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Financial Results Briefing Q&A Session Overview for FY 3/2025 H1

[Time and Date] 2:00 p.m. to 3:30 p.m., Tuesday, November 12, 2024

[Speaker]

Koki Ando, President & Representative Director, 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: What is your view on cost increases for the next fiscal year in Japan? Also, will price revisions be necessary to cover these cost increases?

A: It is currently difficult to make specific predictions about cost increases for the next fiscal year, but we are constantly monitoring exchange rates and inflation. Labor costs, logistics costs, and some raw material costs are expected to rise, but these have been factored into our plans. At this point, no price revisions have been decided. We will consider price revisions if market trend and our efforts cannot cover the costs.

Q: Regarding the construction plan for the new factory in Ibaraki prefecture, there was mention of rising construction costs in past briefings. Is the project progressing as planned?

A: Due to the 2024 issue in the construction industry, general contractors are facing significant capacity constraints, making it likely that the completion of the new factory in Ibaraki prefecture will be delayed until 2026. We are currently in discussions and cannot provide a detailed schedule. However, we plan to keep production capacity by increasing output speed at other factories and installing new lines in available spaces to continue our growth in volume.

Overseas Business

Q: What are the reasons for the accelerated growth of premium products from first quarter (Q1) to second quarter (Q2), and what are your thoughts on the growth of premium products for the next fiscal year, considering the current situation?

A: The premium market is growing in both volume and value. We have been leading this growth for the past decade, and the market has become more active with the entry of Korean competitors. We covered the weak start of premium products in Q1 during Q2. We are planning promotions to major channels and the launch of large products, which we believe will further grow our premium products. Current sales are steady, and we aim to accelerate growth in Q3 and Q4. While base products had low profit margins, we have increased profits by developing the premium market. After price revisions, base products are now profitable, and we have seen growth even during the pandemic. As the supply shortage of base products gradually resolves and market growth slows, the premium market continues to grow, and we aim to sustain this growth.

Q: If the supply-demand balance for base products loosens, can your company continue to grow base products? Is your brand strength in the U.S. strong enough?

A: Market research shows that the features of base products, such as paper cups and MSG-free options, appeal to the Gen Z generation, and there is little resistance to the price.

Q: What are your growth prospects for the U.S. market? While the growth of premium products is positive, Nissin's overall volume and competitor's volume in the U.S. seem to indicate weak demand. How do you view the situation for the second half (H2) of the year?

A: We believe there is potential for the overall instant noodle market in the U.S. to grow, driven by premium products. However, base products appear to be slowing down. As the overheating of the U.S. economy subsides, price-conscious trends may strengthen, but instant noodles themselves cater to such trends. We aim to capture down-trading from other categories to premium products and further grow the premium market.

Q: The Hot Pot Fusion product, launching in January, is a high-priced item. What is the aim of this launch?

A: Traditionally, U.S. instant noodles have been seen as noodles and soup, but this new product is a complete meal. It can serve as a substitute for ramen sold at around \$20 ramen restaurants. Priced around \$2.99, it is a delicious meal with ample ingredients. We plan to sell it first at club stores like Costco and Sam's Club, and it has received positive evaluations from retailers. We believe it can compete with Korean products.

Q: What is your approach to price revisions in the U.S.? Are price revisions necessary to cover cost increases?

A: We have factored in rising labor and logistics costs in the U.S., and currently, no price revisions are planned. We will consider revisions if unexpected inflation occurs, while keeping an eye on political developments.

Q: What are the volume trends in Mexico? There were issues with export volumes and inventory problems from last year in Q1, but I expected improvements from Q2. It seems volumes have not yet recovered. Can you achieve the planned double-digit volume growth for the full year?

A: As for domestic market, sales decreased in Q1 but has recovered in Q2. With price revisions, sales are on an upward trend, moving towards achieving our plan. However, as for export, demand remained weak in Q2, following Q1, and we need to recover. In Central America, local manufacturers offering cheaper products are expanding their market share. We are implementing area strategies, such as strengthening distributors in regions like Guatemala, to grow exports.

Performance Outlook

Q: Despite a decrease in profits in H1, you expect an increase in H2. What are the reasons for this, and what are your performance forecasts for third quarter (Q3) and fourth quarter (Q4)?

A: Traditionally, our performance is stronger in H1 and weaker in H2. Last year's H1 had positive factors, especially overseas, making this trend more pronounced. However, we expect strong profits in H2 this year. We foresee gradual progress in Q3 and significant recovery in Q4. In the U.S., new initiatives with major distributors and new product launches are expected in Q4.

Shareholder Returns

Q: You announced a 20 billion yen share buyback. We expect actions more conscious of stock price levels and TSR. What is your approach to share buybacks?

A: The main purpose of the share buyback is capital control. As profits steadily increase, capital will naturally rise, so it is necessary to control capital through share buybacks to some extent. We are focused on strategic capital control and determined that a share buyback at the current undervalued stock price level would better suit our objectives.