

## FY2023 Results Briefing: Q&A

- Date and Time      May 10, 2024 (Fri) 13:00 p.m. - 14:00 p.m.
- Method              Real-time streaming
- Q&A Panel          Hiroshi Urakami, Representative Director & President  
Yoshiyuki Osawa, Representative Director & Senior Managing Director  
Yasukatsu Hiroura, Senior Managing Director  
Kotaro Kawasaki, Managing Director  
Tatsumi Yamaguchi, Director

Q1

Regarding the International Food Business Give details of the business environment of your business in China and growth potential in China assuming issues are effectively addressed.

A1

In our business in China, distribution was disrupted considerably due to the decline in consumption last year. The CPI in 2023 was 0.2%, and we recognize that China is on the brink of deflation. If we look at the environment of our business in China from a slightly longer perspective, the CAGR of our net sales from FY2019 to FY2023 was 16.2%, which represents progress in line with the Seventh Medium-term Business Plan; however, in FY2023, sales in the household use business fell, partly in a reversal of the strong growth seen in FY2022. We are not optimistic about the business environment as we expect a deterioration in economic conditions stemming from political instability. In such an environment, the implementation of a selection and concentration strategy in the household use business will be key. In the food service business, however, the market has become more open and so we will pivot towards a plan of achieving growth driven by the food service business.

Q2

Why do you expect the operating profit of business in China to be mostly unchanged in FY2024?

A2

Out of the household use business and the food service business, the household use business has higher profit margins and so as we increase the sales component ratio of the food service business, we will need to improve profit margins through product measures, etc. Also, during the COVID-19 pandemic, we held high levels of distribution inventory in case of production stoppages and other risks; however, now the pandemic is over, our inventory levels are slightly too high and so this fiscal year we will reduce inventory to a reasonable level, and this is one factor that will affect our business performance.

Q3

Give details of the business environment in Thailand and growth potential in Thailand assuming issues are effectively addressed.

A3

Let me explain the trend of the vitamin C market in Thailand. Before the COVID-19 pandemic, the size of the vitamin C market was around 300 million bottles on a volume basis but, during the height of the COVID-19 pandemic from 2020 to 2022, vitamin C demand intensified, growing to around 450 million bottles. However, in 2023, at the end of the COVID-19 crisis, the demand that had been focused on vitamin C drinks shifted to an array of other categories, and the market shrank in size to 350 million bottles maximum. We have confirmed that vitamin C demand remains high and we expect market size to return to around 400 million bottles by the final fiscal year of the Eighth Medium-term Business Plan.

Our share of the market stood at around 70% before the COVID-19 pandemic but dropped to around 65% during the pandemic due to an increase in the number of brands; however, most recently, some brands have fallen by the wayside, leaving five brands, and our market share in 2023 recovered to 70% again. Going forward, we intend to get the market back on the growth track through marketing activities, while at the same time ensuring our strong position as the No. 1 brand. The key to achieving the FY2024 plan is to use the new limits for vitamins as an opportunity to focus on product improvements and marketing to energize the vitamin C market. In addition, from the fourth quarter of the current fiscal year, we will launch *One Day Vitamins (Ichinichibun No Vitamin)* as a measure to drive growth in Thailand, further strengthening our growth strategy in Thailand.

Q4

Why do you expect no operating profit growth in your business in Thailand in FY2024?

A4

Our forecast reflects investment to reenergize the market, including the cost of cultivating new products and the cost of reintroducing products that comply with the new vitamin limits into the supply chain.

Q5

Regarding positioning in the Eighth Medium-term Business Plan Your operating profit plan for FY2024 is 21 billion yen against an operating profit plan for the final fiscal year of the Medium-term Business Plan of 27 billion yen. What is the positioning of FY2024 in terms of the becoming more and more profitable?

A5

If we look at the overall picture on a consolidated basis, the initiatives implemented in the first fiscal year of the Medium-term Business Plan will reap rewards in the second and the third year, as you point out; however, if we look at the picture by segment, the situation is different. In the Spice / Seasoning / Processed Food Business, our plan is to achieve almost half the profit growth targeted in the three-year plan during the current fiscal year. In the International Food Business, on the other hand, we recognize that it is crucial to deal properly with the issues that came to light in the final fiscal year of the Seventh Medium-term Business Plan during the current fiscal year before creating our next growth story. In the Health Food Business, we have spent the past two years restoring profitability, with operating profit increasing from 2.0 billion yen two years ago to 2.5 billion yen last year and we believe that we have now reached the limit of the profit growth that can be expected to be achieved through restructuring and increased efficiency. We believe that the growth story going forward involves sowing and nurturing the seeds for expansion overseas and allocating the marketing budget to provide a springboard for the next phase of growth in Japan.

Q6

What is the status of your examination of further price increases in the household use business of the Spice / Seasoning / Processed Food Business and what will prompt you to decide to make further price increases?

A6

In the scenario of a continuous upward trend in costs, including the current issues of rising raw materials costs, labor costs and exchange rates, further price increases would be realistic and we continue to examine them. Recently, against a backdrop of consumption bipolarization, it is also believed that consumers are tired of being thrifty or are holding off purchases and so we are little wary about further raising prices after two consecutive years of price increases. However, we are also planning to make price revisions for chili pepper products in April and for snack products in June based on an assessment of conditions in each category. Also for other items, we intend to make preparations to enable us to make judgments on price revisions flexibly based on an assessment of the market environment.

Thanks to the price revisions made over the past two years, profits are on a recovery path; however, we believe that there are still issues to be addressed and growth potential in terms of

recovery in volume and demand, and now we intend to put in place market conditions that will allow us to make the next round of price revisions while properly taking measures to address the issues that have become apparent in the current fiscal year. We intend to make a judgment on further price increases based on a comprehensive consideration of a range of factors such as recovery in terms of volume, the competition environment, and customer price acceptance. Since the situation also varies for each category, we intend to look carefully at the three perspectives we just mentioned when considering price increases.

Q7

Tell us about your business in the United States, your understanding of the issues to be addressed, and the action you will take.

A7

Our immediate task in our business in the United States is to get back to basics and do what we need to do in terms of sales and marketing. Above all else, the United States has a racially diverse population and the market is also very complex. Since demand has been strong thus far, all we had to do was deal with production challenges; however, I believe that, going forward, it is vital to gain a more finely tuned understanding of the market and diligently meet these market needs. In this sense, PMI with Keystone will be one essential aspect. We are currently making progress with the integration of sales activities as a virtual organization and some optimistic signs are starting to appear. For example, there have been some positive examples where instead of introducing one or two items, we will simultaneously introduce around 10 products through the proposal of products under the three brands House Foods America, El Burrito and Keystone, and I expect there will be much more good news to come.

Q8

Tell us about specific initiatives in the Spice Value Chain in the current fiscal year.

A8

Let me explain progress for each of the GOT we have discussed in plans up to and including the Seventh Medium-term Business Plan. Starting with the BtoB GOT, we integrated our food service businesses in the Spice / Seasoning / Processed Food Business to form House Gaban from FY2023. The purpose of this was to change House Foods' food service business over to a BtoB business model. Internally, we call this the new scrum-based business model and our primary objective in realizing this new business model is to survive in a mature market by increasing customer contact points. The newly formed House Gaban has set out targets of achieving net sales of at least 50 billion yen, which is double the current level, and a ROS of at least 10% over the course of three Medium-term Business Plans. Likewise for our production GOT, our plans at a production site level have been realized. In addition to the reorganization of our spice packaging

bases disclosed previously, we have a number of other objectives, including our initiative to develop new Ichibanya curry sauces. We are pushing ahead, taking the recent changes in the investment environment into consideration and revising our plans accordingly. The most difficult GOT is the procurement GOT. As discussed at the Eighth Medium-term Business Plan briefing on April 18, the question is how to tackle the core issues that need to be addressed. Some have suggested that we should give quantitative targets, even ballpark figures, but we would like to pursue qualitative initiatives a little while longer. Also at a GOT level, initiatives are being implemented to varying degrees and are gradually starting to work.

Q9

Regarding the food service business of the Spice / Seasoning / Processed Food Business I am hoping to see more cross-selling as a result of the merger but how certain are you of success given that this is the business integration of two companies with different corporate cultures?

A9

We have factored the effect of cross-selling into our plan figures for the current fiscal year. As for the differences in corporate culture, we feel that the approaches and target expectations of the two companies have become fairly well aligned in the process of considering the business plan of newly formed House Gaban and the Eighth Medium-term Business Plan. House Gaban aims to be a solutions company and has set itself the target of becoming a company with sales of at least 50 billion yen and a ROS of at least 10% by the end of the Tenth Medium-term Business Plan. The purpose of the integration is to firmly establish a business model for BtoB business as House Gaban. From this perspective, we have set strengthening competitiveness through the establishment of a model for scrum-based development and sales and high-mix, variable volume production and expanding the general purpose-type raw materials business as priority strategies. This is a strategy of harnessing the unique skills that House Foods has honed through this development of delicious curry to sell value added products. We intend to achieve growth by establishing such a business model and putting it into practice in the business domain we need to grow.

Q10

Regarding the profit targets of the Spice/Seasoning/Processed Food Business for FY2024 and under the Eighth Medium-term Business Plan Your plan is to properly restore profitability but what contributions do you expect the food service business and the household use business to make to the segment's business performance respectively? Also, in order to achieve your operating profit target for the Spice/Seasoning/Processed Food Business under the Eighth Medium-term Business Plan, you will need to achieve profit growth of around 2.0 billion yen in the last two years of the Medium-term Business Plan. What measures will you implement to achieve profit growth?

A10

Looking at the Spice / Seasoning / Processed Food Business segment in FY2024, cost increases to the tune of 3.0 billion yen are expected and so our target for the household use business reflects our desire to somehow deliver profit growth by increasing the top line through the implementation of promotional measures to increase turnover of certain products after last year's price revisions flagged up issues and also by controlling operating costs. Given the challenging cost environment of late, this is a year when a little patience is needed in the household use business and, in FY2024, segment growth will be driven by the food service business where overseas markets are recovering and last year's price revisions are still having a positive effect.

As for how we will achieve growth under the Eighth Medium-term Business Plan, our policy for House Foods is to implement restructuring, concentrating resources on curry and spice products, which are our strengths, and to properly maintain and expand the curry roux products business as a revenue source and also expand the retort pouched and spice products businesses as strategic businesses while maintaining their profitability. We will leverage the strength of our curry roux products to promote new products to customers who distanced themselves a little because of price revisions and young housewives and will increase sales of products under our mainstay brands. Furthermore, with small volume, convenient and healthy as buzz words, we aim to tap into new demand over the course of the Medium-term Business Plan. Given that we have made preparations to invest in our network for spice and retort pouched products as well, the allocation of resources to ensure sales growth will help strengthen the profitability of the household use business. Another objective over the three years of the Eighth Medium-term Business Plan is the transformation of House Foods, which has previously been responsible for protecting the Group's core business in Japan. Given that we have gained extensive experience in the curry business in China and are about to launch the household use business in Indonesia, we intend to consider many options, including the creation of added value through reverse innovation.

Q11

What are your impressions of the issues in the International Food Business and what are your thoughts on the support that House Foods Group can provide?

A11

The International Food Business is facing various ups and downs, though the situation differs in each region, and I feel that, on emerging from the COVID pandemic, it was also buffeted by waves. Strengthening the business foundations is key and, over the course of the Eighth Medium-term Business Plan, it will be important to develop the value chain framework. Regarding the Functional Ingredients VC, we are not yet in a position to write a future growth story -not even for our domestic operations - and so ever since the Seventh Medium-term Business plan, we have positioned House Wellness Foods as the engine of the Functional Ingredients VC. The Soybean VC is currently facing

all kinds of business issues and we have begun strengthening the functions of House Foods HD USA, which will serve as headquarters for the Soybean VC. Our acquisition of Keystone provides us with a good opportunity to ensure it demonstrates sales and marketing synergy with House Foods America Corporation through the development of functions and organizations that leverage the strengths of both companies and the allocation of surplus personnel as resources for the implementation of more finely tuned marketing plans. For the achievement of global growth, the Spice VC poses the greatest challenge; however, I believe that the expansion of House Foods itself beyond the Group's core business in Japan is the most important part of the Eighth Medium-term Business Plan.

Under the Eighth Medium-term Business Plan, we will create a framework for the global expansion of the three VCs for which we have already laid the business foundations to some degree (excluding the Value-Added Vegetables VC which is a new business-type VC). This is the House Foods Group's mission and is a major strategy that we will take steps to implement under this Eighth Medium-term Business Plan. In view of the current status of the International Food Business, I believe that such steps need to be taken without delay.

Q12

Regarding House Gaban in the Spice / Seasoning / Processed Food Business Given the future targets of sales of 50.0 billion yen and ROS of 10%, what are the targets under the plan for the current fiscal year and the targets for the final fiscal year of the Eighth Medium-term Business Plan?

A12

We clearly specified a plan to be achieved by the end of the Tenth Medium-term Business Plan and we used backcasting to set the Eighth Medium-term Business Plan and the plan for FY2024. Our targets for the final fiscal year of the Eighth Medium-term Business Plan are net sales of 30.0 billion yen and ROS of 4.6%, while our net sales target for FY2024 is 28.0 billion yen. We have set four priority categories: the spice product and roux & flake product categories as categories for generating funds for growth and the retort pouched product and general purpose ingredient product categories as categories for achieving growth through the priority allocation of resources. With the priority categories as drivers, we aim to achieve the plan for the company as a whole.