



Q&A on Financial Results for the First Half of the Fiscal Year Ending March 2024 (FY2023) for Investors and Analysts

1. Date: November 10, 2023 (Friday) 1 p.m.- 2 p.m.
2. Presenter: Masatoshi Sato, Representative Director and President
Attendees: Satoshi Inaba, Director and Managing Executive Officer
Masato Koitabashi, Managing Executive Officer, In charge of Dairy Farming
Takashi Mori, Managing Executive Officer, In charge of Corporate Planning Div.
Seiki Todaka, Managing Executive Officer, In charge of Accounting
Fumi Hatamoto, Managing Executive Officer, In charge of Sustainability, PR&IR

3. Main Contents

*The text has been edited for clarity.

Q1

In the Dairy Products segment, the profit margin is lower in the second quarter than in the first quarter. What do you think the factor for this is?

A1

In the first quarter, we revised prices in April. After the price revision, we will focus on ensuring that the revised prices will gain a foothold by curbing promotions and sales promotions as the first step.

After that, however, we will focus our efforts on sales promotions in the new price range to restore volume. This trend will apply not only to the Dairy Products segment but also to other categories.

Q 2

As your PBR continues to fall below 1, I think that you will have difficulty with a profit margin in the low single digits.

I have the impression that the biggest factor behind the increased profits in the current fiscal year is the price hike, but this effect will eventually run its course. Other than the effect of the price hike, what plan do you have to accelerate the increase in volume and improvement in the product mix, for example?

A 2

I believe that a major factor for the PBR of less than 1 is that we have been unable to explain our profitability and growth potential in a way that is appreciated by investors.

However, as you can see in the financial results this time, I believe that our profitability is recovering at a faster pace than the Medium-term Management Plan as a result of our comprehensive implementation of price revisions and promotion of structural reforms in parallel.

For growth potential, we are making investments to create future value based on the Medium-term Management Plan. As the first step of this strategy, we will launch plant-based foods ("PBF") this time. Going forward, we will promote growth through the expansion of business area and the launch of new products by making investments for the future.

Q 3

Would you explain the details on page 14 of this presentation material? Energy costs in operating costs are very different from the initial plan and account for a significant portion of the upward revision. What are the reasons behind such a large difference from the initial plan?

A 3

We expected that operation costs in the initial forecast, especially energy costs, would increase to a certain extent in the current fiscal year as well, given that they had increased throughout the year in the previous fiscal year.

However, energy prices have generally stabilized since the beginning of the current fiscal year, and the financial results for the first and second quarters therefore reflect this difference.

As a result of reviewing the full-year forecast in light of recent crude oil and gas price trends and exchange rates, there was a difference of 3.9 billion yen (factor for profit increase) compared to the initial forecast. Although the initial forecast might have been conservative, the revised forecast reflects the result of the revisions based on current market prices.

Updated Q3

Given that the recent depreciation of the yen may have a negative effect, is it safe to expect that costs will rise, even though there is a time lag, if oil prices rise in the future?

Updated A3

Although there is a slight time lag before energy price fluctuations have an impact, I believe that we need to keep a close eye on both crude oil prices and foreign exchange rates.

Q 4

Let me ask you about your growth strategy. If you keep expanding the growth areas including PBF, will your product mix improve? Given that products in these growth areas have a higher profit margin compared to existing yogurts and beverages, is it correct to think that if these areas grow, the overall product mix will also improve?

A 4

There are three reasons for our intention to expand PBF.

First, the PBF market is expected to grow about 180% from 2022 to 2025 in Japan. It is predicted that it will be a 73 billion yen market by 2025. Overseas, it is also predicted that the market will expand from 6 trillion yen in 2022 to 22 trillion yen in 2030. As just described, the first reason is that we can expect significant growth in the market.

The second reason is that peas, which we use as raw ingredients for protein materials we produce, have a high cost performance as raw materials.

The third reason is that we are able to manufacture end products using peas as raw ingredients by utilizing our existing manufacturing equipment. This is expected to improve our productivity and lead to an improvement in the profit margin.

Updated Q4

Is it correct to think that by increasing the operating rate of your plants, fixed costs will decrease not only for these products, but for all products, and the profit margin at the production stage will increase?

Updated A4

Yes, it is. We plan to grow the volume so that we will be able to increase the operating rate.

Q 5

I would like to ask you about the method of increasing profitability after the price revision has run its course. You have shown your policy of increasing profitability by expanding value-oriented products. Regarding the current status of the target function-added products*, I would like to know your product mix and the sales situation of each product? Also, with respect to your product development, please tell me about your plans or sense of direction for increasing high-margin function-added products, other than PBF, if any.

*Function-added products: They refer to a group of products that constitutes one of the KPIs in the Group

Medium-term Management Plan 2025.

A. 5 - (1)

Functional ingredients such as MBP and products using Gasseri and Helve lactic acid bacteria fall under function-added products. We have been growing function-added products by actively promoting these products with a high profit margin. Thanks to our efforts, MBP has continued to enjoy double-digit growth with respect to the overall brand every year. Since its target is elderly consumers, I believe that we can expect continued growth in the future.

Regarding our future product development, we will promote the expansion of products we will sell on our online shopping site from the next year in the Functional Foods category. We plan to increase function-added products through these initiatives.

A 5 - (2)

At present, we are also focusing our efforts on the sale of functional ingredients overseas. As shown on page 23 of this presentation material, overseas sales of functional ingredients grew about 120% year on year in the first half of the fiscal year under review.

In June 2023, we exhibited our products at an exhibition held in Shanghai, China. In October, we also exhibited our products at a large-scale functional ingredients exhibition in North America. The population is aging rapidly in China and other countries as well, and they take a great deal of interest in our functional ingredients.

To expand function-added products, we will make a strong effort with the sale of such ingredients, in addition to the development of storefront products.

Updated Q5

What are your thoughts on the sluggish growth of functional yogurt, which is included in function-added products? What is the weighting of functional yogurt account for in the category of function-added products?

Updated A5

The volume of our functional yogurt declined partly due to the price revision in the first half, but on a value basis, it has returned to almost the same level as the previous year. In terms of future development, we launched a new product with more protein this fall in Lactobacillus gasseri SBT2055 yogurt. In addition, we will promote Nyu-san-kin Helve Yogurt (Nyu-san-kin is Japanese for Lactic Acid Bacteria) through TV commercials and other means, since the labelling of Foods with Function Claims has become possible as a product that reduces discomfort in the eyes and nose caused by hay fever.

Although we cannot give an exact answer as to the weight of functional yogurt among function-added products, MBP-related products also account for a high weighting, and we regard both as important products for our future growth.

Q 6

As an exit measure to solve the imbalance between supply and demand in the market for fresh milk, the government is calling for the production increase of domestically produced cheese. In response to this, are you considering measures such as starting up a new cheese plant?

A 6

Since fresh milk supply and demand will continue to fluctuate in the future, it is necessary to anticipate situations in which demand is lower than supply. As a measure to address this problem, the expansion of domestically produced cheese is being discussed. Total demand for cheese in Japan continues to rise, but since the weighting of domestically produced cheese is very low, we, as well as producers, have been talking to all stakeholders about the necessity and importance of finding a way to balance supply and demand by increasing it.

Given that the government has earmarked 6.1 billion yen for cheese measures in the current fiscal year's supplementary budget, we would like to expand domestically produced cheese in order to help balance fresh milk supply and demand, while making effective use of these measures. I believe that it is our mission to take

the lead in this endeavor, as we are calling for the contribution of dairy farming production.

Q 7

Let me ask you about your plan to reduce strategic shareholdings. Which image should we have: Cash you will receive from selling them will be used for buybacks and shareholder returns, or it will go to strategic investments?

A 7

We will reduce strategic shareholdings while achieving a balance among financial stability, investment in growth, and shareholder returns.

We are looking at reducing strategic shareholdings in conjunction with the sale of real estate and other assets from the perspective of efficient asset utilization. Regarding the proceeds from the sale, we would like to make proposals that include shareholder returns, while prioritizing investment in growth, once the proceeds have reached a certain scale. We will promptly disclose any changes in our financial situation, etc. in the future.

Updated Q7

What kind of balance sheet do you think is appropriate for your company? I would like you to show me the points, including whether you place emphasis on the D/E ratio, for example? I also wonder if your company will be really able to achieve an ROIC in your investments, since the profit margin of your company is quite low. In order to deepen our discussions, I would like you to explain these assumptions, including what standards and indicators you use to manage your business.

Updated A7

We view the cost of capital as the rate of return expected by the market for the Company, and we aim to achieve an ROE of 8% as the standard. For that purpose, we are working to set a target operating margin of around 4%, although it is currently around 2.5% to 2.8%. We would also like to achieve a total asset turnover ratio of around 1.5 to 1.6 times by selling real estate and reducing strategic shareholdings. We also aim to maintain financial leverage at around 2 times. We are proceeding with the current Medium-term Management Plan while keeping these indicators in mind.

Q 8

In light of the current level of exchange rates and crude oil prices, to what extent do you expect raw materials, fuels and energy to rise in the next fiscal year (fiscal 2024)?

A 8

The price of milk, which has the greatest impact on our costs, has been revised in the current fiscal year. Although its impact will extend into the next fiscal year, I believe that it has been addressed through the price revision in the current fiscal year.

In addition, as the market price of imported cheese has subsided somewhat compared to its peak, I don't think it is at a level that is of great concern at this point, although exchange rates will have some impact.

Although there are some items that we need to look at in terms of the risk of price rises in the future, such as energy, juices and certain additives, we will reflect them in our plan for the next fiscal year while closely monitoring their trends, given that exchange rates and the market price of raw materials will continue to fluctuate going forward.

Q 9

I would like to ask you about the 2024 problem in physical distribution. How much do you incur in logistics costs annually? Also, please tell me about the amount of cost increase caused by the 2024 problem and your understanding of this issue.

A 9

We cannot answer with respect to total logistics costs, but we regard the 2024 problem in physical distribution as a major issue and we have been addressing it for some time. For example, we have been dealing with it by having discussions with outsourcing contractors such as transportation companies to rearrange delivery routes, review delivery times, and reduce waiting times based on identified points that need improvement. We are also promoting pallet transport and believe that it is an effective means for efficient transportation and help reduce logistics costs.

We recognize that the 2024 problem is more a matter of human resources than cost, and we are dealing with this issue through repeated dialogue with related parties.

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