

## FY2020/3 Results Presentation Q&A May 15, 2020

**Q1 Except for the impacts of the new coronavirus infections, profit of the domestic business will decrease in the fiscal year ending March 31, 2021(FY2021/3), please explain the background to the assumption. Despite the price hike of snacks last year, it is forecasted that domestic margin may decline. I think it is difficult to see profit growth drivers for the domestic business in the future.**

In the domestic business, we have not changed plans that the effects of higher sales, the improvement in costs and in selling expenses will be the profit growth drivers. At the beginning of this fiscal year, we forecast that profits will decrease, otherwise we aim to achieve positive profits through these measures.

Regarding the cost deterioration of the forecast for FY2021/3, there are the effects of the increase in labor cost in addition to the increase in the depreciation cost. In order to mitigate operational burden on high rate of the capacity utilization until the previous fiscal year, we plan operations with room. Regarding the increase in labor cost in SG&A, it is based on the premise that we fully recognize bonuses and incentives for achieving results.

**Q2 Looking at current demand in general domestic channels, do you have an intention to further restrain sales promotions? Is there a profit upside through the reduction in sales costs?**

In FY2021/3, we do not think of further limiting its sales promotion costs from the plan. In the fiscal year ended March 31, 2020(FY2020/3), we also saved sales promotion costs because demand and supply was tight by yield deterioration due to quality issue of raw material potatoes.

**Q3 How much impact do you forecast on the performance of gift products in response to the impacts of the new coronavirus infections?**

We forecast that sales of gift products will decrease by approximately ¥5.5 billion for FY2021/3. The sales of gift products have decreased sharply since around this March, and sales decreased by more than 90% YoY in March and April. We forecast that this situation will continue for a while. Regarding the profits, the marginal profit ratio of the products is high at over 50%, and we forecast that profit will decrease by around ¥3.2 billion for the full fiscal year.

**Q4 I understood regionally balanced strategies in overseas business. I think expenditure of selling expenses are necessary to launch and penetrate new brands. How do you expect profits in the overseas business over the next two to three years? How long will it take profitability to stabilize?**

In the four key regions, in order to acquire large markets in the future, it is necessary to advance marketing investment to launch and penetrate the brands. We forecast that it will take three to four years for overseas business as a whole to stabilize its profitability.

Especially in Greater China, where competition is intensifying, it is necessary to invest over the next few years from FY 2021/3. While the profit margin will decrease, we aim to increase the amount of profits. In North America, we plan to invest in marketing to launch brand. On the other hand, in Thailand, other than the four key regions, we forecast that expansion of exports to Australia will generate stable cash flows and grow in the future.

**Q5 Except for the impacts of the new coronavirus infections in FY 2021/3, it is assumed that sales in all four key regions overseas will increase. What are the backgrounds to the significant increase in sales in North America? What measures do you plan to take in the UK for sales growth? What are the background to Indonesia's sales growth, prospects and challenges for profitability?**

In North America, we forecast ¥4.0 billion of sales increase, of which approximately ¥3.8 billion

from Warnock (newly consolidated in November 2019), and the growth of existing business will be not so significant. Although sales in existing business decreased due to a significant demand drop from major customers in FY 2020/3, we forecast that sales will recover from the bottom.

In the UK, demand for potato chips is robust, and we plan to increase production capacity in the future. We also plan to increase capacity of its bean-based snack line by relocating it from Japan. In Indonesia, we aim to increase our share of potato chips from the current 20% to 25%, and we will aggressively implement product strategies and promotional activities. We aim to strengthen snacks other than potato chips, and consider the launch of new products. In terms of profitability, cost improvements still has room to improve. We will continue its efforts to improve its product mix through expansion of snacks, which have lower production cost ratios.

**Q6 Please tell us the specific strategies for the North American business. What will be contributions short-term revenue growth? In the medium-to long-term, how will you expand product management? How much are the targets for improving profitability?**

Existing businesses have historically relied on *Harvest Snaps*, but the brand of *Harvest Snaps* has a high degree of recognition. We plan to launch various type of products under the *Harvest Snaps* brand utilizing the brand recognition. However, this also has the risk of delay due to the impact of the new coronavirus infections. In Warnock, we plan to collaborate and develop products as Calbee brand that take advantage of Calbee's know-how, particularly its unique flavor.

Regarding the targets for the profitability, we aim to achieve an operating margin of 10% in three to five years. Because the break-even point has fallen as a result of cost improvements, we would like to invest the profits generated in marketing and turn them into future profits.

**Q7 Please tell us the geographical breakdown of a ¥600 million increase in profit in the overseas business in FY 2021/3, excluding the impacts of the new coronavirus infections.**

We forecast increase of ¥600 million in North America. In North America, in FY 2020/3, there was a temporary cost related acquisition of Warnock, which was also a positive factor. We forecast increases of ¥200 million in the UK and ¥100 million in Indonesia, and decrease of ¥300 million in Greater China.

**Q8 Please tell us the geographical breakdown of a ¥800 million impact of profit decrease due to the new coronavirus infections in the overseas business in FY 2021/3.**

We forecast that approximately half of the decrease will happen in North America. We forecast that the businesses in the UK and Indonesia may also see the negatives, and that the business in Greater China may see an increase of ¥100 million.

**Q9 How will you resolve the issues of excessive capacity utilization of the domestic production? How much time line will it take to implement it?**

We consider that both the quality of raw material potatoes and capacity of production equipment affect capacity utilization. In FY2020/3, the drop in yields due to quality issue of raw material potatoes put a burden on operations, but we will take further initiatives regarding potato crop to improve the quality of potato. On the other hand, it will take at least three years after the beginning of planning, since increasing the current capacity requires investment. During this period, we could increase production capacity mainly through holiday operations, reduction in losses by extension of the expiration date, and the balanced control for between production and inventory by utilization of seasonal fluctuations in demand.

**Q10 During the situation, do you see top-line growth in the domestic snack business will be limited?**

We will increase the sales by the product mix of high-priced potato chips. At the same time, we will make an investment in a planned way in order to increase productivity.

**Q11 After the termination of the new coronavirus infections, do you expect what business environments such as consumer trends and changes in the stores?**

As the similar situation occurred during the Great East Japan Earthquake of 2011, we see currently that regular products for bags are performing well. We forecast that demand for snacks will shift to unique products and high-value-added products from summer onward. For cereals, the need for

ready-to-eat food mainly due to increase in work from home is increasing. Although temporary demand will converge, we forecast that there will be customers who will recognize the cereal thanks to this opportunity.

**Q12 Although the market share of snack decreased in FY 2020/3, how do you expect the market share for a while? I understood that opportunity losses has been occurring currently. Is there a risk that competitiveness will decrease in the medium-to long-term?**

In addition to regular products and private brand products, we will implement strategies to avoid losing competitiveness by developing new high-value-added products.