

Financial Results Briefing Q&A Session for FY 3/2023 1Q

[Time and Date] 5:00 p.m. to 6:00 p.m., Thursday, August 4, 2022

[Presenters]

Takashi Yano, Executive Officer and CFO

**Q. Can you provide an overview of business performance by segment?**

A. Overseas, sales are growing steadily, and we implemented out-of-plan price revisions in response to soaring raw material prices. Overall, overseas sales are relatively strong. The downward trend in wheat and palm oil prices was also a positive factor.

**Q. Why did margins improve in The Americas in 4Q (Jan-Mar) but weakened in 1Q (Apr-Jun)? Also, regarding China, 1Q (Apr-Jun) results were very good compared to the FY 3/2023 forecast. Were there any negative factors beginning in 2Q (Jul-Sep) onward?**

A. As for sales, the U.S business was strong, but was affected by logistics and labor costs hike, as well as materials costs hike. As for profits, Brazil and Mexico grew, while the U.S. decreased.

We did not see any particular negative factors in China. We were conservative in our original forecast for FY 3/2023, but volume has been growing recently.

**Q. Please explain the breakdown of profits in The Americas (the U.S. and Brazil).**

A. The U.S. declined by the same amount as the mid-single digit increase in Brazil.

**Q. Tell us more about the background to the volume decline in Brazil, as well as product mix.**

A. There were no changes in the business environment, but rather a shift from one period to another. Aside from Brazil, all operating companies in our Overseas Business saw an increase in volume, and there have been no major change in this trend. In terms of mix, we are seeing an increase in *CUP NOODLES*. We will continue to promote premium products in the U.S.

**Q. What is the balance between raw materials costs and sales prices. Is it correct to understand a decrease in raw materials prices will lead to profits increase? Is there any possibility that you will lower product prices strategically in that event? Also, what are your thoughts on additional price revision in Japan?**

A. We do not believe that price competition will occur at this point, given the challenging circumstances that our competitors are facing. We are not worried about Brazil in particular, as we are the price leader there. We believe we will be able to meet the needs of our customers in China without lowering prices, as the volume of *CUP NOODLES BIG* and other products is growing. In terms of raising prices in Japan, we must look at future trends in wheat prices and the results of the price revision implemented in June.

**Q. You mentioned that domestic sales are in line with the plan. What do you think about NISSIN FOOD PRODUCTS alone?**

A. Our operating profit analysis showed a positive 1.1 billion yen increase for sales, a negative 2.0 billion yen decrease due to materials costs and utility fluctuations, and a positive 0.8 billion yen due to improved product mix. SG&A expenses were a positive 0.8 billion yen as we avoided other expenses. Therefore, we had a net 0.7 billion yen positive impact on profit growth.

**Q. You said that 1 million meals were sold under the new business. A simple calculation based on unit price products suggests 0.3-0.4 billion yen. Is this figure greater than the plan? Where do you account for these figures? Also, you intend to expand into retail beginning in September. Will you be increasing the number of flavors you offer?**

A. We are in line with the plan. Sales are included in *Domestic Others* and core operating profit is under *New Businesses*. We plan to launch two products in the retail business in September: *CURRY MESHIO FUFU CURRY* and *BUTAKARA RAOH ABURA SOBA*. We have no plans at this time to roll out new flavors.

**Q. At the beginning of the period, you planned a cost increase of 17 billion yen without taking into account the situation in Russia and Ukraine. How do you see that level now?**

A. It is very difficult to determine, so I cannot give you a specific figure. Basically, we plan to cover cost increases overseas by revising prices. Price revisions in Brazil and the U.S. were also implemented outside of our plan. Domestically, wheat prices are fixed until December, but we are watching the impact after January closely, which includes the availability of government subsidies. Palm oil prices have been falling recently, so we want to hold costs down when the prices fall.

**Q. We understand you intend to raise prices in the U.S. in August. Your competitors implemented price revisions in April. Can NISSIN act in a timelier manner?**

A. We are ahead of our competitors in the timing of price revisions. Last year, we raised prices in May and January, while our competitors raised prices in October and April. We heard that our competitors will implement price revisions in October. So once again, our August price revisions will be ahead of the competitors. We already discussed with retailers the range of price revisions. We have decided to implement an average price revision of 36% hike for almost all products starting in August.

**Q. Do you think that the price revisions will result in a slight decline in volume? Is it correct to understand that you intend to implement price revisions to achieve net profits in the U.S. because of the weak base in that country? The number of meals sold in the U.S. is still growing in the low single-digits. Are there any supply constraints?**

A. Our top priority is to build a strong business foundation centered on premium products. We will take measures to shift to appropriate prices to achieve this priority. While there is a possibility of a slight decrease in volume, we aim to secure profit and generate net profit for the full year. We have seen some restrictions on supply, including labor shortages, but the current situation is improving.

**Q. Is the volume of premium products increasing? What is the sales ratio of premium products to total sales?**

A. Volume growth is up in the single-digit percentages. The sales composition ratio was 43% for the full year, but the ratio was higher than that in 1Q.

**Q. The 36% price increase in the U.S. is more than the increase in CPI. Is the potential for untapped demand the reason to raise prices so much? Or do you believe you won't be able to secure profitability without raising prices to these levels? Have you changed your view of base product growth, etc.?**

A. A smaller increase might limit the drop in volume, but we are pursuing this pricing strategy to strengthen our business foundation and achieve profitability for the full year. Base products are growing, but we are creating a new market with premium products, and we believe there is room for more growth in the future. The competition for premium products will result in more expensive food products (hamburgers, etc.). Even if we revise prices, we should be able to remain competitive.

**Q. Could you give us some background on the improvement in the mix of NISSIN FOOD PRODUCTS in Japan?**

A. As we expected, high-value-added products such as *CUP NOODLE PRO* and *NISSIN NO SAIKYO DONBEI*, etc., have demonstrated strength even after price revisions. After the price revisions, products targeting price-conscious consumers, including *NISSIN NO RAMENYA-SAN* and *ASSARI* series, remained relatively strong. As we projected, these products have provided support within our product range. As a result, 1Q results in terms of number of servings were on par with the previous year. Rice products also performed well. The expansion of our overall product portfolio is having a positive effect.

**Q. The figures for Non-Instant Noodles Business appear to be somewhat weak.**

A. Non-Instant Noodles Business are also affected by rising costs. Frozen foods are doing well, but chilled foods and YORK products are struggling a bit. With the launch of new products and the current reemergence of COVID-19 infections, we think things may turn around in the second half of the year.

**Q. Could you tell us about demand for instant noodles overseas? Only Brazil showed a decline in volume for 1Q. I suppose, given the past two years, there was a high hurdle to surpass set in the previous year. Can you tell us about overall global market growth?**

A. Interest in and demand for instant noodles has increased worldwide as a result of COVID-19. As a result, the market as a whole has been growing. We see this as not a short-term event, but as a significant trend. The Overseas Business as a whole has seen positive growth in terms of volume and price revisions. In Europe and the U.S., where penetration is still low, the market itself is growing. In Asia, we see an upward shift underway, and high-priced products, which are our specialty, are performing well.

**Q. If you implement a 36% price revision in the U.S., won't you lose market share among some customers? Are you attempting to build a profit structure rather than share by volume?**

A. We want to build a profitable structure in the U.S. While there is a possibility that volume will decline, negotiations with retailers are progressing well. I think this proves that retailers recognize that even a 36% price revision will be acceptable to consumers given the current environment.

**Q. Since raising prices in Asia and EMEA to this point, have you covered the cost increase in raw materials?**

A. Revising prices in Thailand is difficult due to governmental price controls. But the industry is working together to negotiate with retailers. COVID-19 is subsiding and personal movement is on the rise. So *CUP NOODLES* sales, which had been struggling, are beginning to grow. In EMEA, price revisions covered the sharp rise in materials prices. But we have not made a decision on the possibility of future price revisions in response to the recent rise in utility prices.