Calbee
Harvest the Power of Nature.

FY2022/3 Results Presentation Q&A

May 10, 2022

[Price and content revisions]

Q1: How are the sales of products for which your company implemented price and content revisions starting in January of this year?

Sales volumes of the products for which we revised prices have decreased, but we see that as primarily caused by our reduction of selling expenses in response to potato shortages. Excluding this impact, volumes had not changed since before the price increase. As for the products for which we implemented content revisions (content per package), there has actually been an increasing trend in sales volumes since the revisions. After implementing the price revisions from January onward, each retailer increased in-store prices through the end of February. Sales volumes also recovered significantly in March, and we believe that we have acceptance from consumers.

Q2: Are amounts attributable to price and content revisions to be announced in the future included in the 7.2 billion yen revision effect in your plan for FY2023/3?

Or do you expect to cover this entirely with what you have already announced?

We are planning additional price and content revisions for all items, mainly in the second half, and the effects of these are also included in the 7.2 billion yen revision effect in the plan for FY2023/3.

Many of the revisions we have made thus far have been de-facto price increases through reductions of content per package, but price revisions (purely price increases) will be the main focus going forward. We expect the profit contribution to be even larger.

Q3: Will revision effects of 16 billion yen from FY2023/3 to FY2024/3 be entirely covered by revision effects to be implemented in FY2023/3?

Fundamentally, we are forecasting that these will be covered entirely by revisions implemented in FY2023/3.

Our policy will be to implement additional price revisions if raw materials costs rise more than anticipated.

Q4: I seem to remember that sales volumes of the revised products fell for roughly a full year when you revised prices in the past. Is the situation now any different?

Excluding the effect of potato shortages, sales volumes of the products for which we revised prices from January onward have returned to their previous levels. Supply has been insufficient throughout the snack market as a whole, and we are seeing changes in consumer trends and attitudes toward price. Retailers and wholesalers who are our direct customers have generally been understanding. We will move forward with the additional revisions that we implement going forward while providing attentive explanations. We do not believe that these future revisions are risk-free, but for efforts such as rolling out products with new specifications and proposing private brands, we will cooperate with retailers to work on measures to increase sales volumes despite the price and content revisions. We can factually see a trend in which shifts toward private brands occur when prices of national brands rise, so we intend to expand our price ranges, increase our offerings of high added-value products, and secure volume.

Q5: Is there any possibility that the state of potato harvests during FY2023/3 might prevent you from implementing your planned price revisions? You are planning 92.2 billion yen in sales of Potato Chips, which would be your highest ever. Do you have enough production capacity to achieve that?

Our revisions from January onward this year are in response to the spike in raw materials costs and are not due to potato shortages. Procurement prices for potatoes will increase in FY2023/3, so we are implementing price revisions regardless of harvests. Price revision effects are included in the revenue increase for Potato Chips. We will expand *Kataage Potato* production lines and install automated warehousing in the Shin-Utsunomiya Factory in FY2022/3 to boost production capacity, so our sales plan is sufficiently feasible.

[The impact of rising raw materials costs]

Q6: Regarding the spike in raw materials costs, what is the breakdown of the 9 billion yen in these costs in FY2023/3? Palm oil prices could still rise another notch, but to what extent have current price increases and the ongoing yen depreciation been factored in?

Breaking down the main factors comprising the 9 billion yen, 2.2 billion yen is attributable to palm oil, 1.6 billion yen to packaging, 1.3 billion yen to imported potatoes which are impacted by yen depreciation and rising transport costs, and 1.2 billion yen to energy prices.

We based this on an assumed exchange rate of 122 yen/USD, and the price of palm oil itself could also continue to increase, but we have already purchased the amount that we will use through December.

[Overseas business]

Q7: Regarding your overseas business, while your sales may be steadily increasing, the current profit margin is low compared to the domestic market. As a result, your consolidated profit margin is declining. What are the issues in each region, and what measures are you taking to address them?

In North America, we consider it an issue that cost control of Warnock Food Products is not proceeding well. In response, we dispatched personnel from our production and quality assurance departments in Japan to launch a project, and this has recently been producing some effects.

We also see low rates of capacity utilization as an issue. Our approach is to boost capacity utilization by offering more variations of our flagship product Harvest Snaps and by developing and releasing new products.

In the China region, supply is an issue. There is not currently enough supply to meet demand, but we intend to increase production volume in locations such as Hong Kong and Guangdong, Thailand, Indonesia, and South Korea for transport into China. We also believe we can improve profitability by raising capacity utilization at the production sites.

As for the spike in raw materials costs, the markets in Europe and North America are accepting of price revisions, so we believe that we can maintain profitability there.

On the other hand, the China region and Indonesia are highly price-sensitive, so we might face some delays in passing on raw materials price increases. However, we would like to maintain profitability by focusing on categories, countries, and regions such as Australia where we can secure profits.

Q8: You plan to double your operating profit in Greater China during FY2023/3, but can you achieve that plan while major Chinese cities are enforcing lockdowns?

Physical in-store sales are impacted in cities where lockdowns are in effect, but our e-commerce sales are larger than in-store sales in Greater China. We aim to overcome the lockdowns by investing a larger proportion of resources in e-commerce sales promotions from the first quarter through the end of the first half.

In the second half, we also plan to implement new measures to raise awareness of the Calbee brand.

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