

FY2022 Results Briefing: Q&A

- Date and time May 11, 2023 (Thu) 1:00 p.m. - 2:04 p.m.
- Method Real-time streaming
- Q&A Panel Hiroshi Urakami, President
Yasukatsu Hiroura, Senior Managing Director
Yoshiyuki Osawa, Senior Managing Director
Kotaro Kawasaki, Managing Director
Tatsumi Yamaguchi, Director

Q1 Regarding the International Food Business

The business environments in the United States, China and Thailand are all different. What is the current earning environment in each market? What kind of measures will you take to achieve further growth? What are your future strategies?

A1 In the United States, inflation is easing; however, the consumption trend in our target market is somewhat sluggish. Consumers appear to be adopting a more defensive stance toward spending and the prices revisions made last November have less effect.

As for future strategy, expansion of production capacity will be the focus. Production capacity increased by 15% with the entry into operation of the new lines at the LA Plant in June this year. At the same time, we will also work on expanding new accounts. Another focus will be how to achieve the successful PMI of Keystone, which joined the Group in September last year. We will be working to strengthen Keystone's business, with emphasis on more efficient indirect spend management.

Market conditions in China are uncertain, with not much room for optimism; however, curry demand is growing in every city both in terms of breadth and depth of opportunities, and we intend to achieve sustainable business growth by continuing to target Shanghai and the Beijing Metropolitan Region.

In the functional drink business in Thailand, the environment has changed since the third quarter of FY2022. First, we are affected by the sales measures of Osostpa Beverages, our local sales partner. Second, the domestic migration trend has changed now that the pandemic is coming to an end, and there is movement of the population away from the rural areas and into urban areas. Third-quarter sales fell; however, we knew that there was firm demand for vitamin drinks and so in the fourth quarter, we accelerated product distribution with emphasis on traditional trade. As a result, distributors' inventory levels increased partly due to the changes in the environment post COVID and we must, therefore, expect distributors to use up their inventories in FY2023, a factor which is also reflected in our FY2023 forecast. Going forward, we will seek recovery of demand in traditional trade, which is the main sales channel, and we also intend to put effort into developing products that meet needs in the fragmented vitamin market.

Q2 Regarding House Foods Corporation

What is the new President Kawasaki's understanding of the issues faced by House Foods? Also, what will you focus on first and foremost to improve earning power in the future?

A2 I believe that the biggest challenge facing House Foods, besides carrying through with the price revisions this fiscal year, will be to further improve the business base for sustainable improvement in earning power in view of various changes in the social environment, including the recent surge in costs. In collaboration with the Group, House Foods will continue considering a wide range of ways to improve earning power, including groupwide productivity improvements and cost reductions and a review of the product development process.

House Foods' role within the Group over the past ten years has been to generate stable earnings; however, going forward, I believe it will also be important for House Foods to have some degree of involvement in the Four Value Chain strategy, especially the Spice Value Chain, and to consider themes and ways for contributing to group growth.

- Q3 Regarding the price revisions of products in Spice / Seasoning / Processed Food Business in August, what went well and what were the problems?
- A3 Last year, we implemented price revisions for packaged noodles in June, spices in July and curry products in August. Due to their very nature, curry roux products took time to recover; however, we believe that sales recovered as planned in the fourth quarter.
- The problem with last year's price revisions was the strength of the recovery after prices were revised. After the revisions, marketing measures were implemented slightly too late. For this June's price revisions, we have formulated marketing strategies early and plan to carry out promotions directly after the price revisions without any pause.
- Also, last time, we implemented a wide range of measures to make sure retail prices were not lowered in order to firmly establish the new prices. We learned the most effective sales promotion methods based on the results of the measures implemented and tried to vary measures according to the circumstances and were therefore able to keep our marketing costs over the three months of the fourth quarter mostly in line with estimates. The lessons learned from the previous fiscal year which we will adopt this fiscal year are to strategically use marketing costs.
- Q4 Regarding the business in China
- The consumption environment in China appears to have changed fairly dramatically since the surge in COVID cases at the end of last year, with more movement of people in February and March this year. What impact has this had on your business?
- A4 There has been no marked change but demand for cooking at home appears to have weakened since March, with resumption in the movement of people. However, we recognize that the curry business in China is not in the mature market phase like the domestic curry business; rather we are still advancing into untapped areas and that there are, therefore, measures for sustainable growth we could implement.
- Q5 Regarding House Foods Corporation
- You seem to be responding to changes more quickly, with the implementation of price revisions from June, for example. Your brand strategy also feels different, with the launch of a retort pouched Vermont Curry product, for instance. What changes are currently taking place at House Foods?
- A5 There has been no major change in our brand strategy. Regarding the retort pouched curry product you gave as an example, we have always preferred to have a strategy for each price bracket and we have been working on strengthening brand power in the mid-price range. Our retort pouched Vermont Curry products sell well and our approach of improving the earning power of the retort pouched product category overall by increasing sales volume in the mid-price range is the same as before.
- However, our approach to the timing of price revisions and the revision amount has changed and our approach to the coming price revisions reflects a rather cautious estimate that raw material prices are likely to remain stubbornly high in the future.
- Q6 Regarding PBR and ROE
- Your PBR is around 1.0. What is your understanding regarding your PBR? Also, how do you plan to improve your ROE?
- A6 If we think of the P/B ratio as P/E ratio times ROE, we recognize that there is an issue with our ROE given that our P/E ratio is comparable with the industry average. To improve our ROE, we are also focusing on financial strategies in addition to business strategies under our Seventh Medium-Term Business Plan. We recognize that the problem with the Group's balance sheet lies in how to transition from surplus funds to the generation of returns from business investments and, to address this issue, in January last year, we established the Investment Committee as an advisory committee to the House Foods Group Management Committee. We are discussing the subjected investment from the perspective of investment return. We will continue to work on improving ROE by balancing our business and financial strategies.

Q7 When it comes to responding to changes in the external environment, for example the June price revisions, your decision-making seems slightly quicker than before. How has the approach of the Group headquarters changed?

A7 After transitioning to a holding company system, we adopted the style of delegating authority to the business companies and dividing responsibilities between House Foods Group, Inc. and business companies; however, we recognize that faced with the likelihood of unprecedented cost increases and suchlike, we also need to discuss things together rather than dividing responsibilities. In a break from the usual way of doing things, we intend to formulate the growth story toward the next Medium-Term Business Plan based on much discussion between House Foods Group, Inc. and the business companies, as the current business environment outlook cannot be considered as a special factor only for this fiscal year.