Calbee
Harvest the Power of Nature.

FY2017 Results Presentation Q&A
May 15, 2017

Q1 Previously, you announced your “10/20” plan for raising sales by 10% and profit by 20% each year. How do you see your growth from the fiscal year ending March 2019?
Because we cannot expect the domestic market to grow significantly due to Japan’s low birthrate and aging society, in our domestic snack business we are expecting an annual growth rate of 2-3%. For that reason, we are focusing on our overseas business and *Frugra*, which both have high growth potential, and are aiming for annual sales growth of 10% and an even higher growth rate for operating income. As North America is the pillar of our overseas business, the reorganization of our North American business and creation of its next growth plan are pressing matters. For *Frugra*, we plan to set a target annual growth rate of around 20%, which is achievable through expanding the market while simultaneously growing its market share.

Q2 Do you have any ideas on improving profitability by raising the price of *Potato Chips*, which has a high market share?
Deflation continues in Japan, and as disposable income is not increasing we are not considering raising the price. We consider it necessary to promote reform in distribution channels in order to improve profitability.

Q3 Will you be able to control and cut selling expenses in the domestic business in the fiscal year ending March 2018?
Our selling expense ratio differs between regions. We think we can address this through structural adjustments. For instance, instead of relying on the ability of individual sales personnel, by instituting a single price for things like limited-time products we believe that we can stimulate reform in sales staffs’ consciousness and enable cost reductions.

Q4 Isn’t domestic sales growth for *Frugra* slowing? Please discuss its growth prospects.
If you exclude (estimated) overseas consumption, we estimate that actual domestic consumption grew by more than 20% in the fiscal year ended March 2017. We see this as a market that is capable of generating sales of 50 billion yen domestically and 100 billion yen overseas in the future. Although the pace of domestic market growth is slowing, as the second pillar (after the snack business) of our domestic business, we want to strategically expand the market itself.
Overseas, there is substantial room for growth. China is a market that is relatively familiar with cereal, and we can expect future growth there.

Q5 Aren’t you lowering the domestic retail price of *Frugra* too far?
Previously our price was 1.2 yen per gram, but as we think that the price consumers will accept is only 0.8 yen per gram, we strategically lowered the price. We are at the same time achieving reductions in the manufacturing cost ratio.

Q6 On expanding *Frugra* in China, I’d like you to explain why you are importing it from Japan instead of producing it locally?
Because “made in Japan” products are popular in China at present, for the time being we

plan to produce it in Japan. *Frugra* has a low manufacturing overhead expenses and labor cost ratio, so where it is produced doesn't significantly affect its profitability.

Q7 What is the status of the North American business?

The reorganization of our North American business has made a lot of progress, and the plan is for it to be completed in about a year. There are three remaining issues to address. The first is production losses. Our wastage ratio goes as high as 35% and is particularly high at our California plant, and we want to reduce this to around 10%. The second issue is strengthening our marketing ability. We are making progress in strengthening our abilities with large customers, and we will also focus on other customers with whom we have yet to significantly engage. The third and final issue is new product development. We aim to launch at least one new product in the North American market every six months. Through these initiatives, we will aim to achieve this year's sales targets and an operating income ratio of 15%.

As a next step, we will aim to increase the operating income ratio to 20% at the earliest possible stage. To generate those profits, we will invest in new products and prepare to make further strides in our North American business.

Q8 What is the status of the South Korean business?

The decline in sales of *Honey Butter Chip* has stopped. Going forward, we expect to secure an operating income ratio of 3-5% as we continuously launch new products.