

FY2017 H1 Results Presentation Q&A

November 4, 2016

Q1 The domestic snack business was weak due to the effects of the potato shortage in H1; when will sales recover?

There are concerns over the potato shortage, and the pace of *Potato Chips* sales was lower than it could have been. To respond to the effects of the typhoons, we are taking swift action to secure supplies and compensate for the shortage. As such, we don't think it will take long for sales to recover. We also began production of *Jagarico* from September at a partnering factory and are proactively promoting sales to achieve our annual targets.

Q2 Is it possible to pursue your strategy of growing the domestic share of *Potato Chips* amid the potato shortage?

We are prioritizing distribution of products to the Kanto region, as our share is low there compared to other regions. Regarding supply, we are taking counter measures such as increased spot purchasing and imports, and are working to grow the share of *Potato Chips*.

Q3 Your issues in North America involve sales and marketing – what measures will you take to fix this?

Due to a shortage of staff, our marketing in the North America is not effective. In sales also, due to insufficient staff in teams for large retailers in particular, sales to large customers have decreased. Sales is now providing staff to supplement teams dealing with large customers and we are proceeding with negotiations with those customers for next year. Calbee will make every effort to obtain high-quality staff.

Q4 Would you agree that your governance is weak in North America?

As you point out, we need to rapidly establish a firm governance structure. We are currently implementing this one step at a time.

Q5 What is your outlook for a sales recovery in North America?

In Q2, our average weekly sales were approximately 2.0 million dollars. We want to raise this to 2.5 million dollars by FY2018 Q1.

Q6 What are your thoughts on profitability in North America?

The profitability of our new Mississippi factory is satisfactory. Our existing factory in California isn't generating much profit because of the heavy labor cost burden as a result of its low utilization ratio. Raising the utilization of our California factory to make it generate profits is an urgent task for us.

Q7 Is the strength of products in North America not declining?

We believe that *Harvest Snaps* can grow to around 20 billion yen. For that reason, product development such as different flavors is needed, and we are aiming to launch one product per half-year. We have not yet decided what the next product after *Harvest Snaps* will be. We are also independently marketing *Jagabee*, and although we have yet to see significant results, we will continue with this initiative for a while longer. As for new products for the North American market, we want to try introducing some of the many Japanese products that can be produced at our current North American factories.

Q8 Last year you withdrew from your joint venture in China; is investing in China a good idea?

China is a huge market, and although it is not easy to succeed there, we think it is a market where we need to make an effort for the sake of future growth. We have learned from last year's dissolution of our joint venture in Hangzhou, and we want to create a business that generates profit as well as sales.

Q9 What are your thoughts on allocating cash in the future?

Our policy is to raise returns by allocating cash for good investments including M&A, and not only for capital investment.