Calbee Group Financial Results

First quarter of fiscal year ending March 31, 2022

April 1, 2021 – June 30, 2021

TSE code：2229

Calbee, Inc.

2021.8.5

Due to the application of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), effective from the beginning of the first quarter of the fiscal year ending March 31, 2022, certain selling expenses(rebates) that were previously recorded as SG&A expenses are now deducted from total sales.

Total sales: sales figures before deducting certain selling expenses
Net sales: sales figures after deducting certain selling expenses

The treatment of this change in this document is as follows.

	FY2022/3 Q1	FY2021/3 Q1
Total sales Sales by product Sales by region	As before	As before
Rebates deducted from sales	Certain selling expenses deducted from total sales	None (included in SG&A)
Net sales	Deducted certain selling expenses from total sales	None
Operating profit	As before	As before
Operating margin	Calculated using total sales as denominator	Calculated using total sales as denominator

I will now explain our financial results for the first quarter of FY2022/3. Please refer to slide 1.

Effective from this fiscal year, the Calbee Group has adopted the Accounting Standard for Revenue Recognition, etc., and has changed the method of deducting some selling expenses from gross sales, which used to be included in SG&A expenses.

In this material, you will come across 2 types of sales: gross sales and net sales. Gross sales refer to sales on a gross basis, which were applied until the previous fiscal year, while net sales refer to sales on a net basis after deducting some selling expenses from gross sales, which are applied from this fiscal year.

Moreover, please kindly note that in today's material, for the analysis of YoY comparisons, etc., we will mainly use sales on a gross basis, i.e., the basis of the previous fiscal year, excluding the impact of the application of the new accounting standards.

Please refer to the table in the slide for definitions of terms and details.

FY2022/3 Q1: Results highlights

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Summary

- **Total sales** Increased due to strong snack sales both in domestic and overseas
- **Operating profit** Domestic: Increased due to higher sales and lower selling expenses
  Overseas: Achieved plan despite decrease in profit due to the absence of nesting demand in the prior fiscal year and fewer opportunities for sales promotions
- **Net income** Rose significantly on growth in operating income, foreign exchange gains and decrease in taxes paid

(Billion yen)

	FY'2022/3 Q1	FY'2021/3 Q1	Change	FY'2022/3 Q1 Target	vs. plan Ratio
Total sales	**67.4**	**64.4**	**+4.6%**	**65.7**	**102.5%**
Net sales	59.9	—	–	58.1	103.1%
Total domestic sales	**52.3**	**51.5**	**+1.6%**	**51.3**	**101.9%**
Net sales	46.5	—	–	45.5	102.0%
Total overseas sales	**15.1**	**12.9**	**+16.7%**	**14.4**	**104.9%**
Net sales	13.4	—	–	12.5	107.2%
Operating profit	**6.9**	**6.6**	**+5.9%**	**6.3**	**110.1%**
Operating margin (for total sales)	* **10.3%**	**10.2%**	**+0.1pts**	**9.6%**	**+0.7pts**
Domestic	6.3	5.6	+13.2%	5.7	111.1%
Overseas	0.6	0.9	-37.2%	0.6	101.1%
Ordinary profit	**7.0**	**6.4**	**+9.7%**	**6.2**	**113.8%**
Extraordinary income/loss	-0.0	-0.1	–	-0.1	–
Net profit **	**5.0**	**4.1**	**+22.3%**	**4.0**	**123.8%**

*Operating margin (for net sales) was 11.6%

**Profit attributable to owners of parent

Please refer to slide 2. I would now like to explain our performance.

In the first quarter, both gross sales and profits exceeded the previous year's figures or the plan. Gross sales increased by 4.6% from the previous year to JPY67.4 billion due to higher sales in both Japan and overseas. In Japan, sales of snacks, such as *Jagarico*, increased 1.6% YoY to JPY52.3 billion due to strong sales. Overseas, sales increased 16.7% YoY to JPY15.1 billion due to higher sales in North America, the UK, and Indonesia.

Operating profit increased by 5.9% to JPY6.9 billion. Domestic profit increased 13.2% YoY to JPY6.3 billion due to higher sales and lower selling expenses.

On the other hand, the expansion of COVID-19 in the previous year had a positive effect on profit overseas. Specifically, profit decreased by 37.2% due to a rebound from last year's boost from a decrease in sales promotion expenses and sales promotion opportunities. However, the planning cost remained flat JPY0.6 billion.

Net profit increased by 22.3% to JPY5 billion due to the recording of foreign exchange gains and a decrease in taxes.

FY2022/3 Q1: Domestic business

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■ **Total sales**

＜Snacks＞ Sales increased with *Jagarico* contributing significantly through launch of limited time products and diversification of packaging
＜Cereals for domestic consumers＞ Sales decreased due to the absence of last fiscal year's nesting demand
＜Cereals for overseas export＞ Sales declined by 0.4 billion yen due to a change in commercial distribution (on transfer of sales to Chinese subsidiary)
＜Others＞ Expanded sweet potato business

■ **Operating profit**

Increased due to higher sales and reduced selling expenses for snacks, despite the sharp rise in the price of palm oil

(Billion yen)

	FY2022/3 Q1	Change(YoY)	
Total domestic sales	**52.3**	**+0.8**	**+1.6%**
Snacks	42.9	+1.5	+3.7%
Potato Chips	19.6	+0.1	+0.7%
Jagarico	9.0	+1.2	+14.7%
Products with new value/other snacks	14.2	+0.2	+1.5%
Cereals (for domestic consumers)	6.3	-0.9	-12.9%
Cereals (for overseas export)	0.3	-0.4	-54.4%
Others (Sweet potatoes, Potatoes,Services)	2.8	+0.6	+30.0%
Rebates deducted from sales	-5.8	—	—
Domestic operating profit	**6.3**	**+0.7**	**+13.2%**
Operating margin	* **12.1%**	**+1.2pts**	**—**

*Operating margin (for net sales) was 13.7%

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Please refer to slide 3. I would like to explain our domestic business.

Overseas sales increased by 1.6% to JPY52.3 billion. Sales of *Jagarico* increased by JPY1.5 billion as a result of the launch of limited-time products and diversification of packaging.

On the other hand, in the area of cereals, consumption for the domestic market declined by JPY0.9 billion in reaction to the previous year's nesting demand. In addition, overseas exports, which had been recorded until last year, were eliminated due to a change in commercial distribution to a Chinese subsidiary. This caused a JPY0.4 billion decrease, which decreased the total revenue by JPY1.3 billion. In other businesses, sales increased by JPY0.6 billion due to the expansion of the sweet potato business.

In terms of operating profit, the cost of sales ratio deteriorated due to soaring palm oil prices and increased depreciation expenses. This was offset by the effect of increased sales and the curbing of selling expenses, resulting in a YoY increase of 13.2% to JPY6.3 billion. The operating margin improved by 1.2 percentage points YoY to 12.1%.

FY2022/3 Q1: Domestic business

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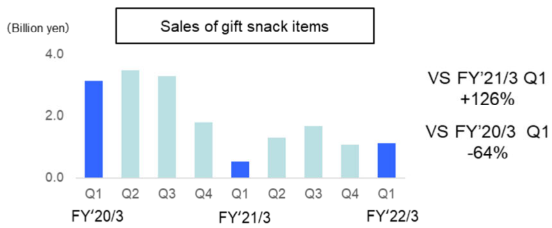
Snacks

Potato Chips: Market share recovered through intensified sales promotions from late May,
When potato ingredient shortage concerns were resolved
High demand for *Kataage Potato(Kettle Chips)* continued

Jagarico: Sales increased due to proactive launches of limited time products and diversification of the packaging formats of products such as *Jagarico Salad bits Omori(large-bag type)* and *Otonano Jagarico (that go well with alcohol)*

Other Snacks: Invested in TV commercials for *Miino(bean-based snack)* and sales were strong
Sales of gift snack items continued to be weak due to the decrease in inbound and domestic tourists, but rose YoY on the proactive opening of booths at product exhibitions



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Please refer to slide 4. I will explain in a little more detail the situation by product in the domestic business.

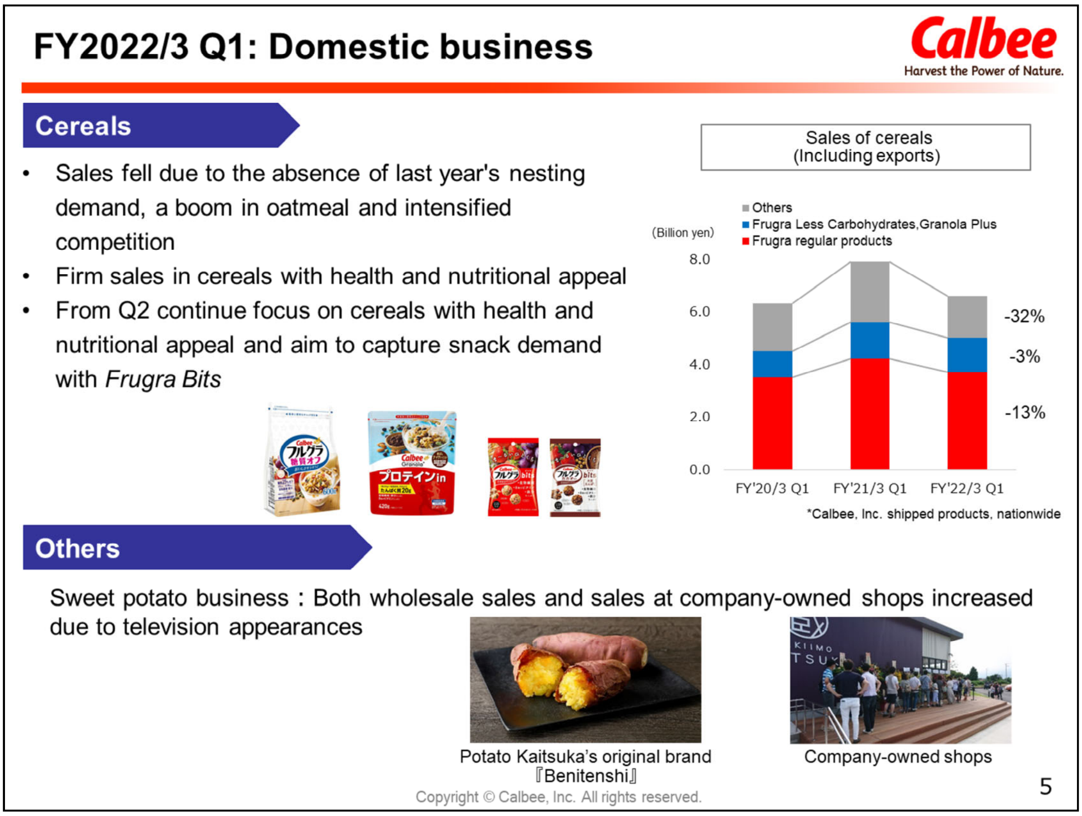
Regarding potato chips, sales continued to be strong from the previous fiscal year, and because of this there was a risk of a shortage of the raw material potato starch at the beginning of the fiscal year, so we deliberately suppressed sales promotion from April to mid-May. Then, due to the favorable harvest of potatoes from Kyushu and Kanto, we started to strengthen sales promotion in late May. This has allowed us to recover our market share, which had temporarily dropped.

In addition, sales of *Kataage Potato* increased due to continued high demand among home consumption, especially drinking at home.

As for *Jagarico*, in addition to the aggressive introduction of limited-time products, such as the *Garibata Soy sauce flavor*, we diversified our packaging formats and products, such as the large-sized *Jagarico Salad bits Omori* (large-bag type) and the *Otonano Jagarico* (that go well with alcohol). As a result, we were able to recover from the decline and achieve a large increase in profit.

In other snacks, sales of *Miino* (bean-based snack), a bean-shaped snack, were strong, thanks to the effects of TV commercials.

In terms of gift snack items, the number of inbound and domestic tourists continues to be sluggish. On the other hand, although sales have increased compared to the previous year, due to our active participation in product exhibitions, we continue to be in a sluggish situation.



Please refer to slide 5.

As for cereal, in addition to the reaction to the nesting demand in the previous year, there was a temporary boom in the oatmeal market, and in addition to that, there was an increase in competition, resulting in a decline in sales.

While sales of regular products declined, products with health and nutritional appeal, such as *Frugra Less Carbohydrates* and *Granola Plus*, maintained high demand and performed well but were unable to offset the decline in sales of core products.

From the second quarter onward, we will continue to focus on products with health and nutritional appeal and aim to capture snack demand with the launch of *Frugra Bits*.

As for other products, in the sweet potato business, our original brand of baked sweet potatoes, Benitenshi, resulted in a strong sales for wholesale sales and sales at company-owned shops, leading to an increase in sales, thanks to television appearances.

FY2022/3 Q1: Overseas business

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(Billion yen)

<Business results by region>	FY2022/3 Q1	Change(YoY)		Change ex. forex in %
Total overseas sales	**15.1**	**+2.2**	**+16.7%**	**+7.9%**
North America	4.0	+0.4	+12.6%	+10.3%
Greater China	4.2	+0.2	+4.3%	-4.3%
United Kingdom	1.9	+0.4	+23.6%	+7.1%
Indonesia	1.4	+0.5	+59.7%	+49.2%
Other regions	3.6	+0.7	+22.4%	+10.3%
Rebates deducted from sales	-1.7	–	–	–
Overseas operating profit	**0.6**	**-0.35**	**-37.2%**	**–**
Operating margin	*3.9%	-3.4pts	–	–
North America	0.05	-0.06	-50.9%	–
Greater China	0.26	-0.23	-46.7%	–
United Kingdom	-0.02	-0.04	–	–
Indonesia	-0.05	+0.01	–	–
Other regions	0.35	-0.05	-11.9%	–
<Total sales by product>				
Snacks	13.3	+2.3	+21.2%	–
Cereals	1.8	-0.2	-8.5%	–

*Operating margin (for net sales) was 4.4%

Please refer to slide 6. I would like to explain the performance of our overseas business.

Gross overseas sales increased by 16.7% to JPY15.1 billion, but only by 7.9% on a local currency basis excluding the effect of exchange rates. Operating profit decreased by 37.2% to JPY0.6 billion.

FY2022/3 Q1: Overseas business

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North America

■ Sales

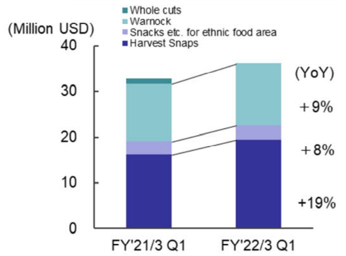
・Strong sales of Harvest Snaps through expanded supplies of small package items to dollar store channels

・Warnock sales grew through increase of number of store brand (PB) items

■ Operating profit

・Profit decreased due to fewer sales promotional opportunities last year

Sales by products in North America (YoY +10%)



Greater China

■ Sales

(Snacks)

・Strong sales of *Honey Butter Chips* and *Jagabee* via both e-commerce and retail stores

(Cereals)

・ Sales fell due to the absence of last fiscal year's nesting demand and intensified competition

■ Operating profit

・ Decreased due to the impact of lower sales and enhanced promotions using KOLs

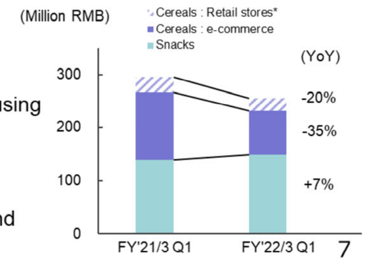
■ Recovery measures

・Launched snack assortments for large membership-only supermarkets

・Stimulated *Frugra* sales with appointment of well-known advocates (brand advisors)

Sales by products in Greater China (YoY -4%*)

*Including last year's exports from Japan: -14%



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Please refer to slide 7. Here is a detailed explanation by region.

First, in North America, sales increased 10.3% YoY on a local currency basis. In the North American sphere, vaccination against COVID-19 has progressed, and consumers had temporarily recovered, but the infection situation has started to worsen again due to the spread of mutated strains and other factors.

Under such circumstances, *Harvest Snaps* was able to increase its sales by successfully expanding its distribution to the dollar store channels, which is a type of JPY100 store in Japan, where demand for low price and small package items is increasing. Moreover, Warnock Food Products, Inc, the company we acquired, is also handling PB relatively well and has increased sales by increasing the number of items.

Operating income decreased by JPY0.06 billion YoY to JPY0.05 billion, partly due to the decrease in sales promotion opportunities in the previous fiscal year.

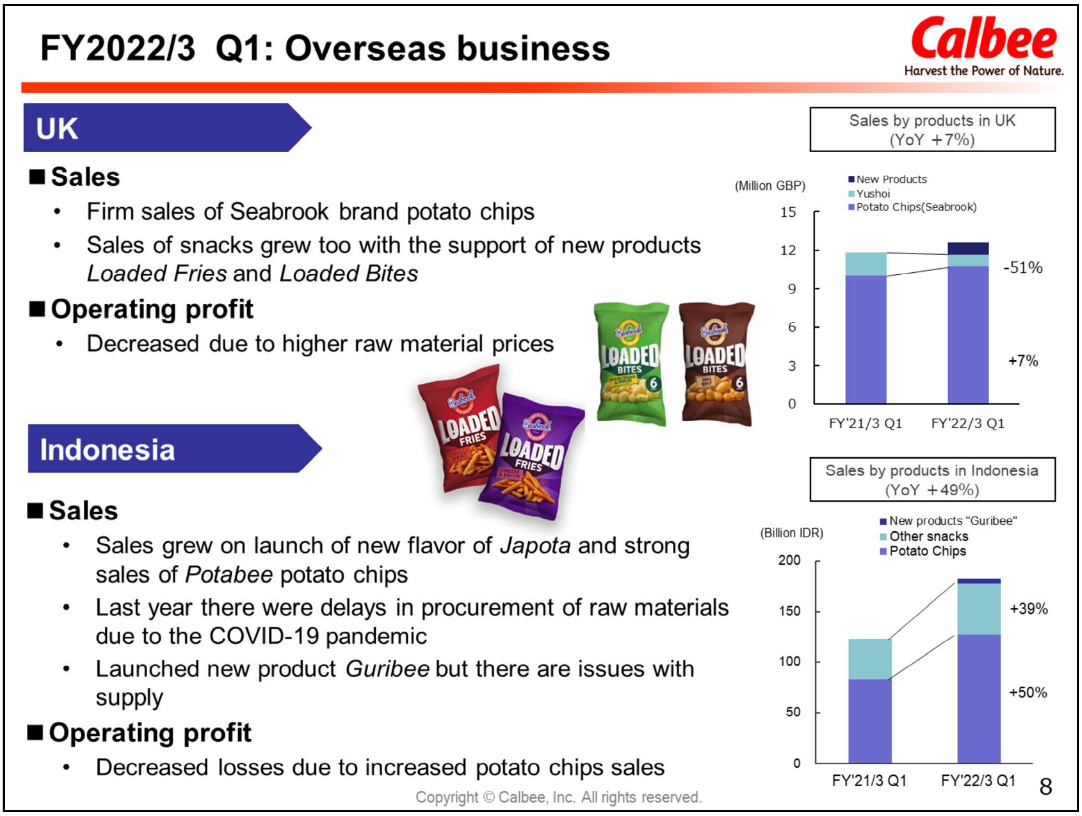
In Greater China, first of all, sales declined by 4.3% YoY on a local currency basis. In the snack category, *Honey Butter Chips* and *Jagabee* continued to perform well, with growth in both e-commerce and retail stores, resulting in higher sales.

On the other hand, sales of cereals decreased due to a slowdown in the market in reaction to the previous year's nesting demand and intensifying competition in the e-commerce market.

In addition, as a result of strengthening promotions using KOL, operating profit was also impacted by this, falling JPY0.23 billion YoY to JPY0.26 billion.

As for future recovery measures, we would like to strengthen our retail store invests as planned for this fiscal year.

As for snacks, we would like to aggressively introduce assorted products, such as *Jagabee* and *Jagarico*, especially in large supermarkets. For the cereal, we appointed well-known advocates. We would like to stimulate the purchase of Frugra using this.



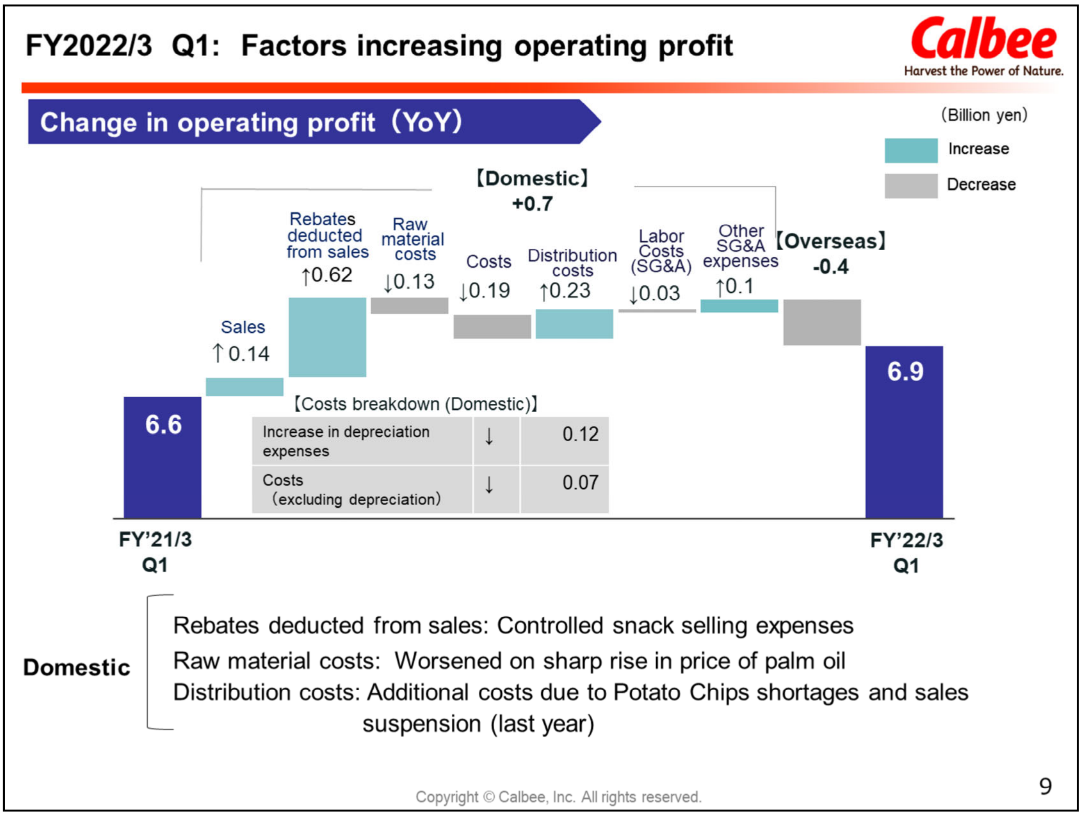
Please refer to slide 8, sales in the UK.

On a local currency basis, sales increased by 7.1% compared to the previous year. Potato chips, our mainstay product, sold well to major retailers, and new products, such as *Loaded Fries* and *Loaded Bites*, also contributed to the increase in sales.

As for operating income, since last year, there has been an increase in demand for multi-packs, or in other words, low-priced, low-gram-per-unit products, such as value packs. In addition to this, the price of some raw materials, such as sunflower oil and packaging materials, soared, resulting in a decrease of JPY0.04 billion in profit compared to the previous year.

Sales in Indonesia increased 49.2% YoY on a local currency basis. Sales of potato chips, which suffered from delays in the procurement of raw materials due to the impact of COVID-19 in the previous year, increased significantly. In terms of products, new flavors of *Japota* and *Potabee* are doing well.

We also launched a new snack product, *Guribee*. This product has not been able to reach the expected supply capacity after its launch, so the effect on sales was limited in the first quarter. Operating loss totaled JPY0.05 billion.



Please refer to slide 9. Lastly, I would like to analyze the operating income, which is JPY6.9 billion on a consolidated basis, an increase of JPY0.3 billion from the previous year. This includes an increase of JPY0.7 billion in the domestic business and a decrease of JPY0.4 billion in the overseas business. The table below shows a breakdown by expense item of the reasons for changes in the domestic business.

This is the end of our explanation. Thank you.

Reference material

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Consolidated profit and loss statement

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(Million yen)

	FY2022/3 Q1				FY2022/3 forecast		
		Percent of total(%)	Change (YoY) (%)	vs. plan Ratio (%)		Percent of total(%)	Change (YoY) (%)
Total sales	67,353	100.0	–	102.5	275,000	100.0	–
Rebates deducted from sales	7,457	11.1	–	97.7	35,000	12.7	–
Net sales	59,896	88.9	–	103.1	240,000	87.3	–
Gross profit	21,208	31.5	–	103.2	87,800	31.9	–
SG&A	14,269	21.2	–	100.1	59,800	21.7	–
Selling	2,008	3.0	–	100.4	8,400	3.1	–
Distribution	4,751	7.1	-2.6	101.3	19,800	7.2	+2.9
Labor	4,764	7.1	+4.7	101.2	20,100	7.3	+4.0
Others	2,745	4.1	+1.8	96.0	11,500	4.2	+8.4
Operating profit	6,938	10.3	+5.9	110.1	28,000	10.2	+3.5
Ordinary profit	7,034	10.4	+9.7	113.8	27,500	10.0	-0.1
Extraordinary income/loss	-38	–	–	–	-500	–	–
Net profit*	4,953	7.4	+22.3	123.8	18,000	6.5	+1.8

* Profit attributable to owners of parent

Domestic business

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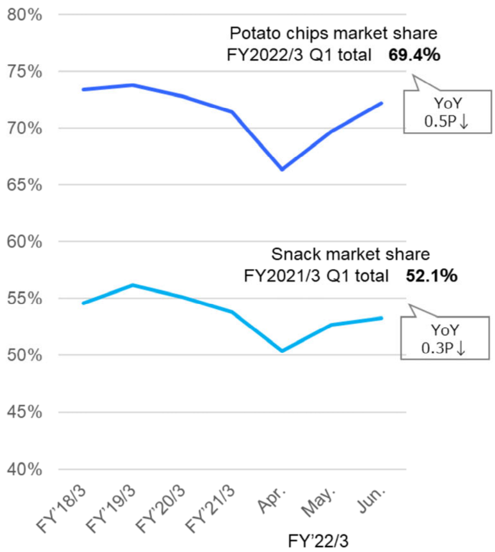
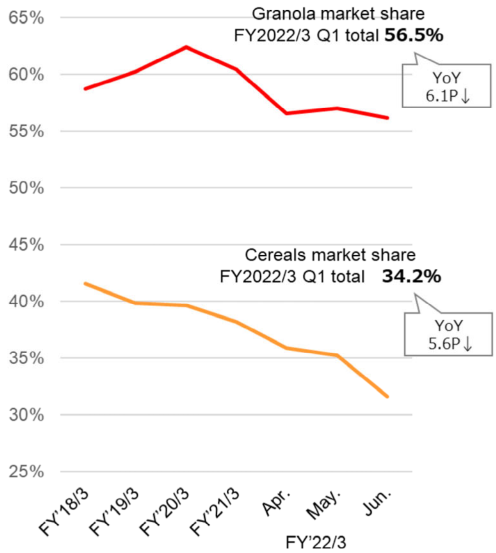
■ Market share





Source: Intage SRI+ based on sales amount (nationwide, all retail formats)
From FY2021/3 Intage's SRI+ has changed how it conducts planning and estimation; prior figures have been revised to reflect the new method.

FY'22/3 Q1 total :April 2021 – June 2021
Comparison period: April 2020 - June 2020
FY'18/3-FY'22/3: April 2017 – June 2021

Snack market share:Total of Calbee and Japan Frito-Lay
Potato chips: Total of potato chips (thick- and thin-sliced), shoestring and kettle types; includes private brand products
Granola: Granola category of Cereals market

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- The Company's fiscal year ends on March 31. The fiscal year ending March 31, 2022 is referred to throughout this report as "FY2022/3," and other fiscal years are referred to in a corresponding manner. References to years not specified as being fiscal years to calendar years.
- This document contains Calbee's current plans, outlook and strategies. Items which are not historical facts are forecasts pertaining to future performance, and are discretionary and based on information currently available to Calbee. This document does not purport to provide any guarantee of actual results. Actual results may differ significantly from forecasts due to various factors.
- This document also contains unaudited figures for reference purposes only.

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FY2022/3 Q1 Results Presentation Q&A
August 5, 2021

Q1. Elaborate on the factors behind in the decline in sales and profits in the Greater China region, forecasts for 2Q onward, and the measures you plan to implement.

There are two factors underpinning the decline in cereal sales in the Greater China region. First is a sharp downturn in demand in the overall market, as a reaction to nesting demand in the same period of the previous year. Given rivals are launching a selling price offensive, we implemented a strategy to maintain our selling prices, in line with our plan to strengthen retail stores from 2021 onward. Unfortunately, this strategy was not successful, as the market has shrunk. Second, there was impact from the change we made to commercial distribution in April. Due to distribution inventory, it took time to make a switch initially, but the new commercial distribution started functioning properly in June. Sales in snacks was in line with plans. Sales in e-commerce outperformed plans, while retail stores underperformed plans due to impact from a delay in changing cereal commercial distribution and as we did not make progress in developing new markets. In and after 2Q, we aim to expand sales by fortifying sales at retail stores, sticking with our strategy to maintain selling prices, and deploying a promotion that centers on high quality.

Operating profit declined 200 million yen, reflecting high year-on-year hurdles. Operating profit was 100 million yen below plan. We believe there is sufficient room to recoup this underperformance in operating profit, assuming a growth in sales at retail stores. In the previous fiscal year, we booked full-year operating profit of 600 million yen, of which 500 million yen was posted in 1Q. In 1Q of the fiscal year ended March 2021, there was substantial impact to cereal sales growth owing to nesting demand. In the current fiscal year, operating profit was down due to enhanced promotional expenses and lower sales in response to the nesting demand posted in the same period a year earlier. We believe it is not reasonable, only in the current fiscal year, to forecast for 2Q onward by looking solely at the year-on-year change in 1Q.

Q2. Performance in the overseas business, excluding the Greater China region, appears to have been favorable. Do you aim to maintain this performance in and after 2Q?

Sales were strong in the US and Europe. However, given impact from the COVID-19 pandemic, demand is high for low-end products, which differs from our goal to sell high-end products. It is our opinion that as the COVID-19 pandemic winds down, the economy will return to normal and we will be able to realize our goal of expanding overseas sales of high-quality products in line with our medium-term business plan.

Q3. You outperformed your profit target owing to favorable performance in the domestic business. Do you believe you will be able to maintain the gains you saw in 1Q throughout the full fiscal year?

Profit outperformed plans in 1Q reflecting the substantial contribution from a decrease in sales promotion costs for potato chip products in April and May. In and after 2Q, sales promotion costs are likely to be in line with plans. Assuming sales are in accordance with plans in 2Q and thereafter, we believe we will be able to maintain the level of outperformance posted in 1Q. We lost a share due to curbed sales promotions and suffered a low operating rate. However, there have been improvements in the share and the operating rate and we are now positioned to generate profit with a boost in the operating rate. It is our intention to solidly achieve our plans for 2Q onward.

Q4. Explain the impact to earnings from raw material costs, especially the sharp rise in palm oil prices, and what solutions you have planned.

The raised palm oil price in 1Q was as planned, rising 150 million yen versus the same quarter a year earlier. However, this price is for palm oil purchased six months earlier. In recent months, the price has sharply surpassed the increase we factored into our plans. Should the price of palm oil continue to rise at this rate, we estimate there is a risk profit will deteriorate an additional 1 billion yen-plus versus plans. Given that prices are also climbing for other raw materials, including cooking oil and packaging, not just palm oil, we will have to consider revising our standards for selling price and volume.

Q5. What is your harvest forecast for potatoes grown in Hokkaido?
At this stage, we cannot comment on quantity and quality, as the harvest has not yet begun. Hokkaido has continued to experience high temperatures and little rain. According to media reports, this will possibly have an impact on farming overall. We plan to keep a close eye on the weather and other conditions going forward. Calbee has experienced large drops in crop yields in the past, due to irregular weather conditions in 2010 and damage from typhoons in 2016. We actively plan to make use of the lessons we learned from those experiences. We are preparing a back-up plan, including expanding farmland, the number of contract farmers and our import quota.

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