

Meiji Holdings Co., Ltd. Financial Results for the H1 of FYE March 2022 (FY2021) The Online Briefing Q&A

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Presenters:

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*This material has been edited to make it easier to understand some of the questions and answers.

Q-1-1

I would like to ask about the top-line trends in the Food segment in Japan. If we look at Q2, we can see that the momentum of SAVAS slowed down, that chocolates may have bottomed out, and that Probiotics was still struggling. The first thing I would like you to explain is the current top-line trends and future prospects for these major products.

A-1-1

Matsuda: First of all, as for your question about the top-line trends, there are 3 top products: Functional yogurt, chocolate, and sports-related products, mainly SAVAS. You said that sales of chocolate and SAVAS may have slowed down, but these 2 products have been growing steadily. SAVAS has grown significantly, both in powder form and in ready-to-drink liquid form. In addition, we launched SAVAS brand yogurt this fall. In the future, we would like to continue to provide different forms of products and make a firm effort to encourage people to take in protein, not only to stimulate sports-related demand.

As for chocolate, it was greatly affected by COVID-19 last year, and especially small, packaged chocolate products struggled. However, since the beginning of FY2021, sales have surpassed the previous year's figures by a large margin, and there has also been a large increase compared to FY2019. There is a shift in focus from traditional chocolate, seen as a snack for children, to health-conscious chocolate products. In addition, in an effort to propose new value, we have introduced *Oligo Smart*, a new product. As a result, we have put large chocolate bags and other products on the market and chocolate as a whole managed to grow compared to FY2019.

Finally, with regard to functional yogurt, it is true that it is struggling right now. However, compared to the same period in FY2019, *Probio Yogurt R-1* grew to 109% in H1. Except for the influenza problems, which used to have the greatest impact on H2 results in past years, and the extraordinary impact of COVID-19 in the previous year, we believe that the product has been able to achieve solid growth.

From now on, we would like to continue to pursue the essential value of each functional yogurt product, or propose it to the market, and take actions to make consumers aware of the product and

grow functional yogurt further.

Q-1-2-1

At the risk of sounding a bit rude for me who is so young, I would like to ask you again about the share buyback and ROIC management. You used the proceeds from the sale of the agricultural chemicals business to buy back your own shares this time in line with the downward revision to the earnings forecasts. It was very grateful, but on the other hand, I thought it was hard to evaluate.

What I'm trying to say is that ROIC management is, in its true sense, about how to reinvest cash to generate high returns as well as to streamline one's company by selecting businesses to continue. This buyback, when seen from another viewpoint, indicates that you have difficulty in finding an investment target, which is likely to generate returns above the cost of capital. It seems to me that you tried to cope with this situation by conducting the share buyback.

What I would like to confirm is, although it may sound rude, is it correct to understand that the buyback was done because there was no fund procurement demand at the moment? Another important point in ROIC management is where to reinvest, and I would like to know what President Kawamura thinks about this. The second question is for you to go into a little more details.

A-1-2-1

Kawamura: You seem to be concerned about the share buyback, but we have always placed great importance on strengthening our financial structure in our Medium-Term Business Plan. At the same time, it is our current understanding that the strengthening of our financial structure, including net cash flow from operating activities, has become very robust.

Therefore, we decided on this share buyback based on our assessment that we are building a financial structure, which allows us to cope with shareholder returns while we fully allocate capital to growth investment and capital investment as you cited.

In terms of capital investment, we plan to invest JPY270 billion in the Medium-Term Business Plan 2023, which is JPY60 billion more than the level of the investment in the previous Medium-Term Business Plan, and we currently have a little less than JPY100 billion of investment capacity for

growth. Therefore, in terms of investment for growth, I think it is safe to say that we are in a position to proactively respond to further investment projects as they come up.

At the same time, of course, we would like to further enhance returns to our shareholders who have been supporting us, and we have already announced this as a policy in our Medium-Term Business Plan, stating that we will work toward the goal of a dividend payout ratio of 40%. In addition, we have mentioned that we would like to consider the acquisition of treasury stock in the current Medium-Term Business Plan.

Accordingly, in our current Medium-Term Business Plan, we believe that we must strike a proper balance between capital investment or growth investment and returns to shareholders. So, to be honest, I think I can say that you do not have to have any such concern as you have raised.

Q-1-2-2

Thank you very much. Specifically, when you make an investment to achieve a higher return than the cost of capital, you have cited various candidates in your current Medium-Term Plan, such as overseas. In terms of gaining high returns, what area are you planning to focus more on in the future? I'd like to know more about this.

A-1-2-2

Kawamura: As we have already mentioned, 1 of the things we will make more aggressively than ever before is investment in the overseas business. We have already announced the construction of a plant in China. In Japan, we are preparing for a proper investment.

One of the major points is that we would like to expand our core businesses overseas, in addition to strengthening our core businesses in Japan. In terms of business areas and regions, we will strategically choose where to invest and what kind of investment to make, while considering the situation at the time.

We have repeatedly talked about this in our policy for the Medium-Term Management Plan and other opportunities, so I won't talk about it because it would be redundant, but the basic policy has not changed from what we had talked about.

Q-2-1-1

The first is your approach to functional yogurt for the current year. What is the difference from the initial plan? First of all, I heard that your plan to launch a new product in H2, which you mentioned at the beginning of the fiscal year, has been delayed a little. Please tell us the background to this and your thoughts on the downward revision to the forecast for existing products, including *R-1*, especially for H2.

A-2-1-1

Matsuda: First of all, I would like to explain the difference from the original estimate for functional yogurt and the forecast of the reduction in existing products in H2.

Regarding the difference from the beginning of the year, there was a large impact of COVID-19 in the previous year, but there was no impact of influenza in H2 of the previous year. The sales trend of functional yogurt has a big impact not only on our Food segment, but also on the Meiji Group as a whole, particularly in terms of profits. Therefore, for H2 we revised our forecast on the product based on the idea that we should remove the extraordinary factors, such as the absence of influenza in H2 of the previous year and the impact of COVID-19 in February and March last year. As for the new product, we are working hard to launch the product in the spring of next year, although we are a little behind schedule.

Q-2-1-2

Thank you very much. Just 1 more point about functional yogurt. I remember that you expressed hope for obtaining evidence for *R-1* and said that you were applying for that at the beginning of the year. Please let me know if there is anything you can update us on the issue.

A-2-1-2

Matsuda: With *R-1*, we already have had evidence, or rather, a track record of people experiencing the product, and we have had an overwhelming number of sales. We will consider at that point whether or not there will be a significant movement just because we have applied for evidence and

got it.

Q-2-2

I would like to reconfirm your company's approach to raw materials costs and passing the materials prices on to consumers. At present, for example, how much do you expect the costs of raw materials to rise in the current and next fiscal years, and what stance are you considering to counteract this? Please give me some ideas.

A-2-2

Matsuda: In H2, we expect the impact of rising raw material prices to be probably JPY2 billion to JPY2.3 billion, and I believe it is still around that level. Against the backdrop of energy costs and the world's awareness of the SDGs and the concept of sustainability, I feel that this is not a 1-time event. Therefore, in October, we raised the price of margarine for the time being. In H2, we intend to absorb the amount exceeding this JPY2 billion by increasing sales or reducing costs.

Beyond that, however, we will continue to closely monitor the prices and trends of raw materials and energy costs, and take appropriate measures as needed.

Q-3-1-1

The market for health-conscious chocolates, including large bags, has been improving considerably. I would like to ask about the background and whether this will continue in a bustling period with active demand. Also, in the medium term, I wonder if these health-conscious chocolates can continue to recover the current momentum. Please let me know how you organize your thoughts on this.

A-3-1-1

Matsuda: The first point is the trend toward the future of healthy chocolates. Conventionally, chocolate was considered to be a snack for children. Or sometime adults ate it when they wanted something sweet. We have proposed a different aspect of value, or rather, a new value for what

used to be the product like this. It is now growing as a category, a group of health-conscious chocolates.

Originally, we offered a chocolate product called *Chocolate Kouka*, which has various effects depending on the content of cocoa polyphenols. Gradually, it is becoming a larger category.

As I mentioned earlier, apart from its just delicious taste, or perhaps chocolate may have changed to be perceived as a negative product rather than a positive one, so we have converted this negative attribute into a positive one again and now it has become a large market, so I believe that it will continue to grow in the future. In addition, we also need to develop it into a larger market while further clarifying the points that these chocolates can appeal to people in various ways. I believe that this is the mission of Meiji as the top brand of chocolate, so we would like to further expand the market while feeling responsible for this.

In addition to *Chocolate Kouka*, there is also a product called *Oligo Smart* for people who want to eat sweet chocolate but do not want to take in sugar. Eating *Oligo Smart*, which uses fructo-oligosaccharides, sugar is not absorbed in the human body. We just provide products that are sweet and delicious. Also, this time, we have launched nut-based variations, which we hope will enrich the product as a category.

Since we will probably continue to offer new and significant value in the future, I believe that the health-conscious chocolate category will grow considerably.

Q-3-1-2

Thank you. I would like to ask a follow-up question on the first point. Though sales had been on a downtrend for a while, they may have recovered due to stay-at-home demand. What are your thoughts on the impact of stay-at-home consumption of chocolates, including health-conscious ones, which have been revitalized, and the risk that sales will lose momentum again as people's activities return to normal after the economic resumption?

A-3-1-2

Matsuda: In terms of chocolates, the large bags benefited from stay-at-home demand. When they

became popular, we had rather been investing in small standing pouches to promote the smaller chocolate products. However, last year amid the COVID-19 pandemic, everyone was buying the large bags as they stayed at home, and we were not able to provide the large bags sufficiently. We just completed the investment in the fall last year, and we were able to handle the demand for the big bags. So, to be honest, we had a very difficult time with chocolates last year.

Under such circumstances, sales of health-conscious chocolates grew steadily. Therefore, I believe that Meiji's healthy chocolates, such as *Chocolate Kouka*, are the products that have been selling steadily, either people stay at home, or they start going out.

Therefore, we believe that our products will sell at a constant rate regardless of whether the demand is at its peak or not. However, we need to further improve the bottom line through our marketing and sales promotion capabilities.

Q-3-2

It seems that there are various talks about immune health claims, and of course other companies obtained approvals for their products.

In this context, I would like to know whether there is any potential for your company in the yogurt business, other yogurt-related businesses, or in the area of functional healthcare products, in terms of immune health claims in the medium term. It may be related to be the evaluation of evidence for *R-1* as mentioned earlier, but what is your company's perspective on the current discussions?

A-3-2

Matsuda: Of course we already have a 50% share of the yogurt market, and the share of our functional yogurt accounts for more than 70% of the market. In the first place, we have created both the yogurt and functional yogurt markets in Japan, so I think it is our responsibility to provide and propose new value as the top brand, just as we did with chocolate.

Our research institute in Hachioji, Tokyo, has more than 6,000 strains, and our researchers are working hard every day to research bacteria that can provide new evidence. With yogurt, we want to make sure that it is tasty and by eating, immunity is heightened, or other evidence can be

obtained. We will work steadily to be able to propose and offer such healthy and nutritional products. Originally, we have strong functional yogurt products such as *R-1* and *LG21*, and I believe that we should create a larger and larger market with these products.

However, now that various manufacturers have joined the market, we would like to expand the functional yogurt market by proposing value from various aspects.

Q-4-1

In the case of your company, I think the most important point is whether or not you can achieve new growth from the perspective of nutrition. In that light, I would like to ask you a few questions.

In the video message yesterday, President Kawamura commented that you will announce a number of things in the near future. Is it correct to think that this is a major theme for the next fiscal year?

In addition, I think there were various restrictions, such as the speed of R&D and the fact that you could not promote new products due to the new pneumonia. Thinking about the next year, have you changed your mindset and are you ready for launching new products since the restraints will be relaxed to a large extent in the next year? Please comment on whether this is a condition that is becoming more and more common.

Also, since you mentioned earlier that you will be launching a new functional yogurt product, and since you won't launch a variety of products all at once, I wonder if your schedule will be full. Could you comment on the timings of launching those products?

Secondly, I believe that the Tokyo Nutrition for Growth Summit will be held in the near future. Please tell us if you see any changes in the government, consumers, or distributors in terms of nutrition.

Finally, at the bottom of page 7 of the material, there is a comment about the Accelerator Program and DX. We have heard in various occasions that you are thinking about the product axis, but are you trying to do something different other than the product axis? If you have a more interesting story about what you can do about nutrition, please add it.

A-4-1

Matsuda: I would like to talk to you first, and if you think that maybe the question is a little bit

different, I will be happy to answer it again. From the perspective of nutrition, we have been in business for more than 100 years and at the beginning, the Company was operating under the slogan "Nourishing the Nation," which means rewarding the nation with nutrition.

In those days, nutrition was about calories for survival. Nowadays, nutrition has become equal to health, and health used to be just an objective, but from now on, health must be a means to an end. The goal is to create such a sustainable society, where people can be healthy and self-actualized, and we will aim for wellness. I believe that this is the question that Meiji needs to ask itself, and I believe that we will lead the way in this regard.

In this context, as you mentioned the Accelerator Program and DX, we have been making progress in various matters. Next year, we would like to announce not just new products, but specific actions that will be taken in response to the Meiji Nutrition Statement, which was established this year. And we would like to announce new products in response to such actions. Basically, it's about how we can solve social issues while being conscious of health and nutrition. I would like to propose to the world how we can solve those problems with our food products.

Indeed, as you cited, there are many different products under preparation, but they will be in the 3 different temperature zones. Or, they will go through different distribution channels. Or, they will be in a different category from retail in a broader sense. There are many different sales organizations, so we will try to organize them, and we will make business and product proposals next year so that we will be able to achieve strong progress.

Q-5-1

Please tell us about the development of an inactivated vaccine and your outlook for the impact on future business performance.

A-5-1

Kobayashi: KM Biologics is currently developing an inactivated vaccine. Phase II/III trials started in October. We have received information that they gathered a very large number of test subjects beyond expectations and several hundred people have been vaccinated. At present, the only

modalities available for COVID-19 vaccines are mRNA and viral vectors.

As I have mentioned many times, this inactivated vaccine is a modality that has been confirmed to be well tolerated in existing influenza vaccines. We hope to compile the results of these Phase II/III studies as soon as possible, so that we can obtain early approval.

For now, we hope that the vaccine will obtain conditional approval in FY2022. In that case, whether or not it will be adopted for public vaccination will depend on what will happen to the current COVID-19 pandemic next year, but if it is so adopted, I think it will have a very positive impact.

Q-6-1-1

The first point is about the cost increase and how to deal with it. As the price leader in the industry, your company has always been able to adjust its prices to reflect rises in domestic milk prices almost always. Next time, if domestic milk prices do not rise, but if other costs rise to a level that cannot be absorbed by self-help efforts, I wonder whether it is highly likely that you will dare to revise your prices, even if milk prices do not rise. This is the first question.

A-6-1-1

Matsuda: Our response to the overall rise in costs is as I mentioned earlier. Regarding your question about what to do when milk prices do not go up but other energy costs rise, I think it depends on the degree of the increase.

If the price of containers or the cost of energy becomes ridiculously high, we will raise product prices if the public accepts it, but I don't think it will go that far. In particular, when it comes to dairy products, most of them are made up of a large percentage of raw materials, and I believe that this has a lot to do with the milk price.

Q-6-1-2

I would like to know, for example, the scale of the degree. For example, if the effect of price increases is about JPY3 billion, will you be able to do your best to cut costs, but if it goes higher than that, will you have to think about other things?

In the case of your company, you also want to invest in your brand to stimulate more sales. However, when I look at the financial results this time, I see that you were trying to secure profits by cutting expenses such as brand investment. With that in mind, could you tell us a little more about the degree of this?

A-6-1-2

Matsuda: I'm sorry, as for the degree, from what you said earlier about milk prices, were you talking about dairy products such as milk and yogurt? Or is the figure of JPY3 billion the total amount of increases?

Q-6-1-3

In short, dairy products depend on milk prices, and milk prices are the main factor in the pricing strategy. Is that correct to understand so? I'm not sure about the other products.

A-6-1-3

Matsuda: For milk and dairy products, as I mentioned earlier, I think we should consider the trend in milk prices because milk makes up a high percentage of our products as part of raw materials, or rather the contents.

As for other products, based on the scale, we expect they will boost costs by JPY2.3 billion in H2. We will deal with this by cutting costs, et cetera, and beyond that, if their prices rise further, we will take firm action.

However, originally, we think that we have always sold value rather than products. Therefore, we have been selling our products in a relatively high price zone in the market, and if we were to pass the rises in costs to consumers, the impact on sales would not be so great, and I believe that our customers would accept it.

Q-6-1-4

I understand. As for the areas other than milk and dairy products, you are confident in the strength

of your products and brands, so it is correct to understand that you will be able to respond well to such cost increases.

A-6-1-4

Matsuda: That's right. Also, we will not simply cut back on promotions and other activities for cost reduction purposes, and we will actively invest in ways that will accurately enhance our brand and product power.

Q-6-1-5

Is it correct to understand that you had to cut back in H2 of the current fiscal year?

A-6-1-5

Matsuda: In H2, for example, advertising costs are down because there is no longer anything related to the Olympics. We have secured enough money for so-called promotional advertising.

Q-6-2

I think a major theme or issue of your current Medium-Term Business Plan is whether you can achieve innovation. The reason why you were unable to do so in the previous Medium-Term Plan was that there was a problem in the way you proceed with product development. You explained that you have an accurate understanding of the problem. And you may produce good results if you succeed in reforming the issue.

I would like to know about the challenges you have faced in the past year, or the past 6 months, about how you proceed with product development, or other issues, and whether you have made any progress or improvements. Did you have a response that will produce some results, or whether you feel anything about it or not.

A-6-2

Matsuda: The second question is how to change the lack of growth and innovation, and what kind

of results will be achieved. As I mentioned earlier, we are planning to propose promising products, or businesses rather than products, next year. I think we're finally getting to that point.

This is especially true of the research laboratories and the development marketing departments, which have expanded horizontally rather than relying solely on past successes or past knowledge. In response to this, we have created a system that allows each of us to look at a value from a different perspective and create a new value from it, and I believe that this has been successful. And as a result, I believe that such products will be launched well next year.

Q-7-1-1

First of all, I would like to ask about pharmaceuticals. The profit amount in H1 is very different from the forecast for H2, though there may be delays in recording. The first question is that it is difficult to understand the unevenness here, and I would like you to explain it in more from the quantitative aspect.

A-7-1-1

Kobayashi: You noted that there is large unevenness in profit between H1 and H2. The most significant factor was the benefit from the shipment of influenza vaccines ahead-of-schedule in H1. As a result, there will be less shipment that we planned for H2. In addition, there was a shift in R&D investment to H2, so these 2 factors were very significant. Overall, although there will be a decline in sales of agricultural chemicals in H2, the main reason for this dip is the advance of influenza vaccine shipment and the postponement of R&D expenses.

Q-7-1-2

If you look at H2 alone, the domestic Pharmaceutical business will see a YoY decrease of more than JPY2 billion. Is that largely due to something like a delay in R&D expenses? However, I think the business as a base has risen quite a bit, though there was some influence from COVID-19 last year.

A-7-1-2

Kobayashi: That's a delay from the planned period. To elaborate on this, I would like to talk about not only R&D costs, but also promotional costs, such as for *HIYASTA* that we have launched. This is also weighted more toward H2 than H1, so this is a factor in the expected decrease in profit.

Q-7-2-1

The other question is about the performance in China in the Food segment. Since you have just launched *R-1* and *LG21* there and they are still in their early stages, I don't think we should discuss sales and other issues. However, how do you feel about the initial response? How do you feel about the potential of these? Also, on page 12, it is written, "building evidence on health steadily," so could you explain this area a little more?

A-7-2-1

Matsuda: Regarding functional yogurt in China, as you noted, it has not been on the market for a long time, so it is quite difficult to evaluate. However, we have established a system to increase local production again since this fall, and we are now able to ship stably at our plant in Suzhou. Based on local reports, the products have attracted fixed customers. Unlike in Suzhou, we have made a firm investment in functional yogurt lines at our Tianjin plant, so we expect to be able to produce a reasonable amount or scale in the year after next.

As for the potential, of course, health awareness is increasing at a much faster pace in China than it was in Japan. There is a similar trend to that in Japan that people in China try to improve their health while exercising, so I feel that there is great demand for yogurt to improve immunity. In this context, we are talking about building evidence. We are currently working to obtain evidence for this.

In addition, as was the case in Japan, we have asked local consumers to actually take the products and drink them, and we are currently compiling the results. As soon as the outcomes are available, we will communicate them to consumers to enhance the positioning of these products, which will lead to their penetration and growth, and lead to sales.

Q-7-2-2

It may be difficult to foresee, but could you tell us about the timing when you think evidence marketing will be firmly established?

A-7-2-2

Matsuda: I think it will be about a year. I think it will take about a year for the reports to be open and for action to emerge.

Q-7-2-3

So you're thinking about H2 of next year?

A-7-2-3

Matsuda: That's right.

Q-8-1-1

I think it is now in the final stage of trials. In Japan, however, various other companies, such as Daiichi Sankyo and Shionogi, are developing their own vaccines and I think that Takeda's Novavax product will also come out. You mentioned that you would like to apply for additional vaccinations as soon as possible, but even if your vaccine is approved, as many other products are coming out, is there any risk that we should be aware of? If you have spent investment expenses, et cetera, I am afraid of a risk if there is not more demand than expected, so I would appreciate it if you could let me know about it.

A-8-1-1

Kobayashi: I think you are right to worry about, but we are engaged in development using a modality called an inactivated vaccine. I believe that both in Japan and overseas, there is no other inactivated vaccine for the novel coronavirus whose efficacy and safety have been firmly confirmed, although China is probably developing such a vaccine.

The current modalities of mRNA and viral vector vaccines and the recombinant protein vaccine have all been confirmed to be highly effective, but the safety of repeated use has not yet been confirmed. I think that is the current situation.

Although there are reports that Pfizer's vaccine will be available from the age of 5, we are aware that a vaccine that is safe and effective for people under 12, especially infants and children, has not yet been developed. Therefore, we recognize that there is no vaccine that is effective and safe for patients who cannot receive the existing vaccine, or the mRNA vaccine, or for juvenile patients. In fact, there is no vaccine that has been confirmed to be effective and safe for these patients around the world.

If the tolerability and efficacy of the inactivated vaccine are confirmed next year, we believe that we will offer a type of vaccination that will be possible only with the inactivated vaccine, and we believe that we will be able to establish a unique position if the vaccine is approved.

As for the investment, the government is backing up the development, so of course we have to pay for the labor and running costs, but if the development is successful, I don't think it will be a big risk.

Q-8-1-2

Thank you very much. I would like to ask 2 additional, smaller questions.

I think you talked about safety in detail at the previous media briefing, but what about efficacy?

1 more thing, regarding the strengthening of the vaccine business in the new Medium-Term Plan, you mentioned that you will be working on the development of various other vaccines in addition to the COVID-19 vaccine. Would you please inform us of the development situation of other vaccines?

A-8-1-2

Kobayashi: It's true that when we inform the media about the development status of the COVID-19 vaccine, we are often asked whether the efficacy of the vaccine is safe, because we only provide information on tolerability.

In the Phase I study, we conducted a safety confirmation study, and the antibody titer and the efficacy of the vaccine were slightly milder than those of the Moderna and Pfizer vaccines, but the

original efficacy of the vaccine was confirmed, so the PMDA has given permission to proceed to the Phase II/III studies.

From now on, we are going to conduct Phase II/III studies to compare the tolerability and efficacy of the vaccine with those of the currently used vaccines in far more examples of 2,000 or 3,000 cases.

We believe that there are various criteria for the efficacy of vaccines, such as prevention of disease onset and prevention of serious illness, and the efficacy of this inactivated vaccine is aimed at preventing serious illness. And, again, it is well tolerated. Our goal is to achieve total benefits that exceed those of existing vaccines, so we will advance the studies through solid development stages. In addition, we have a variety of seeds at KM Biologics for vaccines of other modalities not for COVID-19. Specifically, we would like to obtain the framework of a new modality, i.e., mRNA, for the seeds of RSV, dengue fever, and so on, to develop new vaccines. We plan to seek partner companies having this technology and negotiate with them.

Q-9-1-1

As we can see on page 9 of the material, your company has taken the lead in opening up the health-related market as a market leader in dairy products and confectionery and has also created a market in the high price range.

Mr. Matsuda mentioned earlier that even with relatively high pricing, you can still pass the materials price rises on to product prices. Do you consider that you are still able to make such pricing for so-called mass premium functional healthcare products in Japan?

In the past, you mentioned that your company is strong in products for senior citizens, but I wonder if consumers are still willing to pay for so-called mass premium functional products, or even if you can offer such products at higher prices in the medium to long term, structurally, but in the short term, you think there is a risk of weakness in the consumption of high-priced products. I would like to know again if you have any current thoughts on consumer insights.

A-9-1-1

Matsuda: Regarding your question, I think it is the relationship between value and price, and it is a difficult question to answer, but I believe that what we have done so far is correct, and we will continue to do so strongly.

However, there are already customers who can't keep up with our value and the price that matches that value. I believe that by adding more and more new value to the customers who can follow us, for example, when we talk about raising prices, it will not be just a simple price increase, but by adding new value, the customers will accept it.

I believe that it is our company's responsibility to do this, and I also believe that it is our responsibility to lead this effort. By doing so, we need to add new value to our products and create a new market, whether we will conduct price transfer or not.

Q-9-1-2

Thank you very much. In that sense, when new products and other items come together in the next fiscal year, they will not be new products, but rather an increase in the portfolio of new values, including functions, and in that sense, your innovation, including pricing, will become more clearly visible. So it's important to keep this in mind.

A-9-1-2

Matsuda: That's right. As you noted, they are not just new products, but rather a new category, and of course, a new product is a new product, but I would like you to understand that it is a category that will create a new market, rather than simply adding 1 product.

Q-9-1-3

Thank you very much. In your previous comment, you mentioned that you were going to propose a business rather than a product. After all, is it possible that you will not just offer new products, but propose things in a wider sense, such as services?

A-9-1-3

Matsuda: That's right. They will be a type of products similar to information services or those belonging to a new category. So, of course, we will offer 1 new functional yogurt product or 1 chocolate product, and we will also propose a new category or information and other services.

Q-10-1

In relation to the earlier question about how profit will be generated in H1 and H2 in the Pharmaceutical segment, what impact will the contract revenue from AstraZeneca have on your performance?

A-10-1

Kobayashi: Thank you very much for your question, but it is very difficult to answer.

There are 2 types of contract revenue from AstraZeneca. Meiji Seika Pharma undertakes pharmacovigilance for distribution, and KM Biologics undertakes filling. This contract revenue has been included in the fixed cost section since H2 of the previous fiscal year, and we believe that it is somewhat larger in H2 than in H1.

AstraZeneca's *Vaxzevria*[™] has not shown progress recently, but we received fixed payment from the company. Unfortunately, I can only give you a vague answer, but we are expecting a certain degree of revenue in H2 as well.

Q-11-1

With regard to the growth of SAVAS, you mentioned that although the product is growing, the competition environment continues to be tough. Please tell us your outlook for the future.

A-11-1

Matsuda: SAVAS continues to grow. The first is the powder type, the traditional SAVAS, and the second is the ready-to-drink type, chilled SAVAS.

For the latter, although competing manufacturers have entered the market, we enjoy a virtual monopoly with overwhelming strength. Since last year or this year, we launched some products

that focus on women and a soy protein product instead of a milk protein one.

The chilled version of *SAVAS Milk* is made with our proprietary technology that prevents coagulation in acidic conditions, so it enjoys overwhelming support from consumers and has been growing year after year.

As for the powder, though *SAVAS* had always been easy to dissolve, we have made the difference even greater from other companies' products that are hard to dissolve by evolving our granulation technology, and the taste received reputation that it is overwhelmingly delicious. In the market that has grown fairly large, we have been able to achieve double-digit growth.

We are thinking about different dosage forms for *SAVAS* as well. I can't give you any specifics yet, but we would like to grow the *SAVAS* brand into something bigger and better in this way.

As for competition, it is true that as the market grows, competitive manufacturers will enter the market. Especially foreign ones are coming in. As I have already mentioned, there is a big difference in product strength, so we would like to further expand the market and strengthen our sales by firmly promoting the benefits of the *SAVAS* brand. We would also like to clarify the power of the *SAVAS* brand and its original concept.

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