FY2021/3 H1 Results Presentation Q&A
November 2, 2020

Q1 Sales of Greater China in Q2 (3 months) have slowed compared to Q1. Do you think that there were a change in the business environment? In addition, let us know the company's plan for sales costs in Greater China in H2.
Sales of snacks in Greater China grew by more than 50% year on year in Q1 and by around 30% in Q2. Amount of sales in Q2 have not declined compared to Q1 because of sufficient sales growth particularly trough e-commerce. Regarding the sales growth of cereals in Q2 was mild than in Q1, it is the factor of the decline of nesting demand in the background of people's traffic has returned with slowdown the impact of the COVID-19 pandemic. We think the base demand for cereals continues to be steady, while shipments for W11 (single day) were partially included in H1 sales.
Regarding sales promotions, we have actively conducted promotions in Greater China in H1, while the competitive environment remains unchanged. We plan to implement sales promotions in H2 at the same pace.

Q2 Snacks in In Greater China have been performing well. Do you see how much sales expansion has potential in the next three years or so, and where is "white space" for business expansion?
In China, unlike other our overseas business, we exports and sells products manufactured in Japan. The needs for made in Japan products in China is steadily growing, and our sales of snacks grew in that trend. However, we do not expect to expand sales explosively on this business model because the sales price of our products is expensive from the local level. As the next step, it is necessary to consider local production, local OEM production, or exports from low-cost regions other than Japan, such as Thailand.
In China, there has been demand for *Jagabee* and *Jaga Pokkuru* for some time, and *Frugra* added to it. As a result, the awareness of Calbee brand is gradually increasing. In this situation, we utilize influencers on SNS and campaigns on e-commerce. In the future, we will further strengthen local marketing and link this to business expansion.

Q3 Let us know the breakdown of the downward revision of domestic sales by ¥5.5 billion for full year ending March 31, 2021.
Downward by ¥2.3 billion is in gift snack items, and the rest are in snacks at general channels. The negative impact in general channels is mainly from the decline in *Jagarico* demand for outings and offices.

Q4 How much is sales forecast of gift snack items for full year ending March 31, 2021?
Sales of gift snack items were approximately ¥12 billion for the previous fiscal year. We forecast the sales for the current fiscal year is approximately ¥5 billion. Sales decreased by ¥4.8 billion in H1 of ¥7 billion year on year. In H2, we forecasted the amount of the decline in sales is shrink than in H2 by the effect positively of Go To Travel campaign.

Q5 What is the factors behind domestic operating profit becoming neutral compared to initial forecasts in H2 amid a continuing decline in gift snack items sales?
We formulated the initial forecasts for H2 under the assumption that gift snack items would recover toward the end of the fiscal year ending March 31, 2021. For that reason, around half of the impact of this decline was included into the initial forecasts. On the other hand, reductions in sales promotion expenses and other costs were not included into the initial forecast.
Therefore, same as in H1, we expect that the negative gap from the initial forecast regarding the gift snack item sales recovery scenario would be offset on profits by the positive impact by the cost reduction such as sales expenses and other costs.

Q6 Let us know the breakdown of overseas operating profit forecast of ¥2.6 billion for the full year ending March 31, 2021.
¥0.5 million in North America, ¥1.1 billion in Greater China, ¥0.2 billion in the United Kingdom, -¥0.4 billion in Indonesia, and ¥1.2 billion in other regions.

Q7 Whereas outperform ¥1.6 billion in H1, why do you expect overseas operating profit outperform only ¥0.2 billion in H2?
We expect to result in an upward by ¥0.2 billion in H2 compared to the initial forecasts due to a slowdown nesting demand that was seen in Q1, and spending on sales promotions in H2. Overseas operating profits outperformed in each region in H1 with ¥0.6 billion in North America, ¥0.2 billion in Greater China, ¥0.4 billion in Indonesia by the cost reduction such as sales expenses, ¥0.1 billion in the United Kingdom, and ¥0.3 billion in other regions. In H2, we forecast outperform of overseas operating profit with ¥0.2 billion in North America, ¥0.2 billion in Greater China and ¥0.1 billion in other regions, in spite of downward forecast by ¥0.2 billion in Indonesia and ¥0.04 billion in the United Kingdom.

Q8 What is the biggest factors outperform in North America between Warnock's strong performance and cost reduction of *Harvest Snaps*?
We estimate curtailment of expenses for *Harvest Snaps* is biggest. ¥0.2 billion for Warnock and ¥0.4 billion for cost reduction of *Harvest Snaps,* of ¥0.6 billion of profit outperform. We expects Warnock to continue its strong performance in H2.

Q9 How did the gross profit margin improve or change due to changes in the product mix in H1? Will this trend continue in H2?
In domestic business, decrease in sales of gift snack items with high marginal profit margin had a negative impact on profit margin mix in H1. In terms of domestic and overseas, an increase in overseas sales is a factor behind the deterioration in the margin mix. The reason is some overseas businesses of our operation are manufacturing joint ventures that do not have sales functions, and there are areas where costs are structurally higher than domestically.
In H2, we expect there is a slight improvement in the margin mix due to the recovery of *Potato chips*, which had been affected by the suspension of sales in the H1. However, the gross profit margin is expected to remain weak compared to the previous fiscal year and past results, because sales of cereals or overseas are growing.

Q10 What were factors behind the deterioration in domestic costs in H1? What causes the deterioration in Q2 (3 months) to be greater than in Q1?
The largest of several factors is differences in unrealized profit from inventory. There is a slight fluctuation from quarter to quarter, as we eliminate internal profits on inventory of goods sold from domestic to overseas subsidiaries every quarter. In Q2, the increase in exports to China for W11 resulted in large in the differences. We think there is no impact on profits for the full fiscal year.

Q11 How much will be the level of operating profit for next fiscal year? Are there any impacts of the COVID-19 pandemic that will be remained in the next fiscal year and beyond? What kinds of initiatives do you think are important to build up profits from here?
Currently, it is difficult for us to clarify the impact of the COVID-19 pandemic in the next fiscal year. We continue to pay more attention to the situation when considering the level of profits for the next fiscal year.
Demand of gift snack items for domestic tourists has been returning due to Go To Travel campaign and other factors from September. However, inbound tourists are not returning currently, and we think that the decline in inbound demand will continue in the next fiscal year. We estimate that about half of our gift snack items demand is from inbound tourists and the other half is from domestic tourists. The marginal profit margin ratio of gift snack items is about 50%, which has a considerable negative impact on profits. Further, we estimate cost reduction of sales promotion and other costs will not continue in the next fiscal year, and the extent of the positive impact on profits will shrink.
Within these circumstances, we believe that the key to the recovery of domestic profits is to restore the sale of *Jagarico* and snacks in the high-price range, which are currently struggling. We keep trying to launch products that meet consumer demand in a timely manner with a close eye on the day-to-day situation.

Q12 Are overseas operating profits for next fiscal year considered to decrease, considering lack of effect on cost reduction in sales promotion expenses in H1?

In H1 in particular, the Indonesian market was weak. As a result, sales promotion opportunities declined amid this market environment. We aim to achieve sales expansion by investing in sales promotion expenses, and it cannot be said that this will result in decline in profits. In the next fiscal year, we invest in sales promotion expenses aiming to increase profits. Regarding overseas profit level for the next fiscal year, we would like to consider profit of the current fiscal year as a base.

Q13 What do you consider your most pressing issues for the Company are?

In response to frequent changes in the nature of consumer demand, it is difficult for us to change product measures flexibly given the consistently high level of capacity utilization and the lead-time for procuring raw materials. We recognize that having reasonable produce flexibility will involve capital investment. It is most important for us how to anticipate changes in consumer demand and reflect them in production.