

February 2024

Financial Results Briefing Q&A Session for FY 3/2024 3Q

[Time and Date] 3:00 p.m. to 4:00 p.m., Tuesday, February 13th 2024

[Speaker] Takashi Yano, Executive Officer and CFO

Performance

Q. You said that performance in 3Q was firm, but did it exceed your internal plan? If so, what areas?

A. Overall performance was strong. In Japan, NISSIN YORK and KOIKE-YA particularly exceeded our plan.

Q. If we calculate backward from the full-year forecast, it appears that you will record a year-on-year decrease in consolidated 4Q profit. How has 4Q compared to the plan through the first three quarters?

A. Results through 3Q have been generally favorable, and we do not expect this momentum to change in 4Q. However, our strategy is to strategically use the savings we have accumulated to date in various marketing activities, which will lead to further growth from 4Q.

Q. What is your profit growth target for the next fiscal year? I expect that the overall decline in raw material prices will present difficulties. How do you expect to increase profits in each business?

A. We are formulating our plan for the next fiscal year. Our plan assumes mid-single-digit growth excluding any extenuating circumstances.

Environments in Japan and abroad differ, so we will monitor the trends in raw material prices closely. Overseas raw material prices are declining generally, but we will continue to monitor prices. With the yen continuing to weaken in Japan, we do not expect a significant decline in the near term. This also goes for the price of wheat.

Other than raw material prices, the spring launch of the NISSIN YORK plant in Japan will help sales grow. The construction of new plants in the U.S. and Brazil is still some ways off. But we will respond to rising demand by installing and streamlining new lines to increase profits overseas.

Q. The Nikkei Shimbun reported that NISSIN FOODS HOLDINGS intended to revise the group Mid- to Long-Term Growth Strategy targets through FY 03/2031. This report refers to the increase from 80 billion yen to 100 billion yen in your target for core operating profit of existing businesses. What is your reasoning behind this not strong increase?

A. As the CEO mentioned at the 2Q financial results briefing, these figures represent a milestone. We are still debating specific figures, but we intend to set higher goals and overcome hurdles to meet them. As the saying goes, "Growth is a path without a summit." In other words, we must set goals and take gradual steps to reach the top.

Q. What is the driving factor behind the effective tax rates in the October-December period?

A. No single factor is of particular significance.

Domestic Business

Q. Please explain the factors behind the fluctuations in Domestic Instant Noodles Business profits for the non-consolidated 3Q.

A. Raw material costs and utilities trended lower than 1Q but plateaued compared to 2Q. Also, our product mix is improving from the negative results in 1Q and 2Q.

Q. Are there any updates on your approach to raw material costs since the 2Q results announcement?

A. Domestic wheat prices have declined temporarily since January, but the March wheat price revision is still uncertain due to the ongoing weakening of the yen in the foreign exchange market. We do not expect prices to decline significantly. Packaging and energy costs impacted by crude oil prices may also decline slightly. This decline is due to time lags in the impacts of foreign exchange rates, which do not appear immediately. However, this decline in the current environment will not change our perspective of overall raw material costs significantly in the next fiscal year plan.

Q. Tell us more about the new Kanto plant in Ibaraki. Are there any changes to the plan to launch operations in stages starting in FY 03/2027?

A. We are still considering details of the plant, including the timing. We plan to disclose more information at the briefing for 4Q to be held in May.

Overseas Business

Q. What is the composition of core operating profit by country in the Americas, and are there any changes from last year? What was the sales composition of base and premium products?

A. The U.S. accounts for 60% of profits, Brazil accounts for 30%, and Mexico accounts for the rest. Profits declined slightly in the U.S., excluding one-time costs. But profit levels increased year on year when taking into account our strategic investment in marketing costs. Premium products are selling steadily, while base products are growing at a strong pace. The sales composition ratio of the two has not changed significantly from last year.

Q. Is it correct to understand that profits increased in the Americas, excluding a one-time factor of 1.1 billion yen? Also, will the one-time factor of 1.1 billion yen in 3Q be the only such factor?

A. That is exactly right. We incurred this one-time expense in 3Q to acquire land for our third plant.

Q. It seems the growth of the U.S. market is slowing down. What is your strategy for sustainable growth in terms of volume growth, unit price trends, and profit margin levels for the next fiscal year?

A. There is still potential for a new field of premium products in the U.S. despite sluggishness compared to the market under COVID-19. The key here will be to balance new premium products with high unit prices and profit margins while maintaining the strong performance of base products. We are the only company that can do this.

The current environment is still shifting from the grocery channel to club and dollar channels against uncertain trends in inflation. Instant noodles performed well among overall food products due to affordability, and major trends in the business stayed constant. Here, we will focus on further expansion in the premium market by implementing measures to shift and expand the scope of premium products. We are still formulating our plan for the next fiscal year, but we will aim to maintain a profit margin in the 10% range. We recognize that this outcome is dependent on how we use sales and promotion expenses.

Q. Unit prices are falling in the U.S. despite recovering volumes. You mentioned that premium products performed well in January, but could you comment on the actual conditions?

A. Unit prices change depending on the product mix. This is because base products are also performing well. We mentioned this in the 2Q results presentation, but another factor stems from our aggressive investments in strategic marketing expenses and rebates incurred as we roll out premium products.

Sell-outs grew at record and double-digit levels in January, surpassing COVID-19 levels, due in part to our promotion of premium products.

Q. How much did the number of servings for base products and premium products change in the U.S. during the October-December period? And is it correct to assume that the lower unit prices were caused by the increase in rebates?

A. Base products increased by mid-single digits while premium products remained flat. And you are correct about the changes in unit prices. Changes are due to strong base products and the use of rebates.

Q. You mentioned that the U.S. set record highs for volumes in January, but does this include year-on-year increases for both base and premium products? Also, do you expect volumes to slow down in February and March?

A. Volumes for both products are up double digits in January, but this does not guarantee they will continue at the same levels in February and March. However, 3Q volumes in the U.S. rose compared to declines in 1Q and 2Q. The current levels will enable us to accelerate this trend in 4Q and return to the levels of the previous year.

Q. You mentioned that the volume of premium products in the U.S. remained flat. What is the factor behind that. Did down-trading acceleration affect this at all?

A. Flat performance does not mean that premium products did not sell well. We will begin full-scale marketing expenses in 3Q and it will take time to change the food culture of the country. We advertise mostly to young people and are seeing good responses. People are still looking to buy cheaper food due to current inflation, and our base products are performing well. Meanwhile, there are many other expensive foods in the U.S., leaving us plenty of room to grow under the down-trading trend.

Q. Comment on the promotional costs associated with the shift to paper cups in the U.S. as well as on what is behind the lower profits in 4Q.

A. We will promote sales activities overseas in Brazil and the U.S. Lower 4Q profits are not a result of lower sales. They are a result of our firm use of promotional and other expenses. We also saw this trend in 4Q of the previous fiscal year.

Q. Is there a possibility you will revise prices due to impacts from the January switch to paper cups for base products in the U.S.?

A. We just switched to paper cup products in January, so we have yet to see any results. We will also not be making any changes in the unit price at this time. We will consider potential price revisions based on the responses to the added value of the product that allows users to cook in a paper cup in a microwave oven. We will monitor the extent to which users feel

a premium value in the new paper cups and how much of an increase they will accept in the future.

Q. You mentioned that the company would invest expenses in the second half of the year in the U.S. Does this investment refer to only the one-time expense of 1.1 billion yen? And will you use the rebates in 4Q rather than 3Q?

A. We applied the rebates in 3Q more so than compared to 1Q and 2Q, and we expect to increase rebates again in 4Q.

Q. I understand that Brazil is being affected by special factors again, but this reoccurring trend is concerning. I suspect that these events will continue to occur again in the future. Is it truly safe to say that the current conditions are only a result of special factors?

A. There have been just two factors, not multiple. We experienced production facility issues from 3Q to 4Q last year in addition to the recent power outages. But these are completely different and unrelated things. Certain troubles at the production facilities were at fault of the company. These troubles have since been repaired and volumes are on an upward recovery from 2Q. The power outages in 3Q were inflicted by natural disasters such as torrential rains and hurricanes. These are factors beyond our control, and we do not expect frequent occurrences. In light of these outages, we are introducing power generation equipment, storage batteries, and other equipment. Please be assured that these outages will not continue next quarter.

Q. Please comment on the factors behind the lower volumes in Brazil and the status of the EMEA equity method. And is the unfavorable weather in Brazil also affecting companies other than NISSIN?

A. Profits for Mareven and Premier Foods declined on a non-consolidated basis in 3Q due to temporary factors, as previously explained. Lower production volume in Brazil is due to power outages throughout the region from torrential rains and hurricanes. These factors do not impact solely our company. We aim to return to the previous levels in 4Q, despite a temporary decline in our market share due to lower volumes. Here, our overwhelming share of the market, restored facilities, and the now favorable environment will enable us to do so.

Q. There was a recovery in 2Q in China, but performance seems to have declined again in 3Q. Why is this?

A. Situations in Hong Kong and China are beginning to differentiate. In Hong Kong, 3Q volumes declined due to certain factors that cause lower numbers of people returning to the region. Such factors include overseas migration during COVID-19 times and an increasing number of people spending weekends in the Shenzhen area. On the other hand,

volumes increased due to the development of new areas in the northern and western regions, despite the difficult macro environment in mainland China.

Q. What is your 4Q forecast for China?

A. We must monitor Chinese New Year trends, which are difficult to read in the current macro environment. But so far, we do not foresee any factors that could have major negative impacts. We expect to progress as planned.

Q. What is behind the slowdown in Asia and EMEA for the October-December period?

A. Sales for cup-type instant noodles are growing in Asia while bag-type instant noodles are declining. Therefore, volumes impacted areas in which bag-type instant noodles are strong. EMEA began distributing to new channels last fall, resulting in higher sales in the previous quarter. Although this percentage is a minute increase compared to the previous quarter, volumes continue to show solid growth.

Q. Until now, volume growth in overseas regions, other than the Americas and China, has been in the low single digits until now. But this growth appears to be slowing down significantly. Please explain why that is.

A. Situations in Asia and EMEA are different. For Asia, certain regions with a large percentage of bag-type instant noodles are experiencing a rebound from the period of high household consumption demand last year under COVID-19. On the other hand, profits increased year on year due to the steady growth of high-profit-margin cup-type instant noodles.

In EMEA, volume growth is currently sluggish. But there is still plenty of room for growth with our launch of a new line at the Hungarian plant and plans for new products.

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