

Briefing Materials for FY2022/2Q (July 28, 2022)

Question and Answer Session

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Q1

I would like to ask you about your outlook for soaring raw materials costs in the next fiscal year. Your projected cost increase for the current fiscal year is 5.1 billion yen, an increase of 1.9 billion yen from the initial estimate of 3.2 billion yen. However, please tell us the reason for the soaring raw materials costs of 5.1 billion yen?

Also, what is your forecast for soaring raw materials costs for the next fiscal year, considering that the crop of tomato paste is about to switch from now and that the depreciation of the yen will also have an impact? Please provide quantitative figures as well.

A1 (Yamaguchi)

For the 3.2 billion yen in cost increases initially projected for this fiscal year, 1.9 billion yen was accumulated during the period, half of which was due to raw materials costs, in other words, unit costs. Next, 0.5 billion yen was for foreign exchange and energy prices, mainly due to raw materials costs unit prices in the current period higher than initially expected.

In terms of the outlook for raw material costs in the next fiscal year, we project that raw material price hikes will continue in the next fiscal year. The production of this year's crop of tomato ingredients, our main raw material cost, has just started in the northern hemisphere, and it will take some more time before production volumes and prices can be determined. Therefore, it is not possible at this time to ascertain all raw material cost increases for the next fiscal year, so we are not in a position to provide quantitative figures.

Q2

Would it be correct to conclude that given the weak yen exchange rate and the current inventory held in 2022, which is basically a high level of raw material costs, and given the 5.1 billion yen increase in raw material costs in the current fiscal year, it is highly likely that the next fiscal year will also see a certain level of high raw material costs?

A2 (Yamaguchi)

Yes, that is right. As I stated earlier, we project this sharp rise in raw material prices will not subside even in the next fiscal year.

Q3

I would like to know the breakdown of raw material costs. Of the cost increase of 5.1 billion yen, could you please explain whether the increase in the unit cost of tomatoes, the unit cost of packaging materials, or the unit cost of carrots is responsible for the 5.1 billion yen increase in cost, and what exactly was the impact of the increase in the unit cost of these items?

A3 (Yamaguchi)

As for the additional 1.9 billion yen cost increase, I mentioned earlier that the increase in raw material costs was approximately half of the total cost increase, but the tomato cost increase was originally included within the initial forecast of 3.2 billion yen. The breakdown of the added 1.9 billion yen is, in monetary terms, containers and packaging, apples, and carrot ingredients.

Q4

What is the status of price revisions? Why hasn't your company, the leader of the pack, been able to announce price revisions even though ITO EN has been announcing price revisions since July?

From what I have heard about the situation in the second quarter, we feel that sales of vegetable beverages are not strong, in fact, they are weak. When considering this, we are very concerned about whether you will really be able to pass on the soaring raw materials costs for this fiscal year and next fiscal year to price revisions.

What are your plans for stimulating demand and successfully revising prices, and will you essentially be able to pass on all soaring raw materials costs in price revisions?

A4 (Yamaguchi)

In revising the forecast for this fiscal year, I mentioned earlier that in addition to a 1.9 billion yen increase in the cost of sales over the initial forecast, there is also a 1.9 billion yen decrease in profit due to the divergence in sales from the initial forecast. Considering this

situation, we are considering price revisions to address the soaring raw materials costs. Still, at the same time, we recognize that sales have not risen well in the current fiscal year and that it will be very important from the current fiscal year to the next fiscal year to take measures to address both of these issues.

As explained earlier, we are preparing measures for a recovery in sales for the second half. Thereby, we will engage in activities to improve our sales position, focusing on vegetable beverages and ketchup for consumer use for the current fiscal year. Also, regarding price revisions, we are still at the stage of considering when and to what extent prices will be revised at present. We are considering consumption trends, the competitive situation, and the business environment, so we are not at a stage where we can talk about specific details at this time.

Q5

I am fully aware that we cannot discuss Q4, but am I correct in understanding that the reason why your company has not been able to announce price revisions so far while ITO EN has been able to do so, is that with a weak top line in vegetable beverages, you cannot make solid price revisions without stimulating consumer demand a little more?

Also, considering the 5.1 billion yen cost increase in the current fiscal year and the soaring raw materials costs in the next fiscal year, I am afraid that the current range of ITO EN's price revisions will not be able to absorb the resulting decrease in profits. However, regarding the degree of price revisions, do you believe that your company will be forced to implement a very drastic price revision?

A5 (Yamaguchi)

At this point in time, what we are most concerned about is our top line. In the first half, sales of regular flavors of Yasai Seikatsu 100 Series were 94% year on year. Because of more people staying at home, there was an increase in purchases of large containers of the regular flavor of the Yasai Seikatsu 100 Series, and the impact of that reactionary decline has been significant. Another factor is that sales of personal-size containers at convenience stores have not recovered. Since the regular flavor of the Yasai Seikatsu 100 Series is our largest-selling brand, rebuilding sales of this brand in the second half will be a high-priority issue.

Q6

I would like to hear more about the top line, but ultimately, although you say you are "rebuilding," considering that the first half is also very difficult to begin with, what will be different from the past to stimulate future demand for vegetable beverages? Do you think if different sales promotion measures are implemented compared to what has been done so far, will sales pick up? Could you please tell me the difference?

A6 (Yamaguchi)

To reiterate, sales of regular flavors of the Yasai Seikatsu 100 Series, rather than vegetable beverages as a whole, have been extremely difficult. With regard to the Yasai Seikatsu 100 Series, we began promoting nutritional ingredients that lead to immunity, such as vitamin A, around last year, in response to the growing demands of customers who want to build up their immunity amidst the COVID-19 pandemic.

However, as vaccinations have progressed, I believe that this point of appeal has lost relevance with consumers. Analysis suggests that this may have slightly reduced the motivation to drink the regular flavors of the Yasai Seikatsu 100 Series.

From the second half, we plan to switch our promotional activities to once again emphasize the base value of the Yasai Seikatsu 100 Series, which is a "delicious way to consume vegetables," its original value. We plan to rebuild sales once again starting this fall with activities that change the selling points of the products that are at the center of our marketing efforts.

Q7

We still feel that it will be very difficult to grow organically, but I believe that there has been some reaction to your company's current inorganic implementation and your entry into plant-based foods and plant-based beverages. How does your company feel about that reaction? I would like to know the reaction, including your efforts with NEC.

Also, I believe there was talk about overseas M&A when the Mid-Term Management Plan was announced, but if you have anything quantitative to share, including this update, please do let us know.

A7(Yamaguchi)

At the time of the announcement of the third Med-Term Management Plan, we talked about pursuing both organic and inorganic growth. In terms of inorganic, we are considering various

projects for this, but due to confidentiality and other issues, it is quite difficult to explain what is in the process. For this reason, we are disclosing information about our NEC and TWO discussions in order of what has actually been decided.

To give you an idea of the reaction, dedicated organizations such as our newly established Business Development Office and the US Growth Strategy Department, are considering various projects, and they are reacting very well.

However, at this time, I am unable to provide quantitative information, so I intend to introduce the results one by one, starting with those that are at the stage where they can be publicly announced.

Q8

In addition to price revisions, what other measures are you taking to respond to the sharp rise in raw material costs? With the Mid-Term Management Plan set forth at the last briefing, I believe that the downward revisions are mainly due to the impact of the sharp rise in raw material prices. Still, I am interested in what measures, other than price revisions, you have taken as measures to address this issue. Could you please tell us about that?

A8 (Yamaguchi)

As for measures other than price revisions, we will continue with activities toward inorganic growth to 2025 and various business explorations, so I hope you will consider this as the base. In addition to these, a major issue for the current fiscal year is how to restore demand for vegetable beverages and how to stimulate demand, and we are currently considering this issue.

We also intend to continue our Let's Eat Vegetables Campaign as we move forward with this Mid-Term Management Plan for 2025. This is one of the major bases for our medium- to long-term growth, and we will continue these activities to find out how much we can change the behavior of Japanese consumers to consume more vegetables in order to overcome the lack of vegetables in the Japanese diet.

In short, in addition to the Let's Eat Vegetables Campaign and inorganic activities, we have been making efforts to stimulate demand for vegetable beverages on the organic side during the first half as a major issue.

Q9

This time, the core operating income area, in particular, has been revised downward significantly, but I feel uncertain whether your plan for FY2025 can be achieved, given the fact that the current measures other than price revisions are not working as well as they could be. For this particular issue, I believe investors are not quite convinced by the measures taken to absorb the soaring prices of raw materials. This is because it is inconsistent with your 7.1% core operating income target for FY2025.

You have made a downward revision for FY2022, but what is your thinking for FY2025?

A9 (Yamaguchi)

As I explained earlier, the qualitative and quantitative targets for 2025 in our third Mid-Term Management Plan remain unchanged at this time.

Recently, there have been some significant deviations from the original plan, but, in light of these deviations, we are planning to expand and reconfigure our activities toward FY2025 to meet the initial target from now on, including inorganic activities.

Q10

Within the explanation of the financial results for the direct marketing business, there is an explanation that the spending per customer has fallen, but what is your analysis of why this has fallen?

A10(Yamaguchi)

The number of regular customers has increased due in part to the effects of advertising, but spending per customer has declined in the first half.

In our internal analysis, we believe that consumers are becoming more and more budget-minded and that there were many customers who cut back on the number of orders they place per order. Based on this, we are currently considering what measures to take in this second half.

Q11

Are you currently considering any specific measures to address “budget-minded” consumers, as you mentioned in A10? Or do you already have specific measures in

place but are having difficulty explaining them because you currently have competitors?

A11 (Yamaguchi)

Please understand that the situation is a little difficult to explain.

Q12

Hypothetically, if budget-minded or preference for lower prices is the cause, it would be an admission that there are consumers who are reluctant to accept higher prices. I believe that the valuation of your company will not be enhanced unless you can more clearly demonstrate to investors how you intend to respond to this situation. Please tell us how you intend to develop a product strategy for your company that is not limited to the direct marketing business only.

A12 (Yamaguchi)

The order will be first to consider price revisions. In addition, there are various options for measures, including product policies, for the second half and the next fiscal year. We are also considering these options for beverages and food products. As soon as this has been decided, we will make a public announcement, so please give us a little more time.

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