

## FY2020/3 H1 Results Presentation Q&A October 29, 2019

**Q1 How do you evaluate the impact of price hike and content standard revisions, including consumer reaction? Are there any plans to implement price hike and content standard revisions for other products from the next fiscal year onward?**

Sales volume of the products subject to price hike declined, but this was as expected. This was due to consumers demand fell due to respond to price hike, and opportunities for sales promotions at retail stores declined. On the other hand, for the products subject to content standard revisions, consumers did not have a negative reaction, and sales volume of the products had maintained. In light of these circumstances, we will carefully examine the future implementation of price hike and content standard revisions, while considering product brand capability and timing.

**Q2 How do you see the impact of the consumption tax hike from October? Is there any impact on additional sales promotion expenses as major retailers proceed with point back corresponding to the consumption tax hike?**

At this stage, we are unable to grasp the impact of the consumption tax hike clearly. Despite of a slight last-minute demand in September, demand for food preserved including *Frugra*, etc. has been increasing since October due to unseasonable weather such as Typhoon. As a whole, we are expecting that the slump in consumption of food is small. In addition, sales promotions at major distributors are generally conducted within the scope of the annual contract, and there is no significant additional sales promotion expenses.

**Q3 I think cost improvements in H1 might be temporary due to the effects of the absence of the volume increase measures for potato chips in the previous fiscal year in Japan and Indonesia. Are there any continuity of cost improvements from the next fiscal year onward?**

As stated in the medium-term business plan, we will continue to implement measures to improve costs, such as automation and labor saving, from the next fiscal year onward in order to achieve a operating margin of 15% for existing domestic businesses. We aim to improve the cost of sales ratio by 1 percentage point in five years.

**Q4 Operating income in H1 has exceeded forecasts. What are the issues and investments to be addressed in H2 for growth from the next fiscal year onward?**

In Japan, the decline in our brand awareness among young people is a challenge. It is necessary to invest not only in mass advertising, but also in communication aimed at raising brand awareness. We will also work on environmental measures from a medium-to long-term perspective.

**Q5 Will the main drivers of profit growth from the next fiscal year be domestic business or overseas business?**

From a profit-growth perspective, domestic business will be growth driver for the time being, while overseas, we have been making various investments to expand sales.

**Q6 I think that domestic sales growth is required to expand domestic profits. What is the capability of your company to increase sales?**

In the domestic snack market, we have released more than 300 SKUs annually to date for sales growth. However, in the next fiscal year, we aim to expand sales through new products with new ideas that are not such as flavored products. For existing products, we plan to generate profits by changing product design and sales methods.

**Q7 Please tell us about the background that Calbee aims to strengthen its product lineup in domestic and overseas. For that, do you plan to increase capital investment?**

In domestic business, we believe that revitalizing the market by continuously increasing our product lineup will lead to maintaining our sales volume. We plan to invest in adding new processes to existing facilities for this expansion of our product lineup, but the investment will not be large-scale.

In North America, we aim to move away from being dependent on *Harvest Snaps* sales by acquiring Warnock Food Products, Inc. to expand our product lineup and strengthen our own brands. In addition, we would like to strengthen sales in the ethnic market by introducing Japanese products such as *Frugra* and *Jagarico*.

**Q8 In Greater China, domestic e-commerce is growing faster than cross-border e-commerce. Please tell me your prospects for future growth from now on. How much do you want to expand the business in the medium term?**

Domestic e-commerce in China sales have been growing steadily. Approximately 80% of current sales is on *Frugra*, so there is much room for snack sales to grow. We are considering that we will handle not only snacks made from Japan, but also snacks made from Korea and Indonesia. We believe that domestic e-commerce in China is still able to grow 20% or 30% annually to sell *Frugra*. If we could expand our snack product lineup not just *Frugra*, it can grow further.

**Q9 I think the acquisition of Warnock Food Products, Inc. in North America is relatively small compared to the cash currently Calbee held. Do you intend to expand gradually with M&A of this scale?**

We do not limit the amount of money for M&A deals, and would like to tackle even large-scale ones if there are opportunities.

**Q10 Please tell us about the status of collaboration with PepsiCo. Are there any new provisions to replace the equity interest provisions expired?**

Currently, there are no specific provisions regarding equity interest, but the strategic alliance with PepsiCo is continuing. Based on this, Calbee and PepsiCo are considering opportunities for business alliances that will benefit both companies overseas.