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Calbee

FY2018 Q1 Results Presentation Q&A
August 3, 2017

Q1 What caused the difference between Q1 net sales and operating income, and your plan?
Net sales were 1.9 billion yen below plan overall, 600 million yen below domestically and 1.3 billion yen below overseas. Domestically, the main cause of this was that the recovery of *Potato Chips* shelf space in retailers proceeded more slowly than expected. Overseas, the region that saw the greatest divergence from projections was North America, which was 500 million yen less than planned.
Operating income was 1.4 billion yen below plan overall, 1.0 billion yen below domestically and 400 million yen below overseas. Domestically, the divergence was due to a greater than expected decrease in sales of and utilization for *Potato Chips*, the higher cost of imported potatoes, and higher distribution costs. Overseas, in North America operating income was 200 million yen below due to sales not achieving targets, and another temporary 200 million yen below due to raw materials disposal related to the order cancellations from major customers.

Q2 As background to the order cancellations by major customers in North America, aren't interest and demand for existing products flagging?
Inventories were left over because orders in the fourth quarter of the fiscal year ended March 2017 were more than triple normal, and expected orders were postponed, with some cancelled.
Also, sales of existing product *Harvest Snaps* have expanded to date in a market undergoing intense competition, but we believe it will be difficult to maintain a high growth rate with that single brand any more. Developing products in completely new areas and expanding products that meet retailer and consumer needs are pressing issues.

Q3 Sales of *Frugra* for domestic consumption were flat year on year, but are sales increasing on a by-store basis?
We estimate growth rate of *Frugra* is over 10% on a by-store basis. We also expect that distribution inventory adjustments for overseas consumption will finish by August, and that from September sales will expand on our shipping basis.

Q4 Is the domestic retail price of *Frugra* rising year on year?
Due to the effect of distribution inventories for overseas consumption some retail prices are low, but we expect that normal retail prices will return as those distribution inventories will be used up.

Q5 Why did the domestic sales promotion expenses ratio improve in Q1, and what is your outlook from Q2 onwards?
The domestic sales promotion expenses ratio improved in Q1 because we did not conduct special sales due to the suspension of sales of *Potato Chips.* From Q2, we will aim to meet our full year target by both restoring sales and controlling sales promotion expenses.

Q6 From Q2 onwards, how will you recover with regards to your full year targets?
Domestically, we will aim to increase sales of *Potato Chips* through proactive product planning and sales promotions coinciding with the Hokkaido potato harvest. We will also continue to control sales promotion expenses. Overseas, in North America we will expand sales to both major customers and others.

Q7 How is management reacting to the results having been less than planned?
Last year's typhoon damage was something that our company had not experienced before, and although it was a very difficult situation, we have worked hard on various measures in our domestic business. However, continuing issues remain in our overseas business, and we will need to conduct a review of our strategy.