Calbee
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FY2020/3 Q3 Results Presentation Q&A
February 5, 2020

Q1 Regarding the effect of price hike for domestic snacks, profit was flat in FY2020/3 H1 due to offset an increase in costs by the impact of price hikes and increased sales of products not subject to price hikes. However, in Q3 (three months) profit was positive by ¥0.4 billion. Please explain the background to this.
This was because an increase in raw material costs in Q3 (3 months) YoY was lower than H1. Especially, an increase for packaging costs by ¥0.1 billion in Q3 (3 months) compared to ¥0.4 billion in H1. The level of cost increase was in line with our initial plans.

Q2 How do you see the reason for positive sales for products not subject to price hikes? Please let us know the sales trend considering the position of snacks in the food industry.
Sales volume of products subject to price hikes were decreased -5% YoY on Q3 cumulative total, which were roughly in line with our expectations. In Q2, we implemented measures of increased volume campaign to stimulate demand for the products. In Q3 (3 months), the sales volume of the products was lower than Q2 because of no measures of increased volume campaign. From the result, we think the price sensitivity of snacks is high and price hikes this time are not completely accepted by consumers. This rebound had led to strong sales of products not subject to price hikes.

Q3 Are sales of products subject to price hikes recovering slower than initial plan?
The extent of a decline in sales volume was not significantly out of line with our expectations, however, the pace of recovery was slightly slower in Q3 (3 months). In other words, it remained at the lower end of the initial plans.

Q4 Do you take a cautious view of the implementation of the following price hike because of given the circumstances of this price hikes?
Thats right.

Q5 I understand you will invest the advertisement for domestic products in Q4. Did you plan it from the beginning of the fiscal year?
We prepared the advertising expenses initially, and decided to invest the expenses for new products that launch in H2 and next period. We think it is necessary to make initial investments to recognize new products.

Q6 Do you expect the new products to become growth drivers in domestic business?
Yes, we expect the new products as growth drivers. While the domestic business has been performing well recently, it is essential to launch new products for sales growth in the next fiscal year. However, we do not expect a large increase in profits by the new products, as the profit margin is lower than for existing products.

Q7 What are drivers of profit growth in domestic business in the next fiscal year?
The key to increasing profits in Japan is how we will be able to improve COGS and SG&A expenses. We do not expect that cost for raw materials and distribution costs to deteriorate in the next fiscal year as much as this fiscal year, despite of the risks of fluctuations due to external factors.

Q8 What are the factors behind the downward revision of sales in North America and the outlook for the next fiscal year and beyond?
We have revised downward of sales in North America despite of sales in North American existing business seemed to have bottomed out in H1. This is because sales in the second-largest customer for us was declined than expected. The current utilization ratio is less than 30%, and it is difficult to

turn profitable if a certain level of utilization ratio maintain.
From the next fiscal year onward, we aim to recover sales of its existing businesses by levels two years ago. Although we have introduced new products on its mainstream snack shelves over the past years, it does not seem to be a hit product because of the shelf competitive environment. In addition, conventional sales on produce section have been decreasing. First, we aim to recover sales by launching new products under *Harvest Snaps* brands to focus on produce section. Under these circumstances, however, our strategy of taking on the challenge on snack shelves has not changed for the mid- to long-term. In addition, we try to enter into by the collaborated products with Warnock.

Q9 Was the existing business of North America at a loss, excluding one-time expenses related to the acquisition of Warnock and goodwill amortization?
One-time acquisition related expenses were ¥160 million, and amortization of goodwill was 70 million of the ¥0.4 billion in operating loss in North America. The existing business of North America was at a loss in current operating conditions.

Q10 Do you plan to spend on marketing in order to recover sales of *Harvest Snaps* at produce section? While, do you plan to reduce fixed cost further?
We continue to consider cost reductions from the production side. In the future, we will focus not only on cost reductions, but also on sales expansion. We believe that the most important thing is to expand the line-up of health-appealing products in the "Better- For- You" category. We are not able to produce any other than bean-based snacks in the existing business, but try to expand the product line-up beyond bean-based snacks by utilizing Warnock.

Q11 Will the increase in profits in domestic business by self-help efforts be sufficient to cover the risks of overseas business in the future? How do you think about the profit scenario in North America that seems to be high risk recently?
Profits are currently on an uptrend in overseas business, and we do not expect that losses in North America will expand. North American business aim for breakeven, while a significant profit will be difficult.

Q12 What do you think about changes in market environment at Chinese e-commerce?
A competition in the Chinese e-commerce have been intense mainly due to the entry of local firms. Local firms are rapidly gaining market share through aggressive marketing investments. In the next fiscal year, our countermeasures in this competitive environment is a key for growth of overseas cereal. In addition, we think it is necessary to develop snack products.

Q13 Please let us know the assumptions for decline in profits YoY in Q4 (3 month) forecasts. In Q3, the extent of cost reductions declined compared to H1. Will this tendency continue? Will labor costs be a factor behind the decline in profits?
In H1, there were cost improvements due to the absence of *Potato Chips* increased volume campaign in H1 of the previous year. These were not caused from Q3 (3 months) onward, and the extent of cost improvements has been decreased. In Q4 (3 month), cost improvement is expected to be approx. ¥350mn YoY. Raw material costs in Q4 (3 month) will be approx. ¥250mn higher than in the previous fiscal year. Labor costs will be a factor behind the decline in profits because we will book provisions for bonus on the assumption that we will achieve our targets in the current fiscal year. On the other hand, labor costs in the same period in the previous fiscal year affected by reversal provision for bonuses.