

Meiji Holdings Co., Ltd. Financial Results for the 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-1-1-1

I'm sorry to talk about the short term, but one thing I would like to talk about is the assumption of raw material prices for this fiscal year. I would like to know more about the assumption of a YoY increase of JPY14 billion. What costs will be incurred and by how much? Also, please tell us a little about the extent to which the changes in market conditions since the situation in Ukraine, the exchange rate, and the increase in milk resource prices have been factored in.

It seems to me that the impact of the cost increase is a little smaller compared to the assumptions announced by competitors, and it would be helpful if you could explain this.

A-1-1-1

Matsuda: First, that JPY14 billion increase in raw materials cost, out of which JPY12.5 billion is planned for raw materials. JPY1.5 billion is planned for energy cost. The combined total is JPY14 billion.

Regarding your question about the extent to which we have factored in Ukraine, foreign exchange rates, and other influences, I cannot offer a clear-cut, black-and-white answer, but at this point, we do not anticipate any significant impact from the factors I just mentioned.

Therefore, this is just the figure we came up with when we prepared the budget for the current fiscal year around December of last year, and we will have to consider the figures after that time.

Q-1-1-2

Raw materials for the first point. I think it is inevitable that commodity price goes up after what happened to Russia and Ukraine.

How much upside risk do you see for your company in terms of raw materials prices if the current exchange rate of JPY130 or milk resource prices were to continue? Also, what, if anything, can you tell us about how you would handle those risks when you face them?

A-1-1-2

Matsuda: Regarding the exchange rate, and the raw material upswing due to the Russia-Ukraine

issue, I mentioned earlier, I cannot speak about the numbers right now, but we are making solid calculations. And again, if necessary, we will take firm action.

Q-1-1-3

By the way, do you have any exchange rate assumptions or anything like that for reference?

A-1-1-3

Matsuda: As the original budget, we are thinking of JPY120. So, the ones up to JPY120 are done. I would like you to understand that this is included in the JPY14 billion I mentioned earlier.

Q-1-2-1

I think sports nutrition is one of the growth drivers for your company, but it seems to have hit the brakes somewhat in the fourth quarter. You're forecasting a rapid recovery in the next first half of the year. What is your company's view on momentum change and price hike? I believe this is the first price hike for SAVAS. What are your thoughts on the impact of this price hike on volume as well?

A-1-2-1

Matsuda: Regarding sports nutrition, there is indeed a bit of a drop in momentum, especially in the fourth quarter. This growth was considerably influenced by the fourth quarter of last year, TV, and other influences.

Especially while people stay home during the COVID-19 lockdown, sales of nutritional products soared among female consumers. At-home exercise and stretching created trends on social media and such. Or I believe that we were somewhat at a standstill in the fourth quarter due to the impact of such a large increase in the number of female consumers.

As for the future, we have already launched a full line of products featuring soy protein for women. These products are now available on the market, targeting women.

In addition, for SAVAS, which was originally available only in a powder formula, to expand the brand,

we have launched *SAVAS Milk*, it's a ready-to-drink, while keeping the original concept of *SAVAS*. We are launching a *SAVAS bar* and will try to launch a second *SAVAS bar* product this June. We have also launched the high protein content type of the *SAVAS* drink, as an unprecedented product, and it is selling better than planned.

Regarding the impact of the price hike. Originally, *SAVAS* was considerably more expensive per gram than imported products. However, even knowing this, we still have the top share. I believe this is because *SAVAS* is tasty, easy to drink, or easy to dissolve – multi-functions.

We will also be implementing this price hike by capacity changes for a portion of the products, so I believe that the sales will probably drop in the short term. However, as I mentioned earlier, I believe that by promoting the basic value of the product, we will be able to firmly expand sales after that.

Q-1-2-2

I understood very much the strategy of *SAVAS*. Can you say that there are some signs of improvement, such as the effect of new products, demand, and the high hurdles that were set last year, have come to an end?

A-1-2-2

Matsuda: The 20-gram-protein version of the *SAVAS* ready-to-drink product that I mentioned earlier, and the *SAVAS bar*, which is a completely new addition to the *SAVAS* brand, those various products were already on sale at convenience stores, and they are already among the best three. Another product will be launched in June, and we expect it to grow even larger.

As for the powder, as you may know, last year we did not have any raw materials for soy protein. Therefore, we had set a limit, or rather a sales cap, after the product was launched.

In this regard, we are well-positioned to boost the decreasing demand for soy protein targeting women consumers and will continue to do so in the future.

Q-2-1-1

I was thinking that the business of dairy manufacturers is very fragile in the face of market

conditions, after all. In the end, neither these market assumptions nor the effects of price hike have been able to outweigh the high cost of raw materials. I believe that the reason for this is that the price of products that are affected by the domestic price of milk has not been revised.

In this context, what is your company's view on this price hike regarding domestic milk prices? I think there have been some negotiations, but what kind of response do you receive at such times? I would like to know more about your thoughts on price hike for commercial dairy products related to domestic milk prices.

A-2-1-1

Matsuda: Price hike against domestic milk price is not possible since the milk price has not changed so far.

At the same time, energy costs and packaging costs are going up, so obviously people would expect us to pass those costs down to the product pricing. But there are various approaches we can consider.

We are discussing whether price hike should be done before or at the timing of the milk prices increase. However, since the ratio of milk cost is high for dairy products, if the milk price were to rise, we would, of course, revise the price accordingly.

Q-2-1-2

So basically, when we think about the medium to long term, we should understand that for commercial products that are highly dependent on domestic raw milk, there will be major price hike, including those for the current raw materials used for packaging materials?

A-2-1-2

Matsuda: Yes. Whether it is large or not, if the milk price increases, the price will be revised to reflect the increase in milk price, as it has been in the past.

Q-2-1-3

I understand. This is a bit detailed, but in terms of the outlook for milk prices, dairy farmers are having a hard time making ends meet due to the high feedstuffs prices, while at the same time, your company has a large inventory of domestic nonfat dry milk and butter, so there is a gap between the manufacturers and the dairy farmers.

In this context, what is your company's view on the outlook for milk prices for the next fiscal year?

A-2-1-3

Matsuda: Of course, as you just pointed out, the current supply-demand balance is loosening up. However, the cost of production for dairy farmers has gone up, including, energy costs or feedstuffs, so there is certainly an imbalance.

However, this has happened many times with regard to the supply and demand of milk, and the dairy industry is very important, just like rice, in terms of food security and self-sufficiency.

Therefore, while carefully considering the relationship between supply and demand and feedstuffs, I believe that the three parties, producer organizations, producers, and dairy manufacturers, must understand each other's positions and work together in a positive direction with J-Milk.

Q-2-1-4

I understand. Am I to understand that it is still a bit premature to talk about the status of milk prices or anything else for the next fiscal year?

A-2-1-4

Matsuda: Yes, that's right. I do not believe we are talking about that much at all yet.

Q-2-2-1

Regarding functional yogurt, your company had a severe fourth quarter. Are there any signs of improvement here? Also, looking at the website of the Consumer Affairs Agency, I found that you registered a yogurt product that helps reducing abdominal fat, but I'm not sure if there are any

further steps to launch new functional yogurt products. In summary, I would like to hear the latest on the probiotics business.

A-2-2-1

Matsuda: You mentioned signs of improvement in probiotics and other products. We have been struggling for a long time without any new products.

From this spring, for *LG21*, we are switching to new packaging with the new sales copy, which is recommended by 95.3% of doctors and also new TV ads are on air.

Regarding *R-1*, as I have said many times on these occasions, the core users are not swaying at all. Casual consumers stopped coming in. The biggest thing was still the lack of seasonal factors such as flu. To make it easy for these people to enter, or to prevent them from leaving once they have entered, we are launching the *Mitasu Karada* series.

Though we were behind on actions in April, because it was just released. However, in May, we are on track to catch up with the previous year.

As for your question about the future, we will launch products that further strengthen the current evidence and environmentally friendly products in the second quarter of this fiscal year.

You might wonder how we will achieve our goal of the second half of the year. For the second half of the year, we are planning to launch functional yogurt and other products with new evidence.

Therefore, although there has been some talk of stagnation, we plan to catch up with the previous year in the first half of FY2022 and achieve significant growth in the second half of the year.

Q-2-2-2

I would like to have one comment on this yogurt helps reducing abdominal fat from the Consumer Affairs Agency. Also, I would like to know if this is a new product or if there is another new product that will be added to existing brands.

Also, I would like to ask one more question about probiotics. The competitor's *The Yakult 1000* is doing very well right now, but do you see casual consumers who are leaving *R-1* and shifting to other types of probiotics? Or are you moving on to something different again? And I would like to

know the status of R-1, considering the competition in this area.

A-2-2-2

Matsuda: Regarding new products, of course, we are considering including the ones you just pointed out. We are still in the process of considering which one we will use for the next one since we will probably have a variety of options for the fall this time.

I'm not in a position to comment on competing products, but I haven't seen consumers leaving R-1. Only a few percent are directly involved. It is a very small number. I guess it is in the broad sense of food.

Q-3-1-1

First, regarding the price hike of chocolate and gummy products, when you announced the price hike last time, the range of the price hike was quite wide, and we did not know where the average value was. I would like to know what you expect to see in terms of a decrease in volume and downside.

A-3-1-1

Matsuda: Regarding the change in the quantity of chocolates and gummy products due to the price hike, generally speaking, a 10% increase in price will probably result in a 10% decrease in the quantity of products. However, we are trying to minimize this by strengthening sales promotions and various other means, but it is not possible to minimize everything.

It just takes a month, two months, or three months to come back. At least our products have provided value, appealed to value, and sold value, so we believe that our influence on price is minimal. From that perspective, will it be done in a month or two? I believe this is all.

However, this part of the budget also incorporates the downsizing of the number of goods after the price increase. So, I'm wondering if there is any concern about the budget.

Q-3-1-2

As I understand it, the sales volume comes back in one to three months, so how do you look at the volume when you equalize it to a year?

A-3-1-2

Matsuda: We are planning to expand the sales of chocolate and gummy products. In terms of the volume, there are variations among various products. We plan to increase the sales volume of the *Chocolate Kouka*, although we will raise the price. Of course, we are also incorporating new products that have not yet been announced.

Q-3-1-3

I think we will have to consider additional price hike for chocolates and gummies because the cost increase of raw materials will exceed the Company's plan, but with such a volume forecast, the second price hike will vary depending on the product. What are your thoughts on the second price hike?

A-3-1-3

Matsuda: Regarding that, we will be affected by Ukraine issue and the exchange rate, and we will take action once we have confirmed the impact.

Q-3-2-1

Regarding domestic pharmaceuticals, the impact of the early approval of the COVID-19 vaccine was included, but I would like to know what assumptions were incorporated into this.

A-3-2-1

Kobayashi: The Phase II/III trial is now scheduled to be completed very smoothly. Using this data, we are now in the process of starting Phase III trial, but we are not waiting for the trial to be completed before applying as soon as possible.

An amendment to the Pharmaceutical Affairs Law called the Emergency Approval System was passed and enacted on May 13, and we plan to use this framework to compile data and apply for approval in July.

At the moment, the unit price and the process will be determined in the future, but the production line has started operating successfully, and I have heard that trial production is also going well.

We will be able to produce three batches of process validation, or 1.5 million vials, by the end of the fiscal year, so we are factoring this into our second-half results to a certain extent.

Q-3-2-2

Is it correct to assume that most of the domestic pharmaceuticals that increase profits have this effect?

A-3-2-2

Kobayashi: In addition to that, *BILANOVA* is going well, and the supply-demand balance for generics is very tight. At the moment, we have a substitute demand for other companies' stock-out products.

In summary, we are planning for the second half of the year due to the launch of *BILANOVA* OD tablets last year, which are also doing very well, as well as substitute demand for generics and the COVID-19 vaccine.

Q-3-2-3

Then, in terms of the amount, the impact of the COVID-19 vaccine will be much larger in FY2023.

A-3-2-3

Kobayashi: Well, in FY2023, we are planning to produce 20 million doses on a production volume basis, although this has not yet been approved, and we are not sure if the government will buy it.

Q-4-1-1

I would like to know about the assumptions of your profit plan for the yogurt and cheese segment. I heard that raw materials will be a factor in the decrease in profit by about JPY2.3 billion, including all raw materials, but I think there are various factors including this and sales.

A-4-1-1

Matsuda: As you can see here, raw materials will go up, but the second half of the year will be positive so the plan is to increase sales.

In the first half of the year, functional yogurt, which I mentioned earlier, will catch up with the previous year, and we intend to make significant growth by being active on social media. However, the increase in raw materials is more than that because the cost of energy exceeds the cost of raw materials.

For the second half of the year, we have set up this profit plan because sales of new products will make a significant contribution.

Q-4-1-2

I wonder if sales of the new product will stand up to this much in the first year, and I suspect that marketing costs will also be involved, so how should we think about whether the profit contribution in the first year is reasonable or not?

A-4-1-2

Matsuda: We don't have such a big sales plan here, given the current scale of our functional yogurt sales and our background and capabilities to date. I believe that at least something more than this will go.

Q-4-1-3

Is the assumption that *R-1* will grow rather than the effect of new products?

A-4-1-3

Matsuda: *R-1* will grow, *LG21* will grow. In addition, new products will be added on top. However, the new products do not carry that much weight.

Therefore, as you just suggested, we think that it is not appropriate for our budget to put unstable items on it, so I think it would be better if you understand that we are putting the minimum amount of sales on it.

Q-4-1-4

Now, can you tell us about the expected growth rate of the sales assumptions for *R-1* and *LG21*?

A-4-1-4

Furuta: I would like to show you the YoY sales comparison for *R-1* and *LG21*.

In FY2022, we expect 3% increase over the previous year in *R-1*. Then, for *LG21*, we see a 2% increase. In addition, as Mr. Matsuda mentioned earlier, new products will be introduced in the second half of the year.

Q-4-1-5

Since we are at this point, may I ask you to tell us the *R-1* and *LG21* for FY2021 results?

A-4-1-5

Furuta: *R-1* YoY in 2021, down 13% for the full year. *LG21* is down 11% from the previous year.

Q-4-1-6

I'm looking at the costs. Even though the domestic milk price does not increase in the yogurt and cheese business, I think it is a bit small at JPY2.3 billion, but I was wondering if we should consider that to be a reasonable risk.

I think that in the case of other segments, there would be additional price hike to counteract the additional increase, but since it seems difficult to do so for yogurt this year, could you please tell us

how you plan to counteract the additional price hike?

A-4-1-6

Matsuda: First, we have already announced a price hike for cheese, we are working on that portion. We would like you to understand that we are raising the price of the cheese due to the increased cost of imported raw material cheese.

As for yogurt, as I mentioned earlier, for yogurt as a whole, we will act accordingly to any domestic milk price increase, and since there will be no milk price hike, we believe that energy costs and other costs will be absorbed by increased sales.

Q-4-1-7

I imagine your cost increase might come up way higher than the JPY2.3 billion. Is it correct to say that the higher cost will be covered by the increase in sales volume?

A-4-1-7

Matsuda: Regarding the cheese portion of the JPY2.3 billion, as I mentioned earlier, we have raised the price of imported cheese, and we plan to absorb the yogurt portion through increased sales and other measures.

Q-4-2-1

Can you tell us about the impact of the lockdown in China?

A-4-2-1

Matsuda: The biggest one is Meiji Seika Food Industry (Shanghai) Co., Ltd., which is located in Shanghai. This is one of our confectionery factories. Since any manufacturing activity is suspended, decrease in production volume and sales is expected to be significant. At present, we think this will have an impact of about JPY300 million.

On the other hand, milk is produced in Suzhou, we have been operating without any particular

problems. However, shipments to neighboring Shanghai have limited distribution. The reason is that the number of trucks is limited, and trucks coming from Shanghai are only allowed to enter Suzhou for two hours. We are currently estimating that the impact is about JPY100 million while the supermarkets, retailers, and businesses in Shanghai are not in operation.

Another one, ice cream is made in the southern part of China. This was also transported to Shanghai and other places, but for this part, those that cannot be transported to Shanghai are sold in other areas, so there has not been a major problem. Such is the situation.

Q-4-2-2

Out of the JPY300 million, is the JPY100 million in sales?

A-4-2-2

Matsuda: Sales. Therefore, I think it would be better to take it as not having such a large impact on profits.

Q-4-2-3

If the lockdown is lifted around June, does that mean that sales and profits will be largely unaffected?

A-4-2-3

Matsuda: Yes, that's right.

Q-5-1

The first is about functional healthcare products. In the past, your company has had a history of developing strategies to increase sales through enhanced product development and promotions, but actual results have failed to keep pace.

I'm hoping that this time, mainly in the second half of this year, the strategy here will finally work. Looking back, why had this strategy been stagnant in the past, and why has it been able to

accelerate again this year? If you have any comments on the structural changes, please share. Also, I would like to add here, and this may be a short-term view, that I think that functional healthcare products, inevitably, will be premium products. I understand the strategy of doing this in the medium to long term when the cost of all food products and other services are rising, but is there a risk that demand for these functional healthcare products and premium products will weaken temporarily in the short term, or not? And if so, are there any measures or steps that can be taken?

Could you please comment here in connection with the upcoming changes in current consumption trends?

A-5-1

Kawamura: We have been working on functional healthcare products, and although you viewed that we have not found the answer to his question, we believe that we have found the answer in our way.

For example, there are various categories of functional healthcare products, but only functional yogurt tends to be emphasized since it is the source of the profits.

Functional yogurt has stopped growing since 2018 or 2019, and we are now trying to replace them with products that are fortified with protein, such as the SAVAS brand. We can explore different variations. SAVAS yogurt, for example. There is a very strong demand for this protein-based product in particular.

Focusing on SAVAS alone, we have achieved growth of nearly 20% over the past several years, so I feel that we have achieved sufficient results in terms of functional healthcare products as a whole.

And second, premium commercialization. We have not been recklessly converting everything into premium products. We are taking strategies that are appropriate to the value of each product. Naturally, we also set prices that include the cost of raw materials used in production.

So, for example, there is a market that most of you are not aware of: the market for nutritionals for the elderly. This is another merchandise that we have been focusing on and nurturing. We have

been strengthening our efforts over about 10 years in the area of over-the-counter enteral formula and have reached the point where we now have a near-monopoly on this market.

In a sense, these products are also more profitable than regular products specific for hospitals, and in this sense, we believe that products for the elderly will form a major segment in the future.

If you ask me how these premium products might be positioned in our product lineup, given the price hikes we are seeing today. From our point of view, for example, if you think of infant formula as a product. The current market situation is almost bi-polarized, with products in the price range we sell and products sold at lower prices.

I would like to ask you to logically analyze which of the two types will suffer more given the material cost increase. While the cost increase will be felt by everyone regardless of the difference in price zoning, obviously, low-priced products will suffer more because products that have been sold with cheap price appeals will have a higher price revision rate as a result. I think the general view is that it will be very difficult in terms of business survival.

Although we do not have detailed data on price hikes, it has been reported that the prices of private-brand powdered milk products in the US and other countries have risen sharply. In the United States, national brands and private brands are sold at completely different price points. Buyers are polarizing as well. The general view is that businesses working at lower price points will suffer relatively more in the current phase of price increases.

Q-5-2

The second question is about the COVID-19 vaccine. I would like to support it. However, demand for the vaccine is ultimately decided by the consumers.

What are the advantages again, and how much of the vaccine is truly acceptable to consumers? Could you tell us about any feedback you have on hand?

A-5-2

Kawamura: It is true that the current scheme is that the government purchases vaccines and distributes them to municipalities for inoculation, but I think that people are now avoiding inoculation

or choosing not to be inoculated.

Also, the lack of progress in vaccinating young people is becoming a very big problem to control the most current social infections. The reason for this is that the messenger RNA vaccine is very effective, but the adverse reactions are very strong too. I'm not sure those factors have any correlation, but there are people who chose to avoid vaccine shot because they don't like adverse reactions have, in a sense, made their choice clear as to what type of vaccine they would accept. We believe that this is the situation now.

The inactivated vaccine has become established as a vaccine that can be administered to children as well. I believe that inactivated vaccines with fewer adverse reactions will be an important sales driver in the future vaccine policy, even in terms of increasing the vaccination rate among young people, and we are now rushing to develop such vaccines, and this is the background for strengthening our production system.

This is certainly not an action that the Japanese people directly choose to take now. However, as a result, each individual is choosing the type of vaccine by choosing to actively receive the vaccination or not. That is my view.

Q-6-1

I would like to confirm functional yogurt. The last fiscal year sales was JPY98 billion, and this will increase by a little more than 2% with *R-1* and *LG21*. That brings a total to a little over JPY100 billion. On the other hand, your sales forecast is JPY102.6 billion. You mentioned earlier that you are quite conservative about the sales of new products.

The difference is only about JPY2 billion to JPY3 billion, but am I correct in understanding that sales of new products will make up for it? If the sales of new products go better than planned, will it push the total sales higher? That is what I would like to confirm.

A-6-1

Matsuda: As you pointed out, it is around JPY2 billion. I believe the evidence of the new product is comparable to that from *R-1* or *LG21*. If we set a large budget and it does not go according to

plan, the negative impact on the project will be too great, so we have set a firm budget.

Q-6-2-1

I would like to ask you about a growth strategy for pharmaceuticals. The mid-term plan shows almost no increase in profit, but how about in the long-term? I think one of the growth drivers is the strengthening of the CMO/CDMO of Medreich Limited because you're investing.

When KM Biologics was formerly Kaketsuken (The Chemo-Sero-Therapeutic Research Institute), it had an operating income of over JPY12 billion. I was initially told by your company that DPT-IPV-Hib vaccine (5-in-1 vaccine) would eventually contribute considerably to the business. The vaccine is finally at the stage of application for licensing. How will these two pharmaceutical businesses contribute to your business performance? Could you give us some additional information in terms of strategy?

A-6-2-1

Kobayashi: I think you are talking about the overall pharmaceutical growth strategy. Let me begin with our effort in the overseas pharmaceutical business. As you indicated, this is still a pillar of growth for the CMO/CDMO business of Medreich Limited, and we intend to continue to grow it.

Although the pandemic has disrupted the markets of India and Southeast Asia, the demand for pharmaceuticals is still strong. Paracetamol, an antipyretic analgesic, this is one of Medreich Limited's main products, and even in times of extreme operational difficulties, we have been able to increase our numbers considerably since there was an increase in demand due to COVID-19.

In this context, this year we were finally able to start construction on a new building in Adcock Ingram, India. This is scheduled to begin operation in March 2023. I have heard that construction is progressing smoothly, so I think it is time to move on to the next step, which has been to increase the capacity utilization rates of Unit 7, the main plant, as well as to add the production volume of this site from FY2023 and onward. After completing this, we hope to increase Unit 7's production capacity from FY2023 onward.

Another thing is the vaccine business, which has finally been able to establish a stable production

system after the Kaketsuken had been in a tough situation. Most of the vaccine business is now being managed in an integrated manner, with researchers from Meiji Seika Pharma, people from the production division, and sales staff working together with KM Biologics in a scrum to expand the vaccine business.

This is not only for new vaccines, but also for influenza vaccine productivity, clinical trials for those currently under development, and design cooperation for development, all of which have changed the process considerably.

In this context, as you also asked about this, the DPT-IPV-Hib vaccine (5-in-1 vaccine). We are looking for approval by the end of this fiscal year, and hope to somehow make this an add-on portfolio to our human vaccine business starting next fiscal year. This is because this is a separate big pillar from the KD-414.

We are now planning DPT-IPV-Hib-HepB vaccine (6-in-1 vaccine) on top of this, and this is still the ultimate target. Although there is still some competition for DPT-IPV-Hib vaccine (5-in-1 vaccine), if we can achieve this goal, the chance for a monopoly will be considerably increased.

On the other hand, in the domestic pharmaceutical business, we have been promoting structural reforms, and we have fundamentally changed our R&D structure to promote our current R&D activities at the shortest and fastest pace possible. Collaboration with academic bodies over the core topic, infectious diseases, and new topic, modality vaccines. We want to somehow hasten the strengthening of our development capabilities in core businesses.

In total, we believe that we can become the main supplier of our country's platform for infectious diseases, antibacterial drugs, basic essential pharmaceuticals, and infection control, and we intend to grow toward that goal.

Q-6-2-2

I think there was a question as to why Meiji is engaged in the pharmaceutical business, but now that earnings have recovered so well, I would appreciate it if you could talk a little more about your growth strategy for this business in the future.

Q-7-1-1

I think that your company's plan for this fiscal year is still a profit plan that relies on sales growth. If sales are not achieved, there is a risk of a downturn in profits, but I think this is something that happens every quarter.

How will we manage revenue when that happens and whether it will reduce marketing and promotion expenses? If this is the case, I'm concerned that it will be difficult to break the vicious cycle of reduced brand investment and delayed sales recovery.

So, what measures will be taken in this regard if sales are not achieved? And in the medium term, Meiji's food business profitability can be improved without relying so much on sales growth. I'm not sure if there are any measures in Meiji today that say. Please tell me about this.

A-7-1-1

Kawamura: To break the vicious cycle, we believe that we will firmly restore top-line growth in FY2022.

We have suffered in terms of profitability as a result over the past few years, but we can realize top-line growth in nutrition, and then confectionery. Confectionery sales have been up and down a bit, but nutritious foods have been growing steadily and are on a growth path. I understand that the investment is also in line with expectations.

However, we have been unable to achieve growth in the yogurt and probiotics businesses, which have large sales and a high dependence on earnings. We believe that it is very important for us to build a solid foundation for a turnaround.

Therefore, we believe that the most important initiative is to firmly expand the top line in the yogurt and probiotics categories and return to a form that secures profits, which is what we intend to challenge this year.

As to what measures will be taken if an increase in volume cannot be expected, the only way we can think of is to increase the planned volume, including the success of new products and the revitalization of existing products.

In fact, the yogurt market itself has been in a gradual decline since peaking in 2017. This is the fifth

consecutive year of decline.

I believe that our company's inability to fully extend its reach is most responsible for this. Therefore, I do not doubt that this category will contribute the most to the health and the aging of the population in the food market in the future.

We would like to make a strong appeal for the true value of yogurt itself and work to deepen consumers' understanding of the value of yogurt. We believe that we, as the top manufacturer, must take the lead in this area.

Therefore, I hope you understand that our approach for FY2022 is to stick to raising the top line as much as possible.

Q-7-1-2

We too have been waiting for more than five years, and we are asking you to show us the results as soon as possible.

And at the same time, this time, marketing costs. This has grown considerably. Are there any special changes in the way this area is used this fiscal year compared to the past?

A-7-1-2

Matsuda: We have a firm budget for advertising expenses, which have been very compressed to generate profits.

The second is to revitalize the market, and this year we plan to disseminate information in a variety of ways to ensure that our products are well known. It could be the presentation of new evidence or a new solution. Also, I would like to include education and other activities.

Q-8-1

You mentioned that you are forecasting to flip the sales up to strong. For that, you will invest in costs. I was relieved to hear that and at the same time, I feel that your company can go more aggressive.

Since your company generates huge sales, it is quite difficult to quickly improve performance trends

or the top line of sales. Then, even if profits decrease in the short term, for example, we would make sure to invest in the brand as we would like to do. For example, would your company consider the option of focusing on R&D investments? I think there is an option to invest a large enough amount of money that may dent profits temporarily, but in the medium to long term lead up to top-line growth.

I think this is one way to think about it, although we analysts are concerned about the profit of a single year. What are your thoughts on this point?

A-8-1

Kawamura: In 2021, we had to be on the defensive strategy in the second half of the year, as we saw a rapid increase in costs. Especially in the fourth quarter alone, more than half of the JPY4.5 billion cost up, which was about half of a year. At that junction, we were forced to restrain our promotional expenses.

There are still many parts that are yet to be seen, but we will be able to pass on a certain amount of the price, including, for example, changes in incapacity. In this case, we have been very careful to select a method of price shifting that is appropriate for each product category, and that does not affect the top line as much as possible, or that does not discourage consumers from purchasing. Therefore, we have been changing products in a variety of ways, and have been selective in what we change in capacity.

However, we have had to liquidate those items that do not contribute to long-term profits.

For example, we have reduced SKUs of low-margin categories such as some drinking milk products, and of low-growth-potential categories such as cookies. There were also various areas where sales were intentionally lowered by cutting such areas.

So, we have been working very vigorously to organize that kind of thing since 2018. Therefore, there was a situation in which the top line could not grow.

We will focus on three core product categories: yogurt and probiotics, nutrition, and the chocolate and gummy products category. I believe that such a process of organizing is 70% or 80% done. The remaining parts will be organized one by one. I believe that we are now entering a stage of

management where we must grow and develop.

Therefore, from now on, I would like to focus more of the Company's energy on how we can grow and how we can expand the top line. In addition, we are not yet in a position to say what new products we would like to offer as part of these efforts, but I can tell you that we do have such products. We are currently exploring such things in various ways, such as collaboration with accelerator initiatives and venture.

Our company is conservative when it comes to those activities. We were not sufficient in measures like they chose to take. I am planning on taking up new initiatives in FY2022 and 2023. So, I'm hoping that we will be able to create something that can be explained in such a forum.

We would like to return to our original approach of expanding profits through growth.

Q-9-1

Recently, one of our competitors, presented an ambitious top-line plan to chase volume this year. Although your company has factored in the increase in marketing expenses, including price increases, I get the impression that you will not spend much on marketing this fiscal year either, given the significant decrease in marketing expenses since the COVID-19.

How should we view costs and how far should we look at the risk of going up as the competitive environment deteriorates in the future? Or do you take the stance that your company has a strong brand, so that is where you draw the line?

A-9-1

Kawamura: The current issue with domestic dairy products is that the supply and demand are very relaxed. I think this is probably the biggest challenge in the market for milk and dairy products. We recognize that the biggest challenge in the current domestic milk and dairy product market is to increase production unless these areas are improved.

Each of the three dairy companies has its specialty category. For example, in the case of our company, yogurt has a very large share of the domestic milk and dairy product market, so the priority is to expand sales of yogurt, even if it means investing a certain amount of money in

marketing.

In terms of milk, we have a relatively high market share among the three major companies, and we are unique in that we only offer NB products. Also, thanks to the price range of milk, our delicious milk is now being handled in the highest selling price zone.

As I mentioned earlier, the more other companies suffer from cost increases and have to pass on prices, the less competitive the environment becomes for us, and the more desirable it is for us. In this sense, in the milk and yogurt categories, we believe that expanding sales of our products will help increase the overall demand for these products.

Q-9-2-1

One last point, I know the question about functional yogurt has been raised many times, but I would like to confirm it. I believe that your company is overwhelmingly holding the store shelves, including your mainstay *R-1*. I understand that the contribution from new products in your current plan is a small amount of JPY2 billion to JPY3 billion, but is this amount due to timing? In short, it will be released in the second half of the year, but we are only estimating this much. I wondered which one it was.

I think that your company's *R-1*, for example, is by far the top brand with the highest sales efficiency, so I think it would be a bit unreasonable for the plan to incorporate only new products and not the negative aspects of existing products in the halfway figures. I'm wondering if there is some cannibalism. I would like to know how the numbers there go in and out.

A-9-2-1

Matsuda: As you mentioned in the last part of your point, the existing sales are not negative, and we are planning to increase the sales of *R-1* and *LG21*, which were mentioned earlier.

Regarding the new products, as you mentioned, it is small compared to *R-1*. However, budgeting something too big in these times will have a significant negative impact on the business. So, we are only putting certain amount in the budget for the second half of the year. Therefore, we see the plan as something much larger.



Q-9-2-2

I understand that there is no internal cannibalization in that sense and that you already have large shelf space in the stores, but would it be correct to say that you will be adding more shelves and introducing new products?

A-9-2-2

Matsuda: I think there will be some cannibalism if you look at it from the larger perspective of going into the stomach, and I don't think there will be zero cannibalism in yogurt or probiotics. We are also considering the creation of new sales areas.

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