

FY2024 Results Briefing for the First Half: Q&A

- Date and Time November 8, 2024 (Fri) 13:00 p.m. - 14:04 p.m.
- Method Real-time streaming
- Q&A Panel Hiroshi Urakami, Representative Director & President
Yoshiyuki Osawa, Representative Director & Senior Managing Director
Kotaro Kawasaki, Managing Director
Yoshiyuki Miyaoku, Director
Atsushi Sakuma, Director
Yuichi Okamoto, Director

Q1

Regarding the tofu business in the United States. What are your views on the current status of tofu price competition and profitability which is at risk of falling due to price competition?

A1

The tofu business performed strongly this first half, reflecting successful deals, including private brand products. On the other hand, price offensives by competitors intensified from the third quarter. This is not to say that competitors have launched offensives on all fronts and so we believe we need to fine tune our tactics. Our most recent surveys tell us that our products are highly rated by customers and so we will aim to expand customer contact points looking to the medium and long term.

Q2

Regarding the functional drink business in Southeast Asia. What was the market response after you changed mainstay *C-vitt* products to products containing 1000 mg of vitamin C? Also, is there a possibility of a shift in demand away from supplements given that people can now get 1000 mg of vitamin C in a beverage?

A2

As a result of a regulatory change in Thailand in January this year, *C-vitt* is now allowed to contain 1000 mg of vitamin C as in Japan. We were quick to change the Vitamin C content to 1000 mg and the switchover of products was completed in modern trade channels by mid August and is currently underway in traditional trade channels. Recently, one of our competitors has also launched products containing 1000 mg of vitamin C. We gather from POS data trends and consumer feedback on our new passion fruit flavored product item that our latest measures are effective and we are optimistic about future sales. In Thailand, demand for the consumption of vitamin C in tablet form is not so strong but we believe that a shift away from supplements is possible.

Q3

Regarding the functional drink business in Southeast Asia. What is the potential of the multi-vitamin business in Thailand and how can you demonstrate your competitive advantage?

A3

Whereas our existing *C-vitt* products are made using a single vitamin, our *One Day Vitamins* products launched at the end of October are based on a concept that is brand new for the Thai market. Like the products currently sold in Japan, these products make it easier for people to consume the 13 essential vitamins in a well-balanced manner.

We are selling these products at a higher selling price than our regular *C-vitt* products and are optimistic about future sales and profitability.

Q4

Regarding Spice / Seasoning / Processed Food Business. Admittedly, net sales of both curry roux products and retort pouched products were strong in the second quarter, but what is the potential for continued expansion in sales volume? In the second half, the Spice / Seasoning / Processed Food Business is projected to post operating profit mostly unchanged year on year and I understand that this is largely attributable to cost pressures. Please give details of future price measures in view of the cost situation.

A4

Last year, we suffered sales volume decline directly after price revisions in the second quarter, so we focused on our priority this year, which is to gain more exposure during demand periods now that a sense that products are reasonably priced has taken hold to some extent among consumers. In our view, these measures paid off, boosting net sales and contributing to profit. From August, we were worried about the impact of the rice shortage and rising rice prices but ultimately business was mostly unaffected. With restaurant prices and other food prices also increasing, we believe that consumers might be finding once again that curry is more economical than other options and we intend to use this as the engine of our sales activities in the second half. Whereas, in the first half, higher costs were offset by the effect of price revisions, in the second half, rising costs for raw materials, labor and logistics will outpace price increases; however, this is in line with initial expectations. While demand can be said to have mostly recovered in the second quarter, sales volumes were still down compared with before two price revisions. Therefore, in the second half, we will make sure we increase sales on a volume basis, putting ourselves in a situation where we have more options of actions to take in response to cost increases from next fiscal year. We know that we must not damage our brand or damage our future revenue base and so we intend to consider the timing and nature of price revisions carefully.

Q5

Regarding the tofu business in the United States. How exactly will the latest restructuring enable you to respond to competition and what are the expected effects of the restructuring?

A5

One of the aims of the restructuring is sales expansion through cross-selling by House Foods America and Keystone. This is an area where a virtual cross-selling initiative between the two companies that was launched on a trial basis this fiscal year is proving effective and so we will roll this out in the actual organizations.

In addition, we intend to rewrite our plans for the optimization of production and logistics, with the aim of benefiting from cost reductions. At the same time, we think action that goes beyond the latest restructuring is needed in response to the most recent price offensive by our competitors, and feel a sense of crisis. Previously, when House Wellness Foods was facing difficulties during the COVID pandemic, we approached this as a group issue rather than an issue affecting an operating company alone and we established a council for our business survival with the participation of the president and corporate strategy division of House Foods Group Inc. to work on improving profitability. We recognize that our business in the United States is currently in a situation that requires a similar response, and we are preparing to establish a council. Most recently, House Foods America Corporation has been conducting an analysis of profit by product, giving a clearer picture of the situation, and Keystone is also conducting an analysis, and so we will implement initiatives based on a more detailed understanding of issues to be addressed.

Q6

Regarding the curry business in China. In the second quarter, your hard work in face of low business confidence seems to have paid off, with the household use business bottoming out with the end of distribution inventory adjustments and the food service business also performing solidly. What is behind these trends and are they sustainable?

A6

We recognize that, in the household use business, buying locations have changed and business formats have shifted. While hypermarket sales have struggled, e-commerce and supermarket sales and regional markets have livened up. A major theme for the current period is to change from wholesale push-type sales to distribution-based sales to fine tune our response to this change in buying opportunities. To this end, we are implementing initiatives such as changing the way we use promotional expenses and attaching QR codes to packages to prevent them from being distributed outside wholesalers' areas to ensure product traceability. We are noticing positive results from these initiatives and intend to continue with them in the second half. In the food service business, with some companies in the food service industry performing well and others performing badly, we are strengthening our ability to propose products and the uptake of our products is increasing both in the curry chain and in other business formats.

Q7

Do you have any updates on the progress of the Medium-term Business Plan, for example, GOT or ROIC management?

While I understand that each business is doing its best, I would like to see some significant changes or a sense of urgency to ensure that the stock market takes notice.

A7

We are currently focusing on the massive task of transforming the Group, as ever since our Fifth Medium-term Business Plan, we have been talking about transforming “from an opportunity company into a high quality company.” We have been working on GOT (groupwide initiatives) since the Sixth Medium-term Business Plan, and under the Eighth Medium-term Business Plan, we are at the stage where we will reap the rewards of GOT because, on the Production GOT front, several themes will enter the implementation stage, and on the BtoB GOT front, we have launched House Gaban and will translate this into growth. However, in terms of our transformation, procurement is the most difficult issue to be addressed. To overcome this issue, over the three years of the Eighth Medium-term Business Plan, we are taking the step of making reforms that will enable operating company House Foods to drive the Spice Value Chain globally in terms of production functions. At the same time, since it would be difficult for House Foods to take charge of both the value chain’s horizontal strategies (global expansion of customer contact points) and vertical strategies (links between functions), we established a Spice Value Chain Procurement and Production Strategy Headquarters at House Foods Group to drive vertical strategies.

I think we need to implement this reform while House Foods is generating healthy cash flows; however, to give an analogy, we are trying medical treatment to avert the need for surgery and so we would appreciate your understanding that this is long slow process that requires patience. Our latest Eighth Medium-term Business Plan has also been well received by employees and we intend to turn this positive response into results.

Employees also understand that unless House Foods implements unprecedented initiatives on both the procurement and production fronts, we will be unable to respond to future changes in the external environment and so House Foods is currently working with House Foods Group on themes never set for operating company before.

Q8

Regarding Spice / Seasoning / Processed Food Business. Looking at the operating profit margins for the first and second quarters, why was the profit margin for the second quarter lower, and what is your policy for dealing with higher costs?

A8

In the first half, the Spice / Seasoning / Processed Food Business achieved a profit increase of 1.7 billion yen, which is mainly attributable to the effect of increased sales and the lingering effect of price revisions.

We made price revisions in June last year in the household use business and in September last year in the food service business, and so I think that the first quarter profit margin was boosted by these, including the lingering effect of price revisions in the household use business. In the second half, we will offset higher costs mainly with the effects of increased sales in the household use business and the food service business. It will therefore be difficult to generate significant extra profit, which is why we have set ourselves the target of generating profit on a par with the level a year earlier.

Q9

What is your assessment of first half progress against the full-year plan for operating profit?

A9

Progress on consolidated operating profit overall is mostly in line with the plan, with overperformance in the Spice / Seasoning / Processed Food Business and the Health Food Business and slight overperformance in the International Food Business offset by slight underperformance in the Restaurant Business and underperformance in the Other Food Related Business.