

FY2021 Results Briefing: Q&A

- Date and time May 12, 2022 (Thu) 3:00 p.m. - 4:03 p.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 price revisions for curry roux products

With food price increases expected to further accelerate, your company has also made a decision. What is your view on the consumer environment after the price revisions? Do you expect the price revisions will be accepted by consumers and distributors?

A1

With the prices of various products being revised, consumers are likely to feel the pinch of rising living costs. We have made the decision to revise the price of roux curry from August. In addition to the inherent economy and convenience of curry menus, we expect the appeal of rice menus to increase as the price of wheat rises. In addition, we believe that menu seasonings such as curry are a category in which brands have a relatively strong effect. Against this backdrop, we believe that the relative superiority of curry as a menu item will increase and that solid demand will continue.

We also believe that seasonings for dishes such as curry is a category in which brand is highly effective in comparison with other categories. This also suggests that we will be able to steadily create demand.

For distributors, the rising cost of materials and energy has become a common issue in the food industry, and we believe that it is relatively easy to gain their understanding.

Q2

At the last briefing (November '21), you previously recognized that there were fewer opportunities to enjoy curry roux products at home. Looking back at the year, have you seen any signs of improvement?

A2

As people learned to live with COVID-19, consumer needs for curry menus are constantly changing.

At the time of last briefing, during the at-home consumption phase, whereas the percentage of households eating retort pouched curry products at lunchtime increased, opportunities to eat curry-roux products as dinner trended down.

However, as we move into the post-COVID era, consumers are tended to return to their previous habits and we believe that this trend may also be reflected in business results for the three months of the fourth quarter.

Q3

Regarding prices revisions for retort curry pouched products

You have excluded *Pro Quality* and *Curry Ya Curry* from the products subject to price revisions. What understanding of the market was the selection of products subject to price revisions based on?

A3

Those two products were freshened up to microwavable pouches in February and August last year, and the added value is reflected in the price. With the price revisions made previously and the current rise in raw materials prices into consideration, we judged that we can still ensure profit in the current price range. Both products are in the low price range, the demand was weak for around one year after the price revisions last year, we came to the decision to exclude these products lines from the latest price revisions.

Q4

If demand is going to remain firm even after the price revisions, could you not make price revisions of a magnitude that also takes risks of uncertainty such as the Ukraine situation into consideration?

There is also the idea of raising prices again over the next fiscal year to offset the cost increase factor, but do you have the ability to put this plan into action?

A4

Though demand is firm, it will likely take time for the new prices to become firmly established and for customers to want to buy the products as they did before.

In order to be able to take the next step in the event that the risks we have identified as uncertain actually materialize in the future, we will work to firmly establish the new prices in the current fiscal year.

Q5

What is your stance on the operating margin of Spice/Seasoning/ Processed Food Business? The operating margin in the fiscal year ended March 31, 2021 was 12%-13% but in the forecast for the fiscal year ending March 31, 2023, you expect the margin to fall to the 7% mark.

Assuming that the impact of rising raw material costs becomes less intense, what level do you expect the margin to return to? Or what are management's thoughts on the level you need to restore the margin to?

A5

In the fiscal period ended March 31, 2021, the operating margin improved in some respects partly due to topline growth during the COVID crisis. We are aiming for an operating margin for this segment to be 10% on a stable basis. We will address various factors, including uncertainty, in the Seventh Medium-term Business Plan (FY2021-FY2023),

And hope to bring it to a stable pursuit in the Eighth Medium-term Business Plan (FY2024-FY2026).

Q6

Regarding the tofu business in the United States

Looking at the three months of the fourth quarter only, the business reported decreased sales and an operating loss on a local currency basis.

Please explain what is happening at the moment and what measures are being taken to improve profitability.

A6

During the fourth quarter, we, like other companies, were hit by increased costs including higher raw material and delivery costs, reflecting rapidly rising inflation in addition to driver shortages, estimated at 80,000 across the U.S.

Although strong demand for TOFU continued, these circumstances forced us to cut a large number of orders, and at the same time, many of our logistics staff left. The logistics staffing situation is becoming more stable and we believe that this was a temporary problem.

Since the U.S. is a pull market, we intend to focus first of all on adjusting the production and supply volume but to do this, it is important to attract and retain staff. Faced with a persisting situation where it was impossible to secure staff even at higher hourly rates, we had been struggling to recruit. However, this problem has started to be resolved recently. Going forward we are planning to improve production efficiency, both by increasing production volume and by continually reviewing the items.

Q7

Regarding the curry business in China

I understand that, during the fiscal period ending March 31, 2023, the curry business in China is expected to grow and you plan to make price revisions despite lockdowns.

How much do you expect the business to be impacted by lockdowns? Please give details of both risks and opportunities.

A7

Starting with the price revisions, we have considered this matter carefully because the Chinese market is a conservative market relative to its rising GDP. The price revision has been in effect since April, and we believe that it has been smoothly accepted, in a positive sense, as it has been unexpected, with nationwide demand for forward buying demand in advance of price revisions and demand related to stockpiling in anticipation of lockdowns.

Regarding the impact of the lockdown. In terms of production, of our three production sites, the Shanghai plant was shutdown from March 11 until very recently, while the two plants in Dalian and Zhejiang were in full production. We believe that our experience of shutting down operations due to sporadic lockdowns, power outages, etc., and the fact that we have increased our stock points throughout China has also been successful, and we now have a better prospect of overcoming the crisis as a whole. Meanwhile, given that the Shanghai area is a major sales area, our business was hit fairly badly. There were, however, some positives, for example, partly thanks to the valiant efforts of our local employees, *Vermont Curry* was adopted as government's relief supplies.

The adoption of *Vermont Curry* as government's relief supplies will unintentionally create more opportunities for people to enjoy it and is, therefore, a chance for people to experience its great taste, and we believe it is important to link this to our future strategy.

Q8

Regarding the use of capital

Capital investment in the previous fiscal year ended March 31, 2022 was 12.4 billion yen, a significant decrease from the initial plan of 18 billion yen. Against this backdrop, you plan to buyback 6 billion yen of treasury shares this fiscal year, following the 4 billion yen buyback in the previous fiscal year. With raw material prices soaring, surely it would be better to increase capital expenditure and apply funds to improve productivity. Please explain why you reduced capital investment and are buying back treasury shares.

A8

There is no link whatsoever between the decision made about capital expenditure and the decision made about the share buyback, as you assume.

As you have pointed out, capital expenditures for the fiscal year ended March 31, 2022 decreased by 5.6 billion yen from the initial plan, but 80% of this decrease was due to the delay in the timing of investments. On the other hand, our investment in overseas business is at a higher level than planned. We would like to ask for your understanding as we intend to aggressively invest in the medium-term plan span and move toward our ideal situation. In the Seventh Medium-Term Business Plan, the Group has set a policy of acquiring 12 billion yen in treasury shares by 20% reduction in cross-shareholdings. In the fiscal year ended March 31, 2022, which is the first year of the plan, we made treasury share purchases in line with this plan. In the second year we will continue taking action in line with the plan.

Q9

Regarding the operating profit target for the final fiscal year of the Seventh Medium-term Business Plan (fiscal year ending March 31, 2024)

There seems no changes at this point, and you plan to increase operating profit by almost 8 billion yen from 18.4 billion yen in the fiscal year ending March 31, 2023, in the second year of the medium-term plan. How do you plan to bridge this gap?

A9

We judged that in an uncertain environment like the one we face now there was not much point in changing the medium-term business plan targets.

Under our Seventh Medium-term Business Plan, we are implementing initiatives in relation to four value chains based on backcasting from our vision. We believe it is possible to implement reforms by unwaveringly focusing on the things which need to be done in the post-COVID era.

Q10

Regarding progress on priority themes under the Medium-term Business Plan

Although there were disclosures of progress on GOT (initiatives to be conducted beyond the boundaries within the Group), such as the reorganization of the spice production sites, I believe that your company's medium-term plan often looked at the timing of return realization over a long period of time, and as a result, it was often pushed back. Is it not possible to speed up the initiatives of the medium-term plan, including implementation of the GOT initiative themes?

A10

The reorganization of spice production sites is an effort to optimize the Group as a whole while continuing production at the plants. Our efforts to optimize production lines for curry roux products also took us a comparatively long time.

In our view, we need to implement the GOT initiative themes over the course of two medium-term business plans, whilst also getting employees to work on them, and without any halt in production.

Q11

Predictions about the future operating environment are probably going to have taken factors such as soaring consumer prices and falling real disposable income into consideration.

Do you ever think that you need to change your management strategies?

A11

I think your question boils down to how to run Japan's society and economy given the tight squeeze on disposal incomes. I fear that if things carry on as they are, Japan will ending up sinking.

We have been focusing on not only on business, but also on priority themes of each of our "Three Responsibilities" (for our customers, for our employees and their families, and for society) since the Sixth Medium-term Business Plan (FY2018-FY2020).

This price revision is something we must implement as a Group, but I think it is important for us to be more aware of our "Three Responsibilities" and transform ourselves into a system that enables us to manage our business sustainably, in order to ensure our future sustainability. For example, from the perspective of "For employees and their families," we are currently working on reforming our personnel system. It will be important to combine improvement in productivity and job satisfaction to enrich the lives of every single employee.

Another important point is that each of the businesses we are expanding overseas needs to fund its own growth. We are expanding the tofu business in the United States, the curry business in China and the functional drink business in Thailand, but in the past, growth in each area has been funded by House Foods, which acts as a cash cow. Now, the curry business in China can fund some investment by itself. We believe that, in the functional drink business in Thailand, we are starting to develop the necessary framework through the establishment of House Foods Group Asia Pacific. That leaves the tofu business in the United States. Although this business has seen a slight drop in its operating margin, we believe it is possible to make this a sustainable business that achieves growth with its own resources.