Calbee
Harvest the Power of Nature.

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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