FY2021/3 Q1 Results Presentation Q&A
July 30, 2020

Q1 Operating profit exceeded forecast in Q1, but the full-year forecast remains unchanged. Please tell us about the outlook of domestic business and overseas business from now on. Is the cost control in Q1 a temporary factor?

When we announced the full-year forecasts, it assumed that expansion of COVID-19 would gradually converge from Q2 onwards, and would almost end at the end of the fiscal year.
Domestic gift snack items were as expected in Q1.However, we concern that there will be a negative gap in the future, because it is unlikely that domestic and overseas tourists will gradually return from this summer. On the other hand, we expect that overseas business will continue to be positive due to strong demand in Greater China e-commerce and nesting demand in Europe and North America, in addition domestic cost control will continue to be restrained. Sales of domestic snacks at general channels declined temporarily in Q1 due to the impact of our supply adjustments, but are expected to recover from July onward, and will be as expected or slightly positive.
Based on the above, there is a possibility that there will be a divergence from initial forecasts for each of the domestic and overseas business, and there are both positive and negative factors. Therefore, we do not change the full-year profit forecast.

Q2 Operating profit is ¥600 million more than forecast in Q1. What are the main reasons behind this?

Of the ¥800 million excess in overseas business, the Greater China was the largest at around ¥300 million, North America at ¥200 million, Indonesia at ¥200 million, and other regions at ¥100 million. These are mainly from favorable sales in Greater China and control of promotional costs in North America and Indonesia.

Q3 Please tell us about the details of ¥400 million in domestic cost control caused by the impact of theCOVID-19.

Half of the ¥400 million was attributable to a cost reduction in travel and commuting, which we expect to continue during this fiscal year. The remaining ¥200 million was due to the transfer from the operating cost of company-owned shops to extraordinary losses, which had a temporary impact.

Q4 Profits in Greater China are strong, but how do you see the continuity? Competitive environment in the cereal market in e-commerce has intensified since the latter half of last fiscal year. Has there been a positive change in the earnings environment?

Demand in Greater China has continued to be strong since Q4 of last fiscal year. In e-commerce, both cereal and snack sales are growing significantly. We expect the sales in Greater China particularly in e-commerce to remain strong. The competitive environment remains unchanged, but the diversification of sales channels in e-commerce and expansion in retail channel have been successful.

Q5 Is it feasible to cover the negative outlook (vs. initial forecasts) for domestic gift snack items by the positive overseas business such as in the Greater China?

Regarding domestic gift snack items, we forecasted as the full of this fiscal year that profit expect to decline by more than ¥3.0 billion. In Q1, profits declined by ¥1.4 billion as initially expected, but if they will not recover from now on, there is the possibility that profits will decline by more than ¥4.0 billion for the full fiscal year. Given the significant impact of the profit decline in gift snack items with marginal profit rate of 50% or more, it is difficult to offset only the impact with positive overseas sales alone, but it will possible to be also covered by continued domestic cost control. We also expect that domestic snacks at general channels will recover.

Q6 Does the reduction in promotional costs in North America and Indonesia continue from Q2?

In North America, *Harvest Snaps* is characterized as healthy snacks, which are sold on the produce aisles. Therefore, they has not been able to enjoy growing demand for snacks under this circumstance, and promotional costs were restrained due to a decline in sales promotional opportunities. Going forward, we plan to roll out the product in the snacks ails, so it will probably use promotional costs to achieve this.

In Indonesia, control of promotional costs in Q1 was affected by a decrease in sales promotional opportunities due to the impact of production on delays in imported raw material potato. Going forward, we plan to increase sales promotions.

Q7 Please tell us about the trends of domestic snacks by sales channel.

In Q1, *Jagarico* has a high sales ratio at convenience store, and the consumption of at convenience stores fell. At supermarkets and drug stores, there was the impact seen from our production adjustments of *Potato Chips* caused by consumer demand concentrated in large-size packages, etc. From Q2 onward, we aim to recover sales through all channels with product measures and sales promotions.

Q8 Demand for domestic cereals is rising due to the impact of COVID-19. What is your view on continuity?

We expect high demand to continue for the time being. Demand peaked in April and began to stabilize from May onward. In addition, demand declined recently due to the impact of the suspension of sales of our regular products on the shortage of imported coconuts as a raw material. However, we plan to resume regular products from early August, expect to return to this trend.

Q9 Please tell us about the future trends in domestic promotional costs.

Looking at the current sales trends and conditions of factory utilization, we think it is necessary to allocate promotional costs in a timely manner rather than to curtailing only.

Q10 The factor of increase in raw material costs was attributable to the deterioration in quality of potatoes. Please tell us the background behind this.

The deterioration in quality of potato was caused by the low yield of potato harvested last fall, which accounted for ¥150 million of the increase of ¥300 million. From Q2 onward, we expect the negative impact from last year to disappear. The remaining increase in raw material costs was due to the impact of sales mix that a decline in sales of gift snack items.