

## FY2023 Results Briefing for the First Half: Q&A

- Date and time November 8, 2023 (Wed) 13:00 p.m. - 14:08 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 full-year revised plan for FY2023

You have maintained your initial forecast for consolidated operating profit of 20.0 billion yen, expecting the downward revision for the International Food Business to be offset by business in Japan. Does this reflect stronger corporate governance as part of the Group's head office functions or improvement of profitability at each operating company in Japan?

### A1

We attribute this to the higher profitability achieved by each operating company in Japan. At House Foods in particular, the price revisions initiated in the first half have begun to pay off. I feel House Foods' approach to price revisions this fiscal year reflects its internal review of the previous fiscal year's prices revisions and feedback from analysts and institutional investors. Other operating companies have also been focusing on improving profit and I believe that the results of this are apparent in this fiscal year's first half results.

### Q2

Regarding the International Business

Can the International Business get back on track for growth? What is your outlook for the second half and next fiscal year?

### A2

In the tofu business in the United States, expansion of production capacity was an issue that needed addressing; however, the new production facility launched in June 2023 is running well and, even assuming annual production volume growth of 7%, we now have the production capacity to accommodate this. Going forward, it will, therefore, be important to step up sales and marketing to match production. To strengthen the overall profitability of the tofu business in the United States, we need to improve the profitability of both the existing tofu domain and the plant-based food domain, which is Keystone's specialty. Initiatives to improve production efficiency such as the introduction of labor-saving production facilities would be effective, especially in the existing tofu business; however, I think we need to review the investment amount in light of the impact of persistent inflation.

In China, although there is firm demand in the food industry in which we operate, business confidence in China has deteriorated and the market has also been disrupted by distribution price measures. The *Vermont Curry* that we sell is an appealing product that has garnered support from many customers; however, in light of current business confidence, I think it will be difficult to maintain our previous business growth solely with a non-essential

high added value item like *Vermont Curry* and we will need to develop new products and new businesses associated with curry roux in the future.

As for the functional drink business in Thailand, the market for vitamin beverages grew during the COVID-19 pandemic, bolstered by special demand; however, the market has changed dramatically in the wake of the pandemic and market contraction of around 25% compared to the peak is forecast, partly due to the loss of customers to other beverage categories and the reduced purchasing capacity of the TT channel. On the other hand, given that recent market research suggests deep-rooted demand for vitamin C and that we are also still market leader, I believe that we can continue to keep this business going as a decent-sized business in the future. Going forward, we will set a new target for net sales, and focus on stepping up sales promotions for each sales channel, nurturing and firmly establishing products to meet increasingly diverse demand for taking vitamins, and running a communication campaign to stress once again the value of taking vitamins in the post-COVID era.

Q3

What preparations for the next Medium-term Business Plan have you made this fiscal year, which is the final fiscal year of the Seventh Medium-term Business Plan?

A3

The key feature of the Eighth Medium-term Business Plan is that there will be greater integration between the Group's Medium-term Business Plan and the business plans of the operating companies. After transitioning to a holding company system, we implemented initiatives by dividing responsibilities between House Foods Group, Inc. and operating companies; however, the dramatic changes in the environment since the COVID pandemic made us realize that we need to discuss things together rather than dividing responsibilities. Realizing we are in a stage of transformation, including transformation of our core businesses, we have changed the usual way of doing things and are formulating the next Medium-term Business Plan based on much discussion between House Foods Group, Inc. and the operating companies, mainly House Foods Corporation, about how to write our growth story. In addition, from the Seventh Medium-term Business Plan, our flagship policy has been striving for the Four Value Chains. We have discussed what we need to do to further implement this concept under the next Medium-term Business Plan.

Q4

Regarding Spice / Seasoning / Processed Food Business

The business appears to be doing very well, turning around and posting increased profit. What is the latest on the price revisions for mainstay products such as curry roux and retort pouched curry products implemented in June this year? Also in what way were new product launches such as the launch of *X-Blend Curry* beneficial for the first-half results?

A4

The price revisions implemented in June this year are currently proceeding mostly as planned. To update you on the main categories, demand for curry roux products dropped temporarily directly after the price revisions; however, I understand that sales promotions in the curry roux category as a whole have gone to plan, partly thanks to the launch of new *X-Blend Curry* products. Market stimulation through the launch of affordable products in line

with customer tastes and preferences reaped rewards. We will continue working to revitalize the whole category and bring about a recovery in demand.

In the retort pouched curry category, the situation varied between low-priced products and mid-range and high-end products. I think low-price products garnered sufficient support, with sales mostly unchanged year on year, functioning as a safe-haven for customers in the cost of living crisis. On the other hand, mid-range and high-end products appear to have struggled somewhat, partly because the latest price revisions made them slightly less affordable for customers, and we recognize this as an issue that needs to be addressed in the second half.

Q5

The full-year revised plan is based on the assumption of considerable improvement in marketing costs. What is behind this assumption? Are you confident the price revisions will be accepted without any investment in marketing or has there been a change in the competition environment? Might you take similar action again in the future if there are further cost increases?

A5

We recognize that, at the time of the price revisions implemented the previous fiscal year, we failed to sufficiently prepare marketing measures for directly after the revisions and that there were therefore still issues with the effective deployment of marketing costs. This fiscal year, we raised demand before the price revisions by running sales promotions such as the *Vermont Curry* 60th Anniversary campaign. I also think that, after the revisions, we rolled out marketing measures strategically and effectively, for example, implementing sales promotion campaigns to coincide with store price increases and launching *X-Blend Curry*. In the second half, we can allow a reasonable period after switching over to the new prices before starting to rebuild demand and I believe we will be more cost efficient than in the previous fiscal year.

As regards cost increases, we expect market prices to remain high next fiscal year, but we need to consider the impact of exchange rates and rising delivery costs and processing costs as a result of higher labor costs. However, given that full-scale recovery in demand is expected from the second half onwards and that the price revisions will still have some effect next fiscal year, I believe we are currently well positioned to defend ourselves against rising costs.

Q6

Regarding the ROS of the Spice/Seasoning/Processed Food Business  
At the time of announcement of the Seventh Medium-term Business Plan, you set operating profit of 15.1 billion yen and ROS of 11.4% as targets for the Spice/Seasoning/Processed Food Business, but under the full-year revised plan, the targets are now operating profit of 10.7 billion yen and ROS of 8.4%. How will you improve to achieve the amount of operating profit and ROS targeted at the time of announcement of the Seventh Medium-term Business Plan, and what are the Group's profitability drivers?

A6

I believe that the Spice/Seasoning/Processed Food Business is not yet half way to achieving profit margin it should have and I want us to increase profitability by continuing to implement measures to create demand from the second half onwards. There are limitations to what can be achieved simply by controlling marketing costs

whilst maintaining brand loyalty and so from a medium to long term perspective I intend to focus on reviewing the cost structure of the entire value chain.

From the viewpoint of the profitability of the Group as a whole, we recognize that we need to focus on shifting away from our current reliance on the Spice/Seasoning/Processed Food Business for profitability towards a situation where the three value chains, that is, the Spice VC, the Functional Ingredients VC and the Soybean VC, are driving profit and business growth. The Value-added Vegetables VC is not included because it is positioned as a new business.

Q7

Regarding recovery of the profitability of the Spice/Seasoning/Processed Food Business

Judging from first-half ROS, are you sure you are going to accelerate recovery of profitability in the second half? Is there a plan, for example, key points for reconfiguration of the product portfolio?

A7

We implemented price revisions from June onwards and, as you will be aware, the price revisions will have limited effect in the first half compared to the second half. We have set a second-half target of ROS of 10% or higher and believe we have every chance of recovering profitability. Our plan is basically to increase demand in a well-balanced manner for each product; however, curry roux will be a key profit driver and we are planning to ensure that this category continues to drive the profit recovery in the second half. Likewise for stew products, we renewed *Stew Mix* products (separating the contents into 2 bags) and will focus on increasing the provision of value that is not influenced by seasonal factors, for example, sales promotions for use as a seasoning in dishes other than stew.

Q8

Regarding the cost environment surrounding the International Food Business

I imagine that costs in each of the regions you operate have increased more than anticipated due to inflation. What is your cost outlook in this business?

A8

The tofu business in the United States not only had to contend with higher costs such as energy costs and logistics expenses but also with the amortization of goodwill and other intangible assets associated with the acquisition of Keystone and the depreciation of the new facilities that went into operation in June this year. A key question for this business is how to convert these business investments and capital expenditures into sales and profit and I want us to properly generate synergy with Keystone and translate this into business growth.

In the curry business in China, almost all the raw materials and materials are sourced in China and so I do not envisage any great increase in costs.

In the functional drink business in Thailand, I believe we can continue to maintain a high level of profitability in the future because our core *C-vitt* products are very profitable and there is no need for large-scale capital investment or marketing expenditure.