

FY2022 Results Briefing for the First Half: Q&A

- Date and time November 10, 2022 (Thu) 10:00 a.m. - 11:34 a.m.
- Method Real-time streaming
- Q&A Panel Hiroshi Urakami, President
Yasukatsu Hiroura, Senior Managing Director
Masahiko Kudo, Senior Managing Director
Yoshiyuki Osawa, Managing Director
Tatsumi Yamaguchi, Director

- Q1 Regarding the extent to which price revisions have taken hold in the Spice/Seasoning/Processed Food Business
To what extent have new selling prices taken hold and sales volumes recovered since the price revisions of core products in mid August? Also, what is your pricing policy, for example, are additional price increases possible given that costs are expected to be higher than initially anticipated?
- A1 We introduced price revisions for core products especially curry roux products from August 15. The switchover of standard selling prices was mostly completed by September and the special prices are also taking hold at a new price.
We expected that sales volume would fall sharply in the early days after the revision and take some time to recover; however, with the prices of many products going up, there was virtually no temporary demand before the price revision. In the absence of such stockpiling by distributors and households, we suspect that sales volume will recover slightly earlier than anticipated and have therefore revised our initial projection.
We are currently considering implementing various measures based on the assumption that cost conditions will remain challenging in the second half and the upward pressure on prices will persist into the next fiscal year. For this and other reasons, our first priority is to firmly establish the new selling prices.
- Q2 Regarding recently acquired US manufacturer Keystone
The PBF market is apparently slowing due to inflation. Has Keystone's performance also been negatively impacted? Also, how do you plan to realize synergies with Keystone in the future?
- A2 Whilst the PBF market is still set to grow in the long term, there have been some signs to the contrary recently due to high inflation. Even under such operating conditions, Keystone's topline still shows higher than projected strong growth. In addition, we implemented price revisions in October and profit is also expected to improve going forward.
We are considering the realization of synergies on two timelines: short-term synergies in areas such as the rationalization of procurement and medium-term synergies in areas such as brand and network strategy. We intend to effectively utilize the differences in our business styles and work to generate synergies for both companies.
- Q3 Regarding the ROS of the Spice/Seasoning/Processed Food Business
ROS in the second quarter was 3%, falling sharply from 8% in the first quarter. Has ROS bottomed out? Also, you have explained before that the ROS target is 10%. Do you need to change this target?
- A3 Profitability declined because recent cost increases, especially higher raw material costs, took their toll and price revisions also had a limited effect in the second quarter; however, in the second half, the price revisions will pay off and we have set a ROS target of 8.6%, and we expect to be able to restore profitability through the implementation of various measures.
Our core products, especially curry products, are important, attractive menu items, supporting meals at home. We recognize that the pursuit of profitability alongside the fine-tuning of this business is imperative. Through initiatives such as integrated branding, further strengthening of cost competitiveness and enhancement of profitability amidst the general shift away from cooking roux-type products toward ready-made retort-pouched products, we intend to achieve ROS of 10%.

- Q4 Regarding the Health Food Business
One year on from the integration of sales functions with House Foods Corp., the Health Food business moved back into profit and also reported topline growth for the first half. What things went well? And, will the Health Food business be able to maintain profit growth going forward?
- A4 In the Health Food Business, we were not over-optimistic about recovery of *Ukon No Chikara*, and we focused on transformation of the profit structure including improving the profitability of the vitamin business and reducing fixed costs. These efforts paid off in the first half under review. Transformation of the profit structure still has a way to go and we intend to further increase profitability by continuing to focus on structural improvement going forward.
From a growth potential perspective, we will accelerate the overseas expansion of the lactobacillus business and the expansion of the vitamin business focusing on ASEAN and ensure the growth potential of the Functional Ingredients Value Chain (VC).
- Q5 As the holding company, what is your approach to the dramatically rising costs in each of the Group's businesses?
Also, you set an operating profit target for the final fiscal year of the Seventh Medium-term Business Plan of 26 billion yen and a ROS target of 8.5%. What is your view currently?
- A5 Since transitioning to a holding company structure, we have adopted a management style of delegating authority to operating companies and we respect the judgment of operating companies when it comes to the latest prices revisions. This style works in normal times but the current predictions cannot be considered special factors limited to the current fiscal year along, and we are discussing the action to be taken as a group.
Whilst we assume that the upward pressure on prices will persist into next fiscal year, it is currently difficult to accurately foresee the business environment next fiscal year and we decided not to make any revisions to our Medium-Term Business Plan targets on this occasion.
However, as a group need to adopt a back-casting approach in order to achieve the goal of developing the Four VCs set out in the Seventh Medium-Term Business Plan. As we are entering the second half of the Seventh Medium-Term Business Plan, we believe that accelerating initiatives based on a back-casting approach, while taking initiatives based on both forecasting and back-casting, will fundamentally enable the Group to strengthen its business base and resilience.
- Q6 Regarding the curry business in China
Explain the business environment in China given that the Community Party congress is now over and the zero COVID policy is expected to remain in place for the time being.
- A6 As you point out, we need to base our business operations on the assumption that the zero COVID strategy will remain in place for the time being.
In the first half under review, economic activity continued to stagnate due to lockdowns, leading to unpredictable operating conditions; however, we managed to keep our business results at a certain level through the establishment of high level of inventory, multi-location fulfilment, and nationwide deployment of sales personnel. I feel that building a system that allows us to switch from the accelerator to the brake pedal at any time is the key to the survival of our business in China in the future.
- Q7 Regarding the thrifty behavior of consumers
In terms of your product portfolio, I imagine that thrifty behaviors on the part of consumers could present opportunities. With consumers currently seeming to be adopting thriftier behaviors, I wonder whether this is having a positive impact on your business results?
- A7 The reality is that there does not really seem to be a tendency for livelihood protection type food purchases at the moment. I imagine that if the need to protect livelihoods increases, this could lead to a scenario where cooking at home increases and purchases of perishable foods and basic seasonings grow; however, I hear in my conversations with distributors that sales of ready-made food are strong and sales of perishable foods are struggling.
As you might expect, simple, convenient, satisfying products perform well and it is our understanding that products like our retort pouched curry products are on trend in this respect.

- Q8 Regarding ability to adapt to changes in the external environment
I expect that, precisely because raw material costs are now actually rising, you have had to accelerate structural reforms including initiatives conducted beyond the boundaries within the Group (“GOT”). Especially in the Spice VC, I imagine you have managed to reduce the impact on business results as structural reforms have progressed, right? Give details of other initiatives which reflect your commitment to profit besides price revisions.
- A8 We take your comments seriously regarding your impression of the pace of implementation of the GOT; however, the GOT are not simple tasks that will yield beneficial results in time to protect against the enormous wave that is higher costs; rather they are themes we need to sit down and work on in order to realize synergies. We are steadily moving to the implementation phase, with the optimization of our spice packaging network and the integration of Gaban with the BtoB business of House Foods Corporation from April next year, and will focus on realizing synergies.
- Q9 Regarding the curry business in Indonesia
Your equity interest in the new company is 49%. Why did you launch the business as a minority stakeholder? In terms of your future strategy for the curry business in ASEAN, is it right to be the minority stakeholder do you think?
- A9 The newly established joint venture will be in charge of the sales function and given the special characteristics of distribution in Indonesia, we needed a local partner capable of distributing to the traditional market and we came to the conclusion that it was okay to be the minority stakeholder in that area of operations. However, the individual we are sending will be in charge of marketing and sales operations, giving us a grip on the business.
A wholly owned subsidiary of the House Foods Group will be in charge of production operations, which is the area that is important for a manufacturer, and together with our business partner, we will speed up the growth of the business by complimenting each other’s strengths.
* The new company PT Sasa Housefoods Indonesia will be our consolidated subsidiary (shareholding ratio: 49%)