

## FY2019/3 Results Presentation Q&A May 15, 2019

**Q1** Regarding your revision of domestic snack pricing, in the plan for the fiscal year ending March 2020, my understanding is that you will permit a 5% decrease in sales volume and control sales promotion costs. However, other food companies are planning to invest in sales promotion while maintaining sales volumes; why is Calbee different? Are you seeing an effect on sales at the present stage of negotiations?

We have decided to raise wholesale prices from late May, but don't know if these will immediately be reflected in retail prices. If retail prices don't rise, there may be an impact on future wholesale prices and the frequency of promotions, and so we are explaining such measure now so that retailers and distributors understand of this. For consumers, snacks are priced low compared to other products, and some believe that consumers would accept a small price increase, but we plan to be cautious and are assuming a 5% decrease in volume. However, this does not mean that we will not proactively conduct promotions, and we will conduct sales activities with the aim of achieving 100% of the base amount.

**Q2** Please share your timeline for a recovery of profit levels in the domestic business. This price hike will only absorb about half of the cost increases, so over the medium-term when do you think it will be possible to raise the profit of the domestic business?

We see a gradual rise in domestic cost increases from next fiscal year, but do not envision additional price revisions as a prerequisite to our medium-term business plan. However, it will probably take around three years for a complete recovery from the reduction in volume due to these price hike and for their full impact on profit to be felt.

In order to improve domestic profit, we aren't only revising pricing on existing products but also consider it essential to conduct initiatives for changing how products are sold and to raise product value. For example, with *Jagarico*, we aim to improve sales and profit by differentiating between sales channels, such as by changing the volume and packaging of *Jagarico* based on the channel. Also, the key to production is the automation of production lines, and we would like to expand this nationwide over the next two to three years.

**Q3** Regarding your plan for the overseas business this fiscal year, you say that you will improve operating profit from last year's loss to a 3% operating margin; how will you achieve this? Please also discuss organizational or management changes, if any.

First, we will promote initiatives to establish our brand by dispatching employees with knowledge of domestic Calbee products and marketing methods to overseas businesses. In production, we have established overseas support teams and are continuing efforts to improve the quality of products made overseas. In addition to these efforts to strengthen our organizational structure, we will also invest in raising awareness of our brand.

We don't think it is a difficult plan: build on this year's higher profit by focusing on accumulating profits in key regions, such as through expansion in the North American and Indonesian markets while investing in raising our brand recognition there, realize effects from cost and marketing synergies with Seabrook (which we acquired) in the UK, and liquidation in regions that generated losses (Philippines/Taiwan).

**Q4** Regarding your (planned) 3% operating margin in overseas business this fiscal year, it is 6.9% in your medium-term business plan (FY2024/3), so the growth margin rate seems rather low. Why is this?

We believe the next five years will need to be a period of forward investment for establishing new brands. Also, we consider the export of both *Frugra* and snacks from Japan to mainland China a

prerequisite, and although after having established this export model we envision shifting to local production and achieving high sales and profit, this is not incorporated in the medium-term business plan.

In North America, we are now conducting production locally and plan to have our facilities at full capacity in the next five years. Also, for unique products developed from Japan such as *Jagarico* and *Frugra*, we want to establish local production facilities after having tested marketing via imports and confirmed market needs.

**Q5 Your medium-term business plan sales target in North America is 20 billion yen; how will you achieve this?**

If our existing production facilities in North America produce at full capacity, sales of 20 billion yen are possible. As a means of achieving this, we will develop successor products for *Harvest Snaps*, such as bean-based croutons, a new product we could develop for the produce aisle where *Harvest Snaps* are, discussions for which are ongoing. There is also scope to increase sales of snack PBs at major chains. We want to continue to try hard even amid intense competition in the snack aisle.

**Q6 I understand that over the medium-term you need to cultivate brands in order to generate profit in your overseas business, and in the domestic business you need to further strengthen branding for pricing/standard revisions to take root, so will you increase investment to strengthen branding?**

Although our plan is for selling costs in domestic business to be flat this year, we will decrease discounts (sales promotion expenses) and increase spending on advertising, etc. for brand awareness. In overseas business, with the particular aim of raising awareness of our brands in China, we are implementing initiatives to raise brand awareness both in mainland China and through in the inbound demand in Japan. In North America, although we have a hit product in *Harvest Snaps*, because awareness of our brand is low, going forward we will work to cultivate our brand by communicating its high quality more specifically.

**Q7 Do you have a success growth model for achieving your 80-billion-yen overseas sales target in your medium-term business plan (FY2024/3)?**

One of our success growth models is Hong Kong. We launched an export model from Japan, raised our brand awareness via advertising activities such as TV commercials, and after sales got on track, shifted to a local production model. As a result, we have established a no. 1 share in Hong Kong. We want to expand this model to other regions.

**Q8 Of the six key initiatives in your medium-term business plan, which themes are your top priority?**

As is mentioned under Calbee in 2030, our priority themes are the growth of overseas business and new businesses. In order to support those, we will raise the profitability of our domestic business.

**Q9 Your medium-term business plan mentions changing your business structure. At present you are a snack company focused on potatoes, but what kind of company will you be changing to? At that point, what will Calbee's greatest strength be?**

In addition to further evolving products that use potatoes, we also want to develop products with different ingredients. We have SCM from cultivation and harvesting of potatoes to marketing as our greatest strength.

**Q10 Will you continue your collaboration with PepsiCo despite not having generated any specific results in overseas business to date? How do you rate your initiatives to date?**

In initiatives to date, we consider Japan Frito-Lay to be making good progress in establishing its brand in the Japanese market. Overseas, in North America we have worked together in specific initiatives such as OEM marketing, but it is true that we have not yet generated big results. Going forward, we will search for initiatives where we can leverage both companies' strengths, both domestically and overseas.