

## FY2021/3 Q3 Results Presentation Q&A

### January 28, 2021

#### **Q1 Demand for *Potato Chips* are strong, and demand for cereal calmed in domestic. How do you see changes in the domestic nesting demand?**

In *Potato Chips*, during the first wave of COVID-19 pandemic last spring, we implemented sales suspension of some products because we unable to respond strong demand. However, in Q3, we strengthen our supply thorough increasing the number of production shift, therefore sales grew. We think the level of consumers demand for *Potato Chips* has not changed significantly. On the other hand, demand for cereals have gradually calmed, although there was special nesting demand last spring.

#### **Q2 Which region are there the difference from the revised plan for Q3 overseas business?**

Net sales in overseas business underperformed ¥0.5 billion from the revised plan by approximately ¥0.5 billion in Greater China and approximately ¥0.2 billion in North America, despite outperformed in other regions. Operating profit outperformed approximately ¥0.2 billion from the revised plan by ¥0.25 billion in North America and approximately ¥0.2 billion in Thailand and Australia despite underperformed approximately ¥0.2 billion in Greater China.

In North America, sales underperformed by the forecast, but cost improvements advanced more than expected due to reduction on labor costs, raw material costs. The underperformance in Greater China was due to lower than expected sales volumes. In Thailand, products manufactured for the Australian subsidiaries contributed to the upside of profits due to strong demand in Australia.

#### **Q3 Operating profit outperformed ¥1.2 billion from the revised plan in Q3. Please tell us about the outlook for Q4. Do you plan any extra expenditures for the next fiscal year in advance?**

We think the full year forecast will be stronger from the revised plan because of the upward in Q3. However, the outlook for the impact of COVID-19 is uncertain in Q4. In overseas business, we suppose to spend more on sales promotions amid demand is trending downward in China, Indonesia, and North America. Based on these expectations, there is possibility that profit level in Q4 will be lower than in Q3.

#### **Q4 What were factors behind the declining demand in North America?**

Demand for *Harvest Snaps* sold in North America has not risen because it has not benefited from the snack-market expansion from nesting demand. Therefore, we will continue to implement sales promotions to stimulate consumer demand from Q4 onward. In addition, business negotiations for new products have been postponed due to the impact of COVID-19 in this fiscal period, but we would like to prepare for the launch.

#### **Q5 Will the decrease in North American manufacturing costs be continuous?**

In Q3, profitability in North America improved significantly year on year due to recovery from a sharp declined sales and absence of one-time expenses for the acquisition of Warnock last fiscal year. From Q4 onward, we will continue efforts to improve cost improvements such as labor costs and raw material costs, and increase profitability.

#### **Q6 Regarding cereal sales in China, you had expanded e-commerce channels, but sales in e-commerce did not grow in Q3. What measures will you take to grow going forward?**

In e-commerce cereal market, competitors has been lowering the sales price around W11(Single's Day), amid the supply volume has been expanding by new entrants in the market. In response, we did not discount in response to this, implemented sales promotions at almost the same level as W11 of last fiscal year. We satisfied that sales and profits increased year on year in the W11 under this strategy.

On the other hand, we recognize that the e-commerce market is no longer growing steadily while maintaining sales prices as in the past. Therefore, we intend to focus on increasing sales for retail channel from the next fiscal year onward. We would like to take measures to maintain sales prices in e-commerce and not spill over into sales prices in retail channel.

**Q7 What measures do you take to expand sales for retail channel in China?**

In the past, we did not have a local sales function for cereals for retail channel, sold products through a domestic wholesaler. Thus, we established a new local sales subsidiary last year to establish sales system. From April of this year, we will expand sales by making all commercial distribution via its Chinese subsidiary.

**Q8 Raw material costs improvement contributed to increase profits in Q3. Please tell us the forecasts of the cost going forward. In particular, the price of palm oil is rising recently. Will the cost of palm oil have an impact on finance results?**

The palm oil used currently was secured about a year ago at a lower price from the current market level. In the future, we will proceed with procurement while monitoring the market. In the next fiscal year, it is expected to be a factor behind the cost increase of around ¥0.6 billion.

**Q9 Despite rising raw material costs, what will drive growth of profits in the next fiscal year?**

While it is not clear when the expansion of the COVID-19 will converge, it is difficult for us to clarify the profit driver that at this time. However, we believe that the first thing to do is to establish a flexible production and supply system in response to changes in the domestic market.

The negative impact from sudden events that occurred in the current fiscal year was significant such as sales suspension of *Potato Chips* in the continued strong demand, and sales suspension of *Frugra* due to delays in procurement of import raw materials, coconut.

In response, we would like to strengthen its supply system by increasing production capacity to some extent domestically, and to enforce stable procurement of raw materials. If such a negative event does not occur in the next fiscal year, it will contribute to the increase in profits.

In overseas business, we will continue to invest in business expansion in line with our medium-term plan. We would like to focus on growing the top line rather than higher profits.

**Q10 How much will the effect of profits from the decline demand for gift snack items in this fiscal year? Will the return of the effect be a factor of domestic profit growth in the next fiscal year?**

We expect the full-year impact on profits this full-year from the decline in gift snack items be a little less than ¥4.0 billion. As far as the status of infections currently, we do not expect gift snack items to recover rapidly in the next fiscal year. Therefore, we also strive to reduce sales promotion costs to recover domestic profits.

**Q11 There was a curtailment of sales promotion expenses in this fiscal year. In contrast, in the next fiscal year, the expenses might be normalize and negative to profits. Amid consumers' preference for products with lower prices, can you restrain the increase in sales promotion expenses?**

Sales promotion opportunities will increase if expansion of COVID-19 subsidies and then business conditions improve. Even in such a situation, we would like to control sales promotion expenses by changing the business negotiations and sales structures. In domestic snack market, there is trend toward a shift to low-priced products currently including strong demand for large-bag products. However, we do not implement sales promotion for the products at special sales price. We would like to continue to respond flexibly to the investment in sales promotion expenses while watching market trends.