

## FY2021 Results Briefing for the First Half: Q&A

- Date and time November 9, 2021 (Tue) 10:00 a.m. - 11:00 a.m.
- Method Real-time streaming
- Q&A Panel Hiroshi Urakami, Representative Director & President  
Yasukatsu Hiroura, Senior Managing Director  
Masahiko Kudo, Senior Managing Director  
Yoshiyuki Osawa, Managing Director  
Tatsumi Yamaguchi, Director

### Q1 Regarding rising raw material prices

The prices of raw materials you use such as spices, flour, palm oil and soybean are rising noticeably. What is your stance on price revisions in Japan, the United States and China and what assumptions about rising raw materials prices do you make in your forecasts for the current fiscal year and next fiscal year?

A1 In Japan, especially when it comes to the Spice/Seasoning/Processed Food Business, prices for raw materials such as spices, flour, fats and oils, and meat are in an upward trend. During the first half, we succeeded in limiting the impact of the increases to some degree but, from the second half through to next fiscal year, we will feel the effects and currently anticipate prices rises of around 1.0 billion yen in the current fiscal year and around 0.7 billion yen next fiscal year. Whilst absorbing the price increases through cost reductions, we also intend to come to a decision on whether or not we need to revise our prices.

In the United States, soybean prices and prices for tray raw materials have surged, and we anticipate an impact of around 0.2 million yen in the second half of this fiscal year, mainly due to trays, and around 0.6 million yen next fiscal year, primarily owing to rising soybean prices. We have already made price revisions this fiscal year but think we will be forced to make further price revisions in quick succession next fiscal year and are currently preparing for this.

In China, we suffered an impact of approximately 0.1 billion yen, chiefly attributable to oils and certain spices. Whilst also assessing CPI movements, we are also considering price revisions as an option.

### Q2 Regarding top line of Spice/Seasoning/Processed Food Business

Explain the factors behind sales of curry roux, which, in the challenging conditions of the first-half environment, appears to have had a particularly hard time.

A2 In our view, the first-half decline in sales of curry roux is mainly attributable to four factors.

The first is due to the characteristics of curry rice as a meal. With opportunities for in-home meals increasing during the COVID-19 pandemic, many customers sought more variation in their meals. Curry rice is the dish most frequently eaten as a family evening meal. Amid the psychological insecurity experienced during the COVID crisis, curry rice continued to be eaten very frequently but it was difficult to offer more curry options. In addition, with more people also working from home, there is a tendency for people to eat curry more frequently at lunchtime. For lunch, retort-pouched curry products are the most popular choice and we also strengthened our product offering, but we then had to contend with the fact that when people eat curry for lunch, they are less easily persuaded to have it for dinner.

The second factor relates to distribution. During the first half, the tendency for mass retailers to refrain from sales promotions to avoid crowding continued and decreased frequency in the uptake of *Vermont Curry* in particular also impacted curry roux sales.

The third factor is an increase in stockpiles at home. Our research shows that many customers stock up on curry roux products to use as and when they need. Psychological insecurity caused customers to stockpile products at home during the previous fiscal year, leading to an

"inventory adjustment phase" in the first half and, in our view, this also had a bearing on the size of the year-on-year sales decline.

The fourth factor related to product supply. During the previous fiscal year, especially the second quarter, our competitors had supply problem to contend with and, in some respects, we had more selling opportunities. We believe that such factors led to the year-on-year decline.

**Q3 Regarding topline of Spice/Seasoning/Processed Food Business**

Your plan is turn around the poor performance in the first-half and achieve topline growth in the second half. How do you intend to generate topline sales given that it will take time for retort-pouched product price revisions to become firmly established and demand for curry roux products is also weak?

**A3 Under the current Medium-term Business Plan, based on the assumption that curry-roux products for home use will shrink by 2-3% every year amid the growing tendency for people to eat out or buy food to eat at home, we plan to increase sales of retort-pouched products, spices and products for food service. We believe that curry roux sales in particular have returned to this scenario recently. We also believe that the impact of the greater-than-anticipated sales decline will diminish and that the sales performance will be fairly level in the second half.**

We have set a curry roux second-half sales target of 99% year on year, to be achieved by strengthening our ability to propose products such as Keema Curry and Butter Chicken Curry that are different from your average curry to meet customer needs for greater variety and also by focusing on expanding sales space in collaboration with mass retailers for products which can be cooked quickly in a frying pan, and one-dish meals.

Our second-half target for retort-pouched curry is 106% compared with level a year earlier. We aim to achieve the plan through firm establishment of the price for Curry-Ya products, which became microwaveable in August and reflect the added value in their price, as well as through increased sales of Pro Quality products which we made microwavable earlier, and the launch of a new mid-priced brand.

**Q4 Regarding growth investment of 40.0 billion yen mentioned in Medium-term Business Plan Explain progress on GOT (Groupwide initiatives), International Business, new domains and M&A respectively.**

**A4 As stated in "Striving for Four Value Chains" on page 9 of the briefing materials, during the first half under review, we decided to make investment in the Spice Value Chain and in the Soybean Value Chain (hereinafter referred to as "VC").**

In the Spice VC, we expanded production lines for large-volume retort-pouched products for food service, which is also consistent with the GOT, in Japan, and also plan to invest around 1.3 billion yen in China to expand production lines at the Zhejiang plant.

In the Soybean VC, we aim to rapidly expand our capacity to meet continued strong demand for tofu in the United States. Through investment of around 7.0 billion yen, we expanded production lines at our core LA Plant and we also acquired third site in Kentucky.

There is currently no progress to speak of on business investment partly due to the restrictions on activity during the COVID crisis.

**Q5 Regarding expansion of production lines for large-volume retort-pouched products for food service in Spice/Seasoning/Processed Food Business**

What is the impact of the new production lines on business strategy and business?

**A5 The new production lines went into operation in July, coinciding with a surge in infections, and are currently being impacted by the difficult business conditions in the food service industry. However, we believe that the market will recover from the contraction and demand for semi-processed products in the food service and home meal replacement industries will grow in the future. Also in terms of our strategy of strengthening BtoB business, we see the new lines as an important investment for increasing the quality and quantity of our proposals.**

Under the Seventh Medium-term Business Plan, we intend to increase House Food Corporation's sales of food service industry products to 20 billion yen, an increase of around 5.0 billion yen from the previous Medium-term Business Plan. We believe that sales expansion of retort-pouched products, which can also be expected to grow in the food service industry, is fundamental to the plan, and we aim to push firmly ahead with this.

Q6 Regarding business in the United States

You are considering narrowing down your products and raising prices to combat higher costs. What are your projections for the scale of cost increases and the contribution of measures to offset higher costs and what is your understanding of the business environment? Also give details of the medium-term potential of business in the United States and your strengths in this context.

A6 Looking at factors behind higher costs in business in the United States, we believe that rising soybean prices will peak next fiscal year and we anticipate an impact of around 0.6 billion yen. Labor shortages are also a cause for concern and we expect that these combined with rising labor costs to secure human resources will have an impact of around 1 billion yen on our profitability next fiscal year. We plan to offset this impact with the price revisions currently under consideration.

Looking at the business environment lately, supply is still too tight to meet strong market demand but, after expansion of production capacity at the LA Plant in 2023, we will to some extent be capable of production according to plan. Meanwhile, at the newly announced third plant in Kentucky, we are striving not only for expansion in production capacity but also utilization of new technology to create added value. I believe that our strength lies in control of texture through the use of tofu coagulation technology and that we have the capability to create clean, pure plant-based food unavailable before. At the new plant, we intend to also take on new challenges in such domains.

Q7 Regarding Functional Ingredients VC

I understand that since April you have reorganized House Wellness Foods to facilitate operation of the Functional Ingredients VC. The Health Food Business in Japan faces difficult conditions not least because of state of emergency declarations. Give details of the effects of the organizational changes.

A7 Let me tell you about the effects of the organizational changes especially the effects of integration of the sales functions of House Wellness Foods and House Foods.

During the first half under review, we focused on expanding products handled by mass retailers by leveraging House Foods' sales strength and on strengthening our ability to make proposals, with a view to making correction to our channel structure. Our efforts targeted at *Ichinichi-bun No Vitamin Jelly* reaped some rewards, with sales via the mass retailer route reaching 136% of the level a year earlier whilst sales via all routes were 114% of the level a year earlier, and with *Ichinichi-bun No Vitamin Jelly's* sales share also increasing 5% year on year, to around 35%. Going forward, we will expand targeted products and reap increased benefits from integration.

Q8 I imagine that the increase in health awareness brought about by COVID-19 had a positive impact on sales. What is your view on medium-term sales growth rate in China and Thailand?

A8 Regarding growth potential of business in China

Currently, progress is in line with the targets under the Seventh Medium-term Business Plan. In the Food Service Business, we believe that, amidst the restructuring of the industry triggered by the pandemic, we will be able to effectively meet the needs of growing business formats such as delivery and that there is scope for continued growth in the future.

Sales of products for household use grew sharply in the previous fiscal amid the trend for increased at-home demand. Sales for the first half under review were affected by the absence of such demand but grew around 15% compared with two years earlier and we believe we will continue to see good momentum for Japanese-style curry in the future. However, looking ahead to the post-COVID era, buying opportunities are becoming more diverse, with e-

commerce and group buying, and the way in which we narrow down our options and strategies will be hugely important.

Regarding growth potential in Thailand. In Thailand, we see market growth on the back of growing awareness of the benefits of Vitamin C for the immune system. However, in terms of growth potential, we expect that, compared with the rapid growth over the three years of the Sixth Medium-Term Plan, growth will be more modest going forward, with an annual growth rate of around 10%. We recognize that, for sustainable growth, it is important to expand demand surrounding vitamins and opportunities for consumption.

**Q9 Regarding Spice/Seasoning/Processed Food Business**

I believe that previously your policy was to offset contraction of the market for highly profitable curry roux products with topline growth and higher profit margins of retort-pouched curry products and to translate this into further growth. Am I right in thinking that you are seeking to improve the profitability of retort-pouched curry products by raising prices and that providing retort-pouched curry sales grow in the future, profit margins will also improve?

**A9 Your summary is correct. The Spice/Seasoning/Processed Food Business is faced with the challenge of figuring out how to maintain overall profitability based on the assumption of contraction in the core curry roux market. The question of how to expand the retort-pouched curry, food service, and spice businesses is key to achieving growth in this mature market. And in the context of the curry business, retort-pouched products are key, and we plan to make use of the capital investments made under the Sixth Medium-term Business Plan to pave the way for topline growth and improvement of profitability under the Seventh Medium-Term Business Plan.**