

# Calbee Group Financial Results

**First half of fiscal year ending March 31, 2019**

April 1, 2018 – September 30, 2018

TSE code : 2229

**Calbee, Inc.**

2018.10.29

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- 1. FY2019/3 Review of first half results**
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# FY2019/3 H1: Results highlights






## Summary (vs. last fiscal year)

- Increased sales and operating profit due to sufficient procurement and strong demand compared to potato shortage in the previous year
- Recorded the gain in extraordinary income by transfer all shares of consolidated subsidiary CalNeCo, Inc.

	FY2018/3 H1		FY2019/3 H1		Change	Change excl. impact of sale of bakery subsidiary
	(Million yen)	Ratio to net sales(%)	(Million yen)	Ratio to net sales(%)	(%)	(%)
Net sales	118,822	100.0	<b>121,067</b>	100.0	+ 1.9	+ 7.8
Operating profit	10,338	8.7	<b>11,740</b>	9.7	+ 13.6	—
Ordinary profit	10,557	8.9	<b>12,560</b>	10.4	+ 19.0	—
Extraordinary income/loss	-76	—	1,621	—	—	—
Net profit	7,045	5.9	<b>9,628</b>	8.0	+ 36.7	—

## Summary (vs. plan)

- Sales : Although domestic snacks sales exceeded plan, sales did not achieve plan overall due to weak domestic *Frugra* demand and slump in North America and other areas
- Operating profit : Profit did not achieve plan due to decreased domestic *Frugra* sales, higher domestic costs and slow progress in overseas snack sales

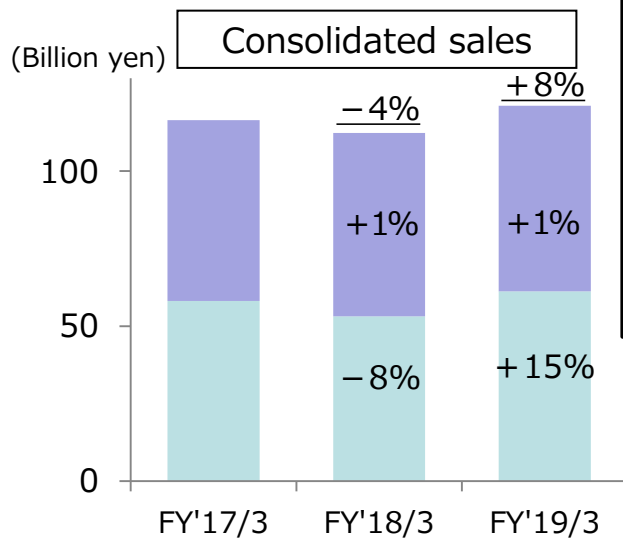
Key Performance Indicators	FY2019/3 Target	FY2019/3 H1 Target	FY2019/3 H1 Results	Progress
Net sales growth ratio	+1.4%	+ 3.8%	<b>+ 1.9%</b>	
Operating income growth ratio	+ 10.0%	+ 22.1%	<b>+ 13.6%</b>	
Operating margin	11.6%	10.2%	<b>9.7%</b>	
Overseas sales ratio	17.5%	16.6%	<b>15.3%</b>	
Selling costs ratio	15.3%	15.9%	<b>15.6%</b>	

# FY2019/3 H1: Trend in net sales

## Sales trends (H1)

※Sales of bakery subsidiaries (were transferred in Apr. 2018) is excluded in FY2017/3 and FY2018/3.

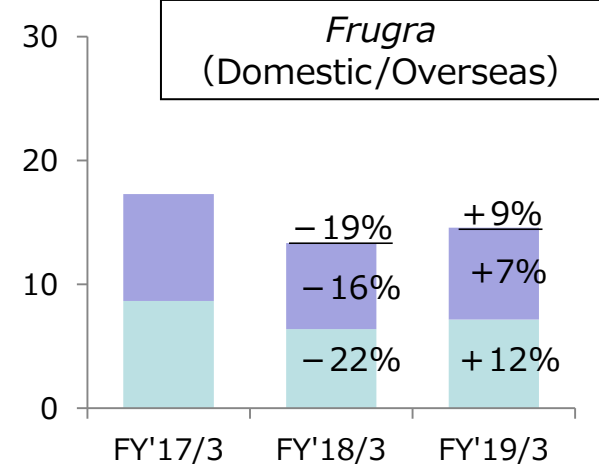
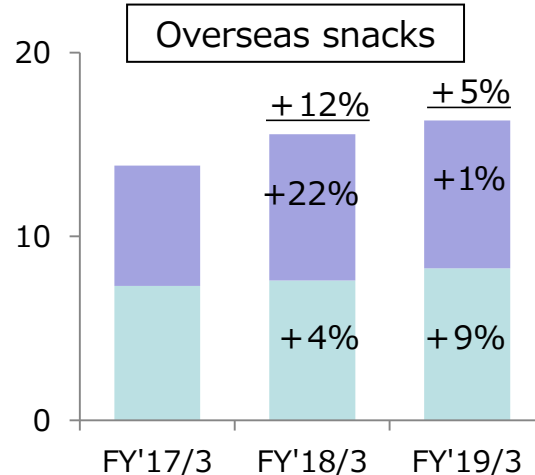
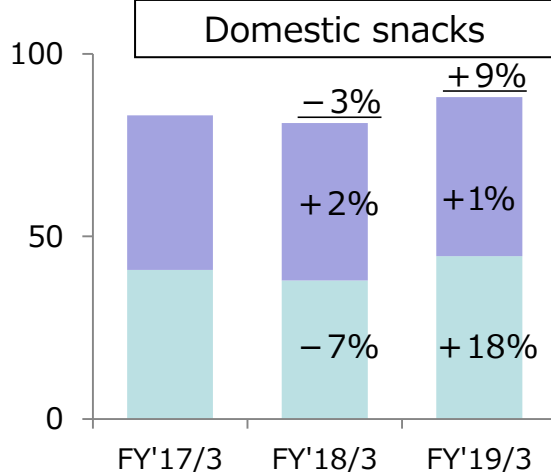
■ Consolidated sales surpassed level of two years ago driven by domestic and overseas snacks



- Domestic snacks: Sales rose steadily despite the effects of the potato shortage in last fiscal year's Q1
- Overseas snacks: Sales increased strongly due to business expansion in newly-entered markets
- *Frugra*: Sales rose due to expanded exports for China this period despite the effects of last fiscal year's changes in overseas consumption

Q1  
Q2

Figures are change YoY for each quarter, underlined figures are YoY change for H1



# FY2019/3 H1: Domestic business

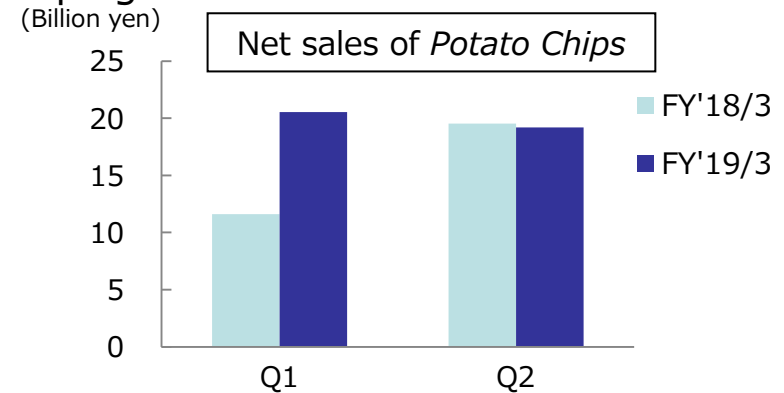
Demand for *Potato Chips* continued to be strong  
New individual portion snack products (*Jagarico* series, etc.)  
contributed to higher sales

(Million yen)

	FY2018/3 H1	FY2019/3 H1	YoY	Change in %	Change excl. impact of sale of bakery subsidiary
<b>Net sales</b>	<b>102,742</b>	<b>102,586</b>	<b>-155</b>	<b>-0.2</b>	<b>+6.6</b>
Snacks	81,042	88,192	+7,149	+8.8	-
<i>Potato Chips</i>	31,445	39,967	+8,521	+27.1	-
<i>Jagarico</i>	17,220	18,755	+1,534	+8.9	-
Other snacks	32,375	29,469	-2,906	-9.0	-
Cereals	12,816	12,408	-407	-3.2	-
<b>Operating income</b> (Compared to net sales)	<b>10,600</b> (10.3%)	<b>11,781</b> (11.5%)	<b>+1,181</b>	<b>+11.1</b>	-

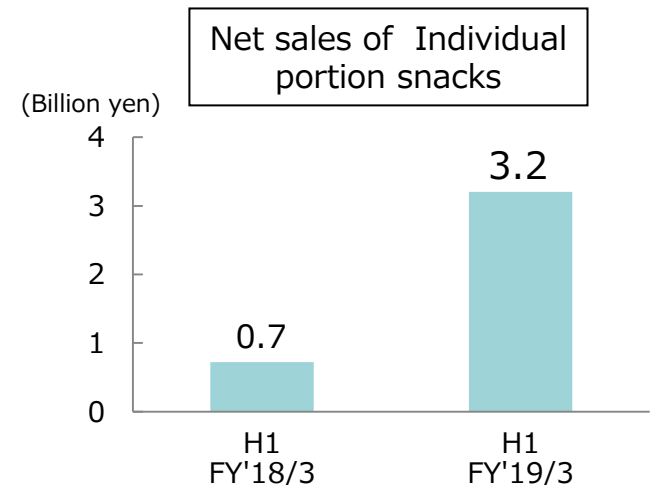
## Potato Chips

- Q1: Sales resumption of items suspended in the previous year and an increased volume campaign from April-June contributed to sales growth
- Q2: Sales remained steadily, primarily for regular products such as *Usushio*, even after the end of the increased volume campaign



## Individual portion snacks

- Launched *Tomorico* in April and *Edamarico* in July as part of the *Jagarico* series
- *miino* and *Kiwa Jaga* contributed to sales





# FY2019/3 H1: Overseas business

Sales rose on expanded *Frugra* exports to China and higher sales in Indonesia and Australia

North America has been maintained the profitability on the cost reduction, but profit in Greater China deteriorated on disposal of excess inventories in Taiwan

(Million yen)

	FY2018/3 H1	FY2019/3 H1	YoY (%)	Change ex. forex in %
Net sales	16,080	18,480	+14.9	16.1%
Snacks	15,555	16,299	+4.8	-
Cereals	524	2,181	+315.7	-
Operating profit	-261	-40		-

<Business results by region>

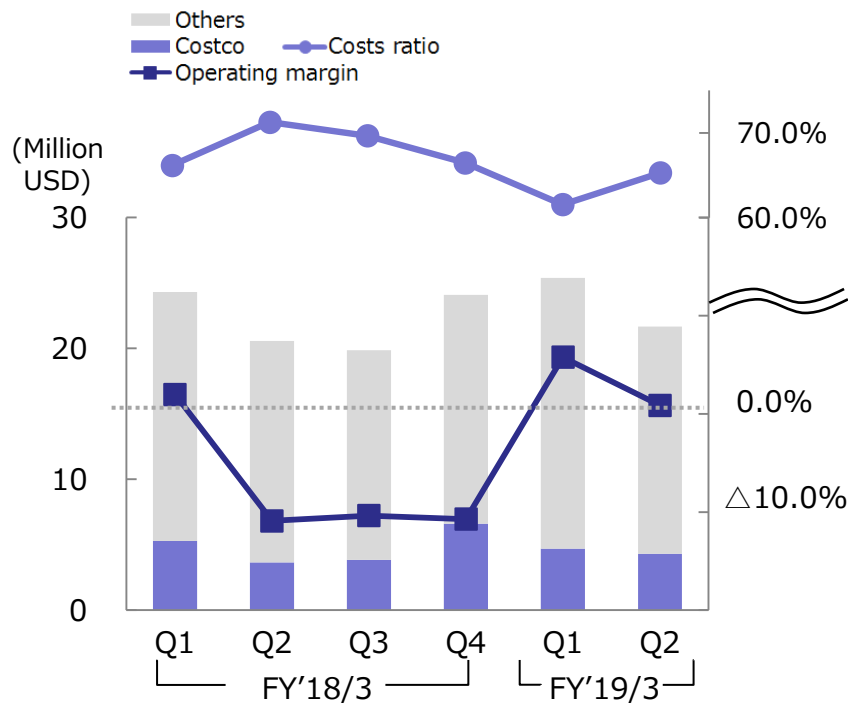
(Million yen)

	Net sales				Operating profit	
	FY'18/3 H1	FY'19/3 H1	Change in %	Real change in %	FY'18/3 H1	FY'19/3 H1
North America	5,002	5,178	+3.5	+4.8	-195	180
Greater China	3,451	5,177	+50.0	+50.7	332	97
South Korea	2,708	2,191	-19.1	-20.4	9	-22
Other Asian regions and Australia	4,215	5,105	+21.1	+24.6	-174	-43
Europe	702	827	+17.7	+15.6	-234	-252

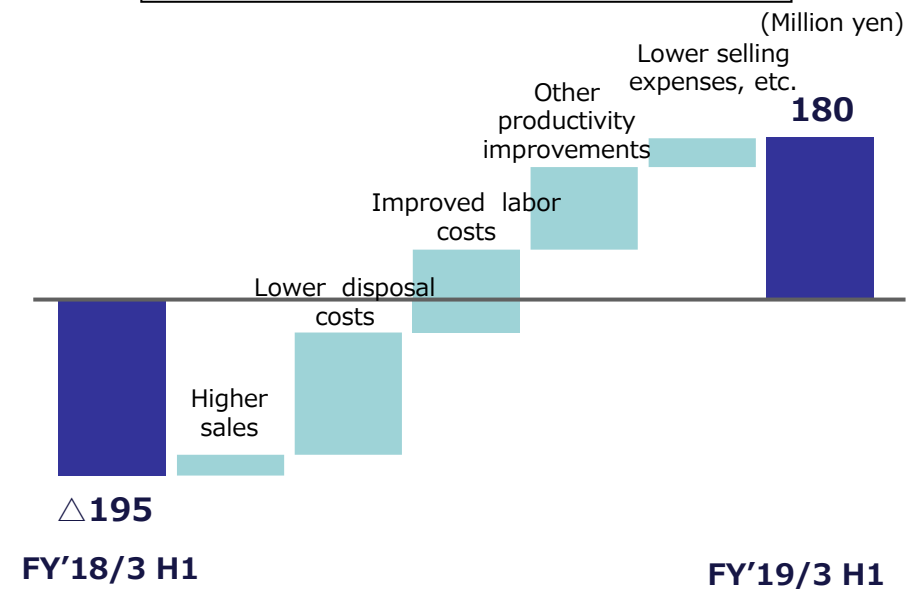
## North America

- Sales rose YoY on the effects of marketing activities such as the Shippers Program
- Sales to major customers (Costco) were sluggish due to delays in distribution of new organic products
- Maintained profitability and improved the productivity due to the decrease in disposal costs that occurred temporarily in the last fiscal year and the labor cost reduction

Net sales and operating profit ratio, costs ratio



Factors increasing operating profit



Chinese overseas consumption expanded steadily, but expansion and renewal of products did not lead to capture of new customers in domestic consumption

	(Million yen)		
	FY'18/3 H1	FY'19/3 H1	Change in %
<b>Frugra Sales</b>	<b>13,338</b>	<b>14,589</b>	+9.4
Domestic consumption	12,813	11,841	-7.6
Overseas consumption	524	2,748	+424.4

<FY'19/3 H1 Overseas consumption sales by channels>

(Million yen)	
E-commerce	1,984
Retail stores	763

## ■ Domestic consumption

- Renewed *Less Carbohydrates* series
- Continuously launched the limited time products (*Triple Berry, Coconut & Banana, 8x Apple*)
- Neither health-centered PR activities nor sales promotions utilizing individual/S sizes to cultivate new customers led to increase in demand

## ■ Overseas consumption

Began production at Kyoto factory from early August

<E-commerce>

- Cross-border e-commerce: Sales rose stably on high recognition among visitors to Japan
- General (domestic China) e-commerce: Sale started from April, Conducted proactive marketing activities to raise exposure/recognition

<Retail Stores>

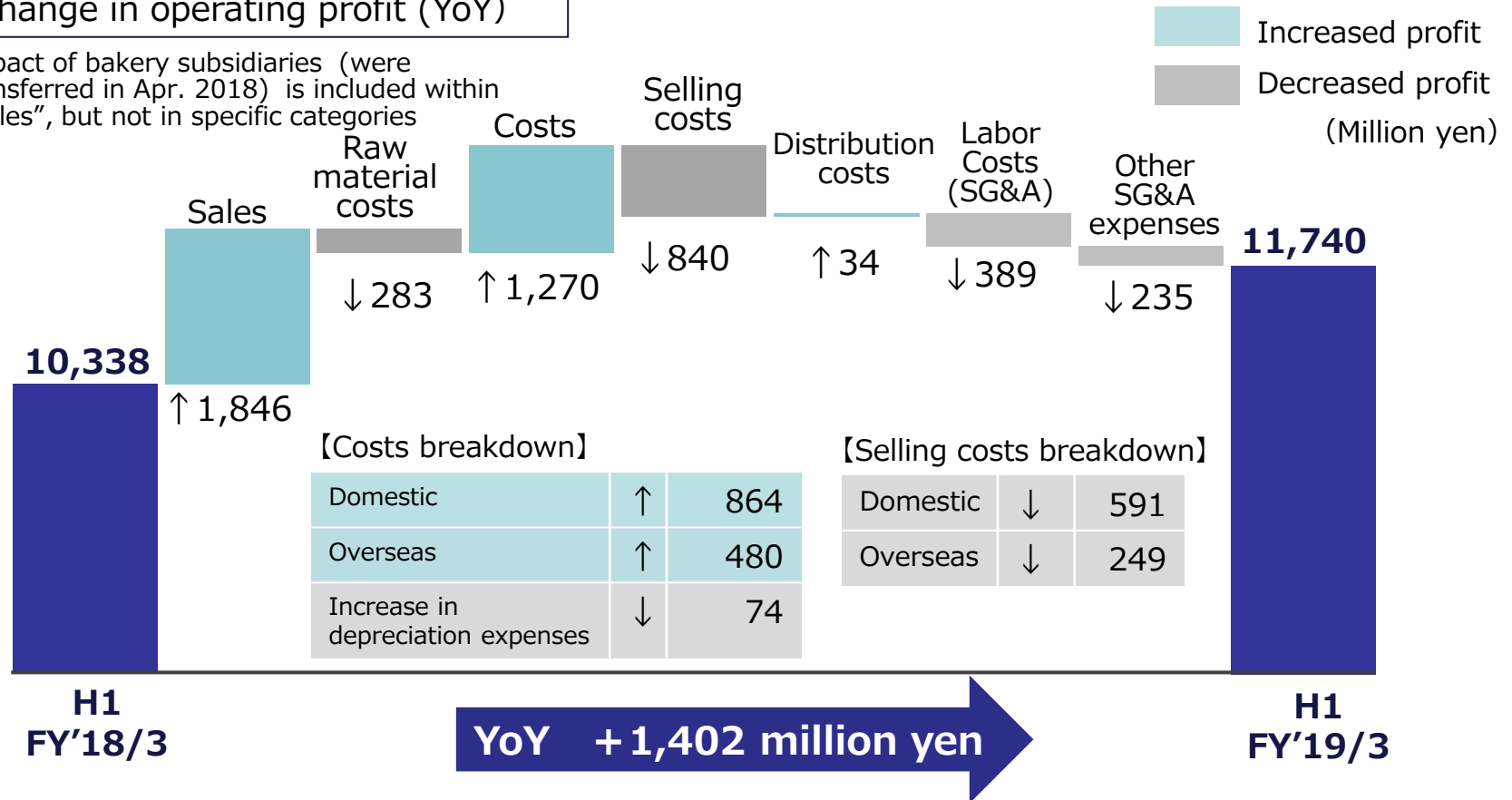
Enhanced product lineup (*Mygra*), raised turnover at delivery sales shops

# FY2019/3 H1: Factors increasing operating profit **Calbee**

Harvest the Power of Nature.

## Change in operating profit (YoY)

\*Impact of bakery subsidiaries (were transferred in Apr. 2018) is included within "Sales", but not in specific categories



- Raw material costs: Higher prices of packaging/edible oils, etc.
- Costs (domestic): Improved on higher *Potato Chips* factory utilization ratio  
(overseas): Impact of cost improvements in North America
- Selling costs: Rose because of previous year's sales item adjustments due to potato shortage

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# FY2019/3 H2 policies and initiatives

掘りだそう、自然の力。

**Calbee**

	H1 initiatives	Themes	H2 overall policies
Domestic snacks	<ul style="list-style-type: none"> <li>✓ Enhance <i>Potato Chips</i> production/sales</li> <li>✓ Expand new products in response to consumers' diverse needs</li> </ul>	Continue to strengthen product/sales in response to strong demand	<ul style="list-style-type: none"> <li>■ Cover lower domestic <i>Fruga</i> sales, delays in North America, etc. with domestic snacks and overseas <i>Fruga</i></li> <li>■ Implement product measures to activate existing domestic <i>Fruga</i> customers</li> <li>■ Aim for sales recovery in North America via new products</li> </ul>
Domestic <i>Fruga</i>	<ul style="list-style-type: none"> <li>✓ Implement measures to curb customer churn for <i>Fruga</i> and capture new customer</li> </ul>	Not generating new demand	
Overseas <i>Fruga</i> (China)	<ul style="list-style-type: none"> <li>✓ Began production at Kyoto factory</li> <li>✓ Expand sales channels (launch sales via general e-commerce)</li> </ul>	Raise market awareness of <i>Fruga</i>	
North America	<ul style="list-style-type: none"> <li>✓ Continue to lower costs/raise productivity</li> <li>✓ Measures for sales recovery at major customers (launch organic products, etc.)</li> </ul>	Sales recovery at major customers	
Overseas (other)	<ul style="list-style-type: none"> <li>✓ Dissolved Philippine JV</li> <li>✓ Acquired UK potato chips manufacturer</li> </ul>	Continue regional selection and concentration	

## Domestic snacks

1. Strengthen sales promotion of individual portion snack items  
Aim to establish *Tomorico* and *Edamarico* brand by investing their nation-wide CF
2. Activate potato-based snacks with campaigns, etc.

Q3 (Oct. – Dec.)

*Calbee Harvest Festival*

*Jagarico Day*

*Potato Chips from Japan's 47*

*Prefectures (round one), etc.*



Akita Iburi Gakko



Tokyo Tempura Flavor



Q4 (Jan. – Mar.)

*Potato Chips from Japan's 47*

*Prefectures (round two)*

*Spring potatoes*

*Potato Chips from Japan's 47*

*Prefectures (round three), etc.*

## Domestic Frugra

1. Launch seasonal limited products, expand face share and conduct diversification of the sales area
2. Activate sales venues to capture new customers
3. Promote product development for the new brands

## Overseas *Frugra* (China)

### ■ Measures by channel

- Aim to raise awareness and capture new customer by effectively heighten exposure

China domestic e-commerce: Continue sales promotions utilizing big data through our partnership with Alibaba, etc.

Expand delivery sales at new model retailers such as O2O and e-commerce supermarkets and strengthen marketing

Cross-border e-commerce: Aim to grow sales through large sales events (W11, W12, Chinese New Year)

Retail stores: Enhance product line-up in regular sales area

### ■ Measures by product

- Expand line-up of products that meet local needs such as Kyoto flavor
- Strengthen production at Kyoto factory, which has high cost effectiveness

	On sale now	Plan to launch
China domestic e-commerce	 <p>Develop 700g especially Regular product</p>	 <p>Regular product S size</p>
Cross-border e-commerce	     <p>Develop 700g especially Regular product/ Chocolate Banana/ Lots of Apple/ Nyusankin/ Less Carbohydrates</p>	 <p>Azuki Milk</p>
Retail shops	  <p>Develop 500g in particular Regular product/Mygra</p>	 <p>Green Tea Flavor</p>



## Overseas snacks

### North America

- Maintain *Harvest Snaps* brand and realize recovery in sales and bring new snack products to market
  1. Launch sales of new organic products in all planned areas at Costco
  2. Expand chains to deliver 2 new flavor products to
  3. Advance negotiations on sales of snack shelf for *Popper Duos*



### Indonesia

- Expand share in potato chips market
  1. Establish new production lines, strengthen production structure
  2. Continue proactive marketing activities including increased volume campaigns



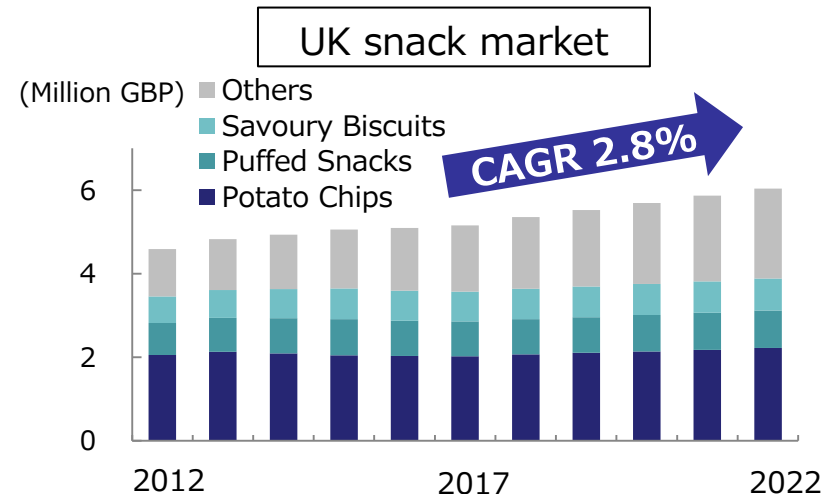
## UK

- Aim to strengthen the Calbee and *Yushoi* brands through the acquisition of the potato chips business (Oct. 2) in the major category in the UK snack market

### Acquisition of Seabrook Crisps

#### <Outline of Seabrook Crisps Limited>

- Long-established snack manufacturer founded in 1945
- No. 3 share in UK potato chips market
- Time-honored brand with high recognition in the Midlands region
- Strong in crinkle cut products



Source : Euromonitor

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# Strategic plan starting FY2020/3

## OPM 15% for Domestic Existing Business

Being a stable profitable business to generate next investment resources

### Business model transformation: simple and efficient

1. Automation, IoT and AI
2. Extend the expiration date
3. Revisit the number of SKUs and price variation, etc.,



## Domestic *Frugra* Business

### Deepening and evolution in *Frugra* business

1. Business restructuring: Expand target and occasions
2. Develop *Frugra*-related businesses



# Strategic plan starting FY2020/3

## Overseas Business

### Selection and concentration of areas, products and brands

#### Launch branding strategies

- Product branding ; US

Develop next brands following to *Harvest Snaps*

1. Pioneer *Jagarico* globalization
2. Pursue non-snack food opportunities

- Corporate branding ; China

Penetrate Calbee brand through leveraging *Frugra*



Penetrate and strengthen branding in UK and Indonesia

# Strategic plan starting FY2020/3

## New Business

### Develop the next pillar businesses

1. Expand potato business  
Expansion from snack foods to meals
2. Business leveraging ingredients and processing technologies



## Strengthen alliance with PepsiCo

## Reference material

For detailed figures for sales by product, sales by overseas country/region, etc., please refer to FY2019/3 H1 Supplementary Information.  
<https://www.calbee.com/ir/library/earnings.php>

# FY2019/3 H1: Consolidated profit and loss statement

	FY2018/3 H1		FY2019/3 H1		Change	Change excl. impact of sale of bakery subsidiary	vs. plan
	(Million yen)	Percent of total(%)	(Million yen)	Percent of total(%)	(%)	(%)	(%)
<b>Net sales</b>	118,822	100.0	121,067	100.0	+1.9	+7.8	98.1
Domestic	102,742	86.5	102,586	84.7	-0.2	+6.6	99.7
Overseas	16,080	13.5	18,480	15.3	+14.9	-	90.2
<b>Gross profit</b>	49,523	41.7	53,333	44.1	+7.7	-	96.8
<b>SG&amp;A</b>	39,185	33.0	41,592	34.4	+6.1	-	97.9
Selling	16,805	14.1	18,943	15.6	+12.7	-	96.6
Distribution	8,284	7.0	8,203	6.8	-1.0	-	101.4
Labor	8,888	7.5	9,127	7.5	+2.7	-	96.5
Others	5,207	4.4	5,316	4.4	+2.1	-	100.3
<b>Operating profit</b>	10,338	8.7	11,740	9.7	+13.6	-	93.0
<b>Ordinary profit</b>	10,557	8.9	12,560	10.4	+19.0	-	100.6
Extraordinary income/loss	-76	-	1,621	-	-	-	-
<b>Net profit</b>	7,045	5.9	9,628	8.0	+36.7	-	116.9



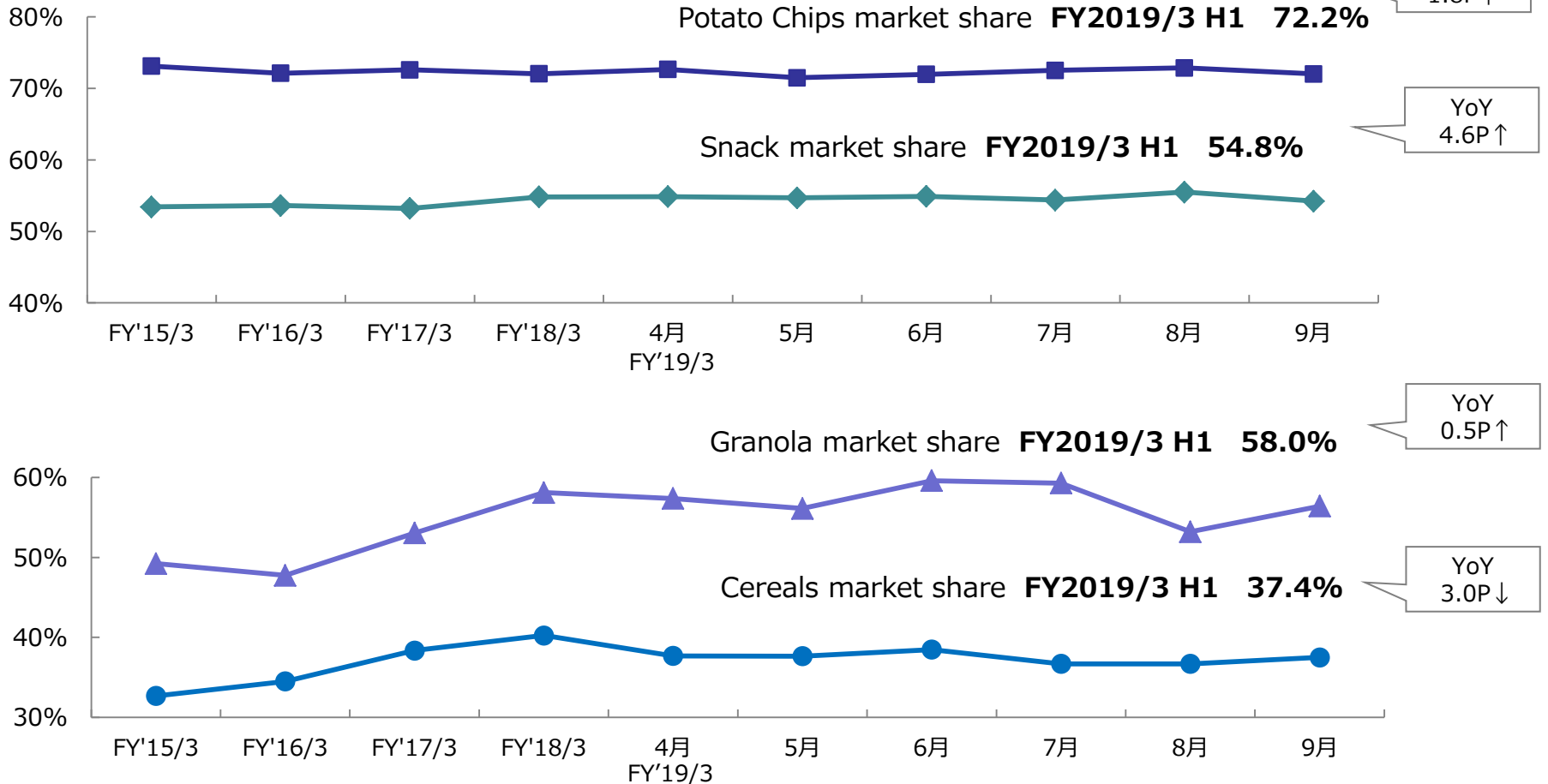


# Domestic business

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## Domestic Market share \*



\*Source: Intage SRI based on sales (nationwide, all retail formats)

FY'19/3 H1 total :April 2018 – September 2018

Comparison period: April 2017 – September 2017

FY'15/3-FY'19/3: April 2014 – March 2019

Snack market share

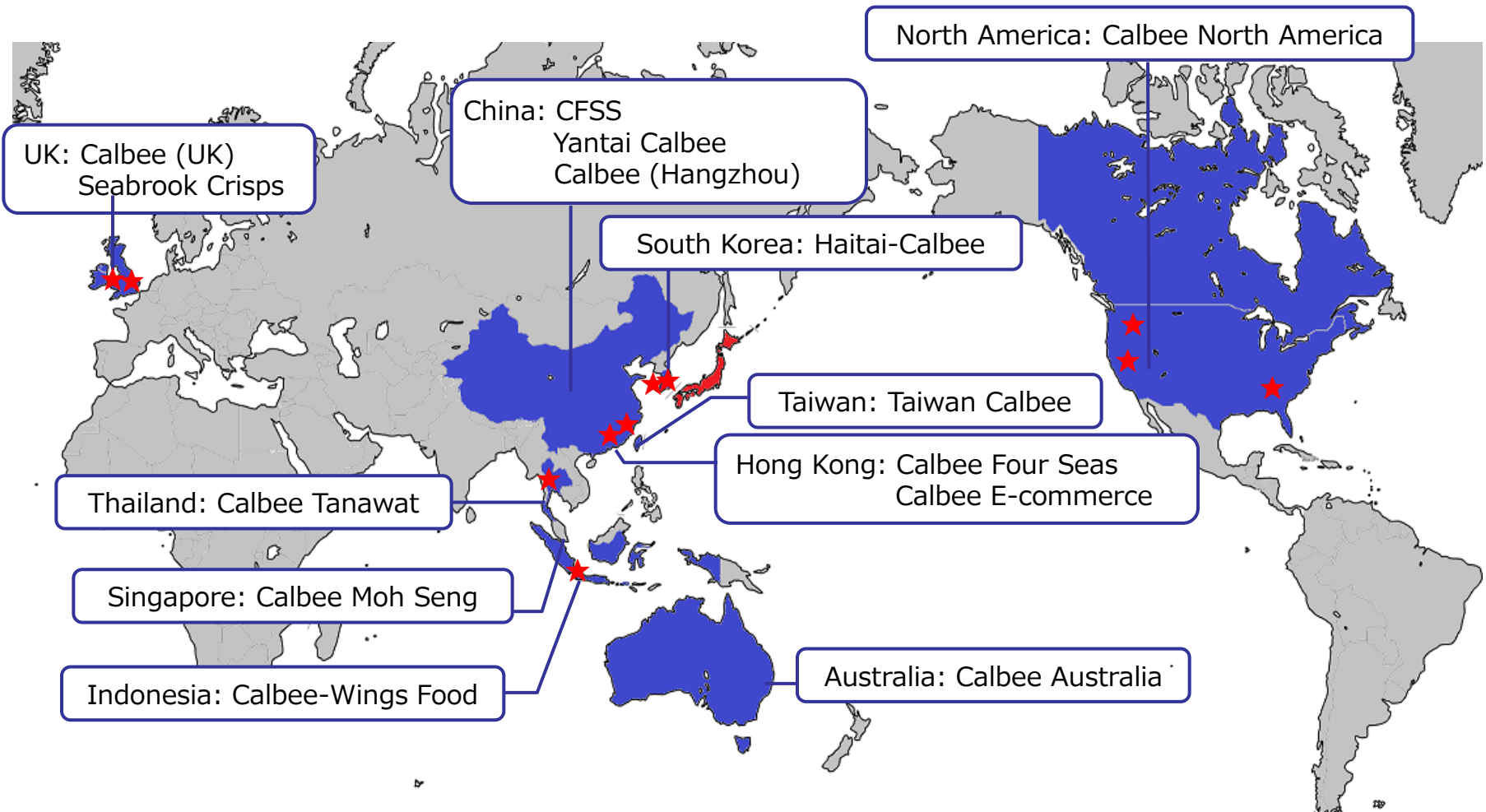
Total of Calbee and Japan Frito-Lay

Potato chips: Total of potato chips (thick- and thin-sliced), shoestring and kettle types; includes private brand products

## ■ Overseas locations (as of October 29, 2018)

Expanded to 10 countries/regions

★ Production facilities



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<https://www.calbee.com/ir/>

- The Company's fiscal year ends on March 31. The fiscal year ended March 31, 2019 is referred to throughout this report as "FY2019/3(FY'19/3)" and other fiscal years are referred to in a corresponding manner. References to years not specified as being fiscal years to calendar years.
- This document contains Calbee's current plans, outlook and strategies. Items which are not historical facts are forecasts pertaining to future performance, and are discretionary and based on information currently available to Calbee. This document does not purport to provide any guarantee of actual results. Actual results may differ significantly from forecasts due to various factors.
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