas. While differences exist from country to country, we believe that performance in Asia, EMEA, and Mexico are on the rise.

Q. What is the composition of sales and profits in the Americas? Also, it appears that profit margin is already up to 20%-23%; what are the reasons for this strong 1Q performance?

A. Of the 34.4 billion yen in sales, the U.S. accounts for nearly 60%, Brazil for 30%, and Mexico for the remainder. The U.S. accounts for 70%-80% of core operating profit, followed by Brazil and Mexico. The strong performance in the U.S. was due to lower-than-expected logistics expenses, rebates, and marketing expenses.

Q. While the price increases in the U.S. have progressed smoothly, what is behind the high-single-digit decline in 1Q volume and the decrease in market share?

A. We planned for a decrease in volume in reaction to the very high level of demand in June last year (partly due to a rush before price increases). Looking month-to-month, we do not believe results are far from plan, with May outperforming the previous year. We also believe that the results were affected by shipment timing delays in March and April, as well as by the return of competitor product supplies. We are not forcing ourselves to chase the competition by lowering current prices. While this situation may continue through July, we intend to increase volume, especially for premium products, by launching marketing activities in earnest beginning in August and through various promotions, etc.

Q. The impact of price increases in the U.S. (which saw year-on-year profit increase) will run its course in this August. You told at the beginning of this fiscal year unit prices may fall after August Can you provide an update on this point?

A. We have not seen any significant change in unit prices both base and premium products.

We initially discussed how other companies would use rebates to lower prices and gain market share. So far, we have not seen this development, and this suppression of rebates in 1Q was one of the reasons behind the higher profit margins in the U.S. Although other companies will have an impact, we do not consider this to be a major risk factor at this time. Volume is down slightly, but we compensated for this decrease through growth in higher-priced products, particularly premium products in the larger bowl-type lines. There appears to be a trend toward higher cost-performance products.

Q. Tell us more about the April-June market situation and your current situation in the U.S. . Also, what do you see for the U.S. market in July-September?

A. The market remained flat on a volume basis, while our actual results declined in the high single digits on a unit basis. In addition, the market for bowl-type products has grown in the low-single-digit percentages since last year, while our growth has exceeded that of the market. While the overall market for cup-type products declined in the mid-single digits, we were less than that. Bag-type products accounted for more than half of the total, and our sales declined in the mid-single digits compared to flat market performance. Market trends for the July-September period will depend on how other companies with large market shares attack the market.

Q. In the U.S., many manufacturers experiencing a decrease in sales volume between April and June explain it as inventory adjustments among distributors. Did inventory adjustments have any impact in your business? It appears that other companies will release in volume during the demand period once distribution inventory adjustments are complete. Do you think your company will recover the volume that declined in 1Q?

A. There was some impact. This was a U.S.-wide phenomenon. As for the future, August-September in the U.S. will be the timing for shelf changeovers. We intend to achieve a full-fledged recovery beginning in this August by examining product mix of existing products carefully and introducing new products.

Q. I think the trends in August and September are likely to be important in the U.S.. How will your marketing and other efforts change in response to future trends? It seems the situation which you can't reduce volume due to plans for a new plant.

A. Our use of rebates is affected by trends at other companies. In addition, other food products are seeing significant declines in volume. In this context, we believe that demand will remain relatively strong, as the instant noodles market has remained flat. We plan to continue to increase volume, but volume may fluctuate due to changes in product mix. The base for production volume per unit time is greater, so we believe there are situations where overall volume does not grow enough to shift to premium.

Q. LI expect U.S. profit margins for full year will be the same level as the 1Q. What is your outlook for the second half?

A. Structural reforms are moving forward. Costs are lower than expected, while the ratio of premium products is increasing. We also intend to launch new products during the shelf changeover, so we plan to use certain rebates and incur certain marketing expenses. We hedged palm and wheat for the most part in the current year during the April-May decline. Certain other materials, however, are purchased on a spot basis, which means lower prices would be a positive factor. And while we do not expect profit margins to remain at the same level as 1Q, the environment has become sufficiently favorable to aim for a level higher than FY3/2023 results.

Q. Do you expect Brazil to return to the same profit level as last year in 2Q and later?

A. In addition to scheduled maintenance, we also met with some unexpected problems. We overproduced in certain aspects (at full capacity), and having clarified the causes, we will work in 2Q and beyond to recover.

Q. You mentioned that the number of units in Brazil was down by double digits. Can we interpret this as a 20% decline? Also, what are your thoughts on volume in 2Q and later? Have you resolved the production issues?

A. The unit decrease in 1Q is in that general range. We are finalizing answers to the production issues, but we expect most to improve. And we aim to achieve plan in 2Q onward.

Q. Was the 1Q unit price in Brazil higher in the low-single-digit percentages? Is the macro-environment influencing the decline in units?

A. I don't have specific figures on unit prices at hand, but it is probably about that range, taking into account the product mix after price revisions. Regarding units, market demand remains strong and we expect to see a recovery once production issues are resolved.

Q. China (including H.K.) appears to be weak. What is happening there?

A. Both Hong Kong and the mainland experienced a negative rebound after the lockdowns and other impacts of COVID-19 in the previous year. Another factor was the typhoon that occurred in the previous year, in addition to the impact of the economic downturn this fiscal year. Since we are a relatively high-priced product in the cup-type instant noodles category, we expect a certain small amount of trading down. A downturn in the economy would be negative for us, as people would move away from the metropolitan areas.

Q. It appears that in 1Q, Asia already achieved plan for full-year profit growth. What regions contributed to this result? It also seems that operating profit margin is rising, excluding equity-method affiliates. What is your view?

A. Our business in Thailand has seen the tremendous impact of a recovery in tourism demand since reopening, declining materials costs, and the price revisions implemented in the previous fiscal year. In addition, our business in India returned to profitability. Factors behind success here include the reopening of schools, the return of demand for airlines, price revisions implemented in June, and lower materials costs. We estimate operating profit margin, excluding equity-method affiliates, to be in excess of 10% for 1Q.

Q. What is the background behind the increase in profit at Mareven? Is it sustainable?

A. The increase in profit was due largely to a reaction to the sharp depreciation of the ruble (appreciation of the yen) in 1Q last year. In addition, Mareven posted strong results of their own in 1Q. With the surplus of wheat, materials costs are falling. To answer your question about sustainability, Mareven posted profits last year of 200 million yen in 1Q, -200 million yen in 2Q, 1.1 billion yen in 3Q, and 900 million yen in 4Q (all disclosed). These results included a special factor in that we liquidated certain businesses in 2Q last year. We believe performance will return to cruising speed in 3Q onward.