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Meiji Holdings Co., Ltd.
Financial Results for the Q1 of FYE March 2023 (FY2022)
The Telephone Conference 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 would like to know more about the Probiotics situation. What is the situation regarding *R-1* and *LG21*, and what is your outlook for them?

A-1-1-1

Furuta: *R-1* is still in a downward trend. However, we will be launching a new six-bottle set at the end of August, as I mentioned earlier, so we would like to increase sales while spending on marketing expenses in light of that as well.

On the other hand, *LG21* began to exceed the previous year's level from about the middle of June. I am sure that the commercials and other marketing efforts lead to its sales recovery. In addition, the appeal of the effect on gastric health has become more widespread. *LG21* is on an upward trend, and the same trend was seen in July. We will continue to take care of this trend and increase sales.

R-1 and *LG21* are our mainstay products, and we intend to increase sales of these products, including new products to be launched in the fall and thereafter, while making solid marketing expenditures.

Q-1-1-2

I would like to ask is if you could tell us what percentage this *R-1* ended up being down from the previous year in Q1, or if there were any changes in the *R-1* situation in April, May, and June.

A-1-1-2

Furuta: Regarding *R-1* sales in Q1, we have seen a decrease of about 10%. On the other hand, we have been saying that *LG21* sales have exceeded the previous year from the middle of June, but the first quarter and total are down 6%. We are seeing signs of recovery in *R-1* and *LG21*, and we would like to seize this trend and increase sales.

Q-1-2-1

The company raised its raw material forecast by JPY10 billion but left its full-year plan unchanged. You are talking about absorbing this through price hikes or other means, but what specific price hikes do you have in mind?

Also, looking at the food industry's financial results, I have the sense that there has been quite a bit of volume reduction in response to price hikes, but what is your company's estimate of the impact of the volume reduction on the price hikes? I would like to know your thoughts on these price hikes and raw material prices.

A-1-2-1

Furuta: The cost increase in raw materials or energy costs is a hurdle that needs to be cleared. We hope to overcome this challenge through additional price hikes and cost reductions. On the other hand, the exchange rate has been unstable, with the yen rising from the JPY135 level to a slightly stronger yen. We will explain how Q2 will end and what the results will be when we announce the results in November.

At this point, we are still in Q1, so we have not changed our full-year projection.

Q-1-2-2

I would like to ask whether your company is planning to absorb the additional raw material costs in the current fiscal year, or whether you are planning to absorb such raw material costs in the next fiscal year as well.

A-1-2-2

Furuta: As for cost increases, we are considering various measures at this time and hope to recover all of them during the current fiscal year.

Q-1-2-3

I see. So, you want to put in place various measures and work to keep the full-year plan as

unchanged as possible, is that what you are thinking?

A-1-2-3

Furuta: We are trying to reduce costs, but we are also trying to minimize the impact on our business by firmly revising prices and implementing various measures.

Q-1-2-4

Okay. You raised the forecast for raw materials and energy costs by JPY13 billion this time, but what kind of raw materials did you have to raise the forecast for, and how does that break down with domestic milk prices?

A-1-2-4

Furuta: Basically, we hope you understand that domestic milk prices and the exchange rate have a significant impact.

Q-2-1-1

As for *R-1* sales, you said there was a 10% decrease, so there is no significant change in the negative trend. For the second half of the year, you mentioned earlier that you would leverage both marketing and products, including a six-bottle set, etc. In addition to the additional measures you have taken so far, what actions do you have in mind to change this trend?

A-2-1-1

Furuta: Regarding *R-1*, we want to stop this downward trend. In other words, we are hoping to achieve the on-par level of the previous year. Unfortunately, Q1 was down 10% from the previous year, but we are hoping to attract fixed users by offering new products such as six-bottle packs. Also, in some parts of Australia and New Zealand, influenza has spread this year. As for this *R-1*, there is a very high correlation with influenza, and I think we can expect an increase in sales of this *R-1* if the influenza epidemic spreads this year.

Of course, not only by relying on external factors, but also by spending money on advertising and marketing to increase sales of *R-1* and *LG21*. Our first priority is to firmly stop this downward trend and flatten it out.

Q-2-1-2

Thank you very much. Incidentally, influenza is quite prevalent in the southern hemisphere, and I am wondering if it will be prevalent in Japan as well, but the difference is that the Japanese wear masks, and some people think that the hurdle for influenza may be surprisingly high again this year.

A-2-1-2

Furuta: Japan is the most popular place in the world for COVID-19 right now, so I think whether you wear a mask or not is not important. Although I cannot say anything certain until we actually hit the situation, but if there is an influenza epidemic, I think *R-1* will be more promising than last year.

Q-2-2

Regarding overseas pharmaceuticals, operating profit in Q1 increased more than the effect of increased sales. Also, you said that Medreich Ltd. and the subsidiary in Spain were also good, and it looks like there was quite a big profit increase. I think this is partly a reaction to last year's poor performance, but more than that, it appears to be a large increase in profit relative to the increase in sales. Could you tell us a little about the factors behind this?

A-2-2

Tanaka: The increase in profit is about JPY1.8 billion, half of which is attributable to Medreich Ltd. and the subsidiary in Spain. The other half is the improvement of unrealized profit on inventory. It is the result of the situation last year in which manufactured goods were not shipped, especially antibacterial drugs. This year, however, the unrealized profit has less impact on profit due to steady progress in shipments.

Q-3-1

The profits in Q1 for pharmaceuticals increased by about JPY4.5 billion. I think the plan was not to grow so much for the full year. I would like the details for the movement of pharmaceuticals here, either if it is already generating enough profits, or if there is something that will work as a factor to reduce profits in Q2 and beyond.

A-3-1

Furuta: I would like to elaborate again on the full-year forecast for the pharmaceuticals area when we finalize and announce at the timing for disclosing Q2 results. At this point, we are doing very well, especially with the suppression of medical visits much gone and antibacterial drugs are doing well.

In addition, we are meeting the demand for generic drugs due to the uncertain supply of other companies. We are able to produce influenza vaccines this year as well, and we believe that we will be able to ship them as planned.

Therefore, considering these various factors, I think there is a possibility of an upward swing, but as we are now in the first quarter, we have not changed our full year forecast at this point.

Q-3-2-1

You made a comment earlier about the JPY13 billion cost increase that you would like to catch up with by the end of this fiscal year, but to be honest, I am not sure if we can do that in reality.

We expect that you will rise milk prices in the future. With cost increases ahead of expectations, even if we were to catch up and reduce costs, it seems like a tremendous reduction in marketing expenses if we were to do so on a scale of billions of yen. I would like to know your thoughts again on whether or not you can absorb these costs in a realistic manner.

A-3-2-1

Furuta: As you pointed out, we would like to recover the cost increase and catch up, but unfortunately, there may be some areas that will be left over or that will affect the next fiscal year.

We hope to recover well and achieve our current full-year forecast, but at the end of the second quarter, we will have more detailed information such as the amount of decrease in volume that we are expecting. I would like to explain again at that time. At this point, we would like to take measures where we can and want to recover everything.

Q-3-2-2

I would like to know your measures to on the price hikes for domestic raw milk in November. I guess it will affect drinking milk and yogurt, so is it correct that you will need to consider the price hikes in both of these businesses? Are you going to include probiotics as well?

A-3-2-2

Furuta: We would like to consider price hikes for both drinking milk, yogurt and probiotics as well.

Q-4-1

The yogurt market has dropped 5% to 6%. How do you analyze why the demand for yogurt, for which you have not raised prices, is so weak? Is it a shift in demand to other categories?

A-4-1

Furuta: In the yogurt market in Q1, sales of almost all players including us were weak. Looking at sales trend by subcategory, only high-protein yogurts such as Greek yogurt, was doing very well. The trend for conventional yogurt and probiotics was weak. There are a number of reasons for this, but one of them is that people have shifted from nesting to going out, and eating out, returning to our previous state. We guess such situation has effected on the decrease in demand for yogurt. We, as a dairy manufacturer, must do our best to stimulate demand for yogurt. We will be celebrating the 50th anniversary of *Meiji Bulgaria Yogurt* next year, and we would like to stimulate demand for yogurt as a whole while implementing various marketing measures.

The trend of yogurt is quite low right now, and we are trying to stop it. It may be that they are flowing to other products in various ways, but we have not yet analyzed details.

Q-4-2-1

How about the impact of the price hikes on the demand for the products that have been raised? Especially for chocolate and SAVAS, I would like to know if you can explain how demand, market, or market share has changed as a result of the price hikes.

A-4-2-1

Furuta: We raised the price of chocolate ahead of our competitors, but the impact was not that great. In particular, sales of chocolate snacks such as *Chocorooms*, and *Chococones* were very strong, as were sales of gummies. I think overall confectionery sales were relatively good. Other companies have also begun to raise prices for chocolate, so we will keep a close eye on the future trends, but at this point, we are not too concerned because we believe that our products are well recognized for their strength.

Next, regarding SAVAS, we are troubled by the fact that the price of raw materials has risen so much. We are no longer able to make profits as we used to. On the other hand, regarding sales, rather than the price hikes, I still think there is a slight overall lull in sales. SAVAS milk has been doing very well, but the market for powder products has been a little more subdued. They may be flowing toward high-protein yogurts.

In other words, people who do light exercise are satisfied with just a little protein intake. They can easily consume high protein yogurt without having to drink an authentic protein like SAVAS. I am imagining the situation to be something like this.

Therefore, in terms of casual consumption, I think that ready-to-drink products such as SAVAS milk are more suitable for light users, or even for women. In this context, sales of powder products have been slowing down a little, and our analysis suggests that this is the situation.

Q-4-2-2

I would like to know the Q1 results of the sales of SAVAS milk and powder.

The price hikes have caused a shift in demand for such as cheese and ice cream to lower-priced products. Please allow me to ask an additional question about whether your company has changed

its thinking on this, even though your response to this has been negative so far.

A-4-2-2

Furuta: Regarding SAVAS powder, it is on par compared to the previous year. As for SAVAS milk, sales increased by 3.5% YoY. As for cheese, the market as a whole has been moving a little slower. In this situation, the low-priced products for which we have not raised prices much are doing relatively well, while those for which we have raised prices are, unfortunately, moving a little slowly.

Q-4-2-3

What is your opinion about that? Do you plan to go into that market?

A-4-2-3

Furuta: No. We want to sell value-added products such as natural cheese. Camembert and mozzarella are very expensive, but in a sense, they are profitable products with high added value, so we want to sell them well. We would like to form more of such a market, and we desire to increase demand here. Therefore, we would like to be patient here and continue to work toward the formation of such a market.

Q-5-1-1

I understand the intention to implement additional price hikes, but I think there are concerns about whether consumption will be able to keep up in this inflationary environment. Is there anything about that additional price hikes that your company is concerned about or needs to consider in the decision-making process?

A-5-1-1

Furuta: I think it is undeniable that the consumption trend is still a bit weak. Therefore, rather than inflation, raising prices may cause a slump in consumption or a decrease in volume is still a cause for concern.

On the other hand, we are thinking how we should do marketing, provide information, and promote the value of our products in order to stop such a situation. We are fully aware that we must do something about this situation.

Therefore, we believe that this is where we need to show our sales and marketing skills, and we would like to work hard in this area.

Q-5-1-2

I understand what you mean from a strategic point of view. However, I would like to know more about detailed tactics, such as raising raw material prices, slightly raising prices in anticipation of lower raw material prices in the future, or keeping prices consistent for strategic products, etc. I wonder if any action will be taken in this area. Or will you overcome this with just a simple raise in the price?

A-5-1-2

Furuta: Some products are expensive and will sell even with a slightly larger price increase, and other products will not sell if the price is raised too much. I believe that strategically, the range and amount of the price increase will be determined by each product.

Otherwise, I believe that it cannot be a one-size-fits-all solution. Therefore, I think that in the overall scheme of things, as long as we end up making a decent profit in the end, we will have to think strategically again about the range of each price increase for each product.

Q-5-2-1

You mentioned that new probiotics products will be launched in fall. Looking at the functionality labeling database right now, I don't see anything cutting-edge. Maybe the anti-fat yogurt is a little eye-catching. However, this anti-fat product seems like a rehash of other companies' products. Can I expect this to be an ambitious new product that is not yet on the list?

A-5-2-1

Furuta: We would like to launch the anti-fat yogurt you just mentioned in the second half of the year. As you pointed out, anti-fat products are not very discriminatory, as there are some similar functionality claims to some extent.

However, the function is a little different. Basically, ordinary anti-fat products have the function of expelling fat from the body, but in our case, the function is a little different in that it helps reduce fat by reducing inflammation in the body. We would like to promote the differentiation of functions.

However, you are right that it may seem similar to other products related to anti-fat, so I think we need to do some steady marketing in that area.

Q-5-2-2

I have heard that you had a hard time because you did not have the know-how to utilize the functionality labeling system. Since *LG21* also obtained functionality labeling, is there any update on the accumulation of know-how in this area, or has the way of communication with the authorities changed, or any other updates regarding this? Or have you become a little accustomed to this?

A-5-2-2

Furuta: I think that is a fair understanding. We now have sufficient know-how on how to obtain functionality labels and how to work with them. We will develop or launch functional yogurts so that we can obtain functionality labels.

Q-6-1-1

It is inevitable to raise the price of yogurt, which is your core product. I think you are going to raise prices by some percentage where you have JPY200 billion in sales, to get the effect of the price hikes. However, I also imagine the environment is quite severe. In this situation, I would like to know what the price strategies are or price revision tactics in yogurt, and what are the points to pay attention to?

A-6-1-1

Furuta: Yogurt, as you say, is our core product, so naturally, if raw milk prices go up, I think it is essential to increase prices accordingly.

In the past, there have been price increases for packaging materials and other items, which we have managed to absorb internally. We would like to consider what to do about this issue as well. In any case, the yogurt business, including *Meiji Bulgaria Yogurt*, is a pillar of profit for us, so we would like to consider price hikes in a way that does not destroy our profit structure, and so that we can make a solid profit.

Q-6-1-2

What do you mean by not destroying the profit structure?

A-6-1-2

Furuta: We would like to consider a firm price revision in a way that does not reduce the profit margin.

Q-6-1-3

So, you mean the balance with the decrease in volume.

A-6-1-3

Furuta: The issue of how to stop the decline in volume is another thing. I think it is a matter of marketing measures and new products to be introduced in the future. So we don't want to change the profit structure of each and every product.

Q-6-1-4

I see. Putting aside the issue of volume reduction, is my understanding correct that the cost structure has been rising, and you would like to review the price structure taking this into account? Also, has it been decided clearly that the price of fermented milk, or for yogurt, is going to go up?

A-6-1-4

Furuta: Yes. It is decided that the domestic raw milk price for both drinking and fermented milk will go up JPY10 per kilogram.

Q-6-2-1

Regarding overseas business, we see that you haven't made the best start, against your initial plan. In the US and in China, they have not been able to catch up against the cost increase of raw materials. How should we look at this in the future? Is there any downside, any possibility of expanding the negative amount?

A-6-2-1

Furuta: For the US business, cookies are the mainstay products, and the main ingredient is wheat. The price of wheat was dramatically increased, so we have raised the price twice so far. This has given us a much-needed reprieve, but unfortunately, the price of wheat is still rising. We are now trying to raise the price for the third time.

Although the first quarter was a bit of a struggle, the second quarter and beyond will return to the previous cruising speed once the third price increase takes hold. The demands are strong, so I understand that the US will not have a problem as long as this trend keeps up.

In China, our ice cream and confectionery businesses are doing well, but the drinking milk business is still struggling a bit due to severe competition. The sales decline is covered by the B to B business. That is the story of Q1. When it comes to Q2, after April in China, there were effects such as the lockdown of Shanghai. Therefore, in terms of favorable confectionery business, we expect the Shanghai lockdown to have a slight impact from April onward.

Therefore, regarding business in China, we will keep a close eye on the impact of the lockdown and the slowdown of drinking milk business.

Q-6-2-2

Okay. So, while there are signs of recovery in the US, in general, China is struggling a bit. I wonder

if it will be tough for overseas markets as a whole.

A-6-2-2

Furuta: In China, we are wondering how much the lockdown will affect our business, but in general, our ice cream, chocolate, and other businesses are doing well. So, it really depends on the impact of the lockdown. Also, for drinking milk, how to recover commercial sales is also a concern.

Q-7-1-1

Regarding domestic pharmaceuticals business, I think you mentioned that there are some areas where drug prices were raised, such as *SULBACILLIN*. Please tell us how much this contributed to the results in the first quarter.

A-7-1-1

Furuta: Sales of *SULBACILLIN* have been very strong in Q1. Although we do not disclose how much of an impact this *SULBACILLIN* has on the overall profits of the pharmaceutical business, we hope you will understand that it is a significant contribution to profits.

Tanaka: *SULBACILLIN* has doubled in value terms.

Q-7-1-2

I understand. It is my understanding that factors of *SULBACILLIN* will come into play each quarter, and not something that concentrates only in Q1. Is this correct?

A-7-1-2

Furuta: Yes, that's right. The current sales are formed by a combination of the NHI drug price upward revisions and the increase in volume.

Q-7-2

You mentioned that the change in volume of SAVAS will start from June production, but in terms of sales, has the volume of sales already been affected from June? Or, will it be more noticeable from the second quarter?

A-7-2

Furuta: SAVAS has kept its price unchanged with a reduction in volume. On the other hand, other companies' products, including overseas products, have all raised their prices. Therefore, what used to be the most expensive SAVAS product is now almost in the same price range as other companies' products.

In this case, I expect that SAVAS's name recognition will come into play and sales will grow. In fact, since July, SAVAS has been doing well, and in that sense, I believe that the price difference up to now will be resolved and SAVAS's name recognition and brand power will come alive.

Q-8-1

Regarding *LG21*, as far as I remember, the situation has been negative on every month for more than five years. We are finally seeing the bottom of the market. You mentioned that you have done some commercials and marketing and appealed the effects. But, I think you have been doing this before as well.

Why have you hit the bottom at this time? I think it is still in an uptrend in July, and it may continue for a while. From this *LG21* case, I think there might be any hints case on how to stop the lowering sales trend of the *R-1*.

A-8-1

Furuta: As for *LG21*, some could interpret the situation here as the following: there were originally some fixed users, but the number of light users has fallen to the point where we are only left with fixed users. Also, we have enhanced the image of the product as recommended by doctors, or rather, the image of its functions, in the package. We are also running commercials with a stronger

image of such functions.

I think the fact that we were able to appeal to keywords such as "doctor recommended" and "gastric health," rather than the fluffy marketing and appeals that we have done in the past, is one of the reasons why we were able to finally stop the decline in the market. In addition, we have also obtained a functionality label, and we will consider how to make use of this as well. At this point, we believe that the keyword "doctor recommended" is relatively popular, and we would like to increase sales through these products.

Q-8-2-1

Regarding the COVID-19 vaccine, you mentioned that the hurdles are high for the emergency approval system, so you are aiming for an early approval system. I think the original schedule was to ship by the end of the fiscal year and contribute to business performance from the second half of the year, according to the initial plan. What is the situation regarding this?

Also, your smallpox vaccine have been approved by the MHLW for the additional indication of prevention of monkeypox. Can you tell us as much as you know about the impact on P/L there at this time?

A-8-2-1

Furuta: Regarding the COVID-19 vaccine, looking at the recent cases of other companies, I think it is quite a hurdle to apply the emergency approval system. Therefore, we are now considering the possibility of submitting the results of the Phase III study to the regulatory authorities.

Phase III trials are progressing much more smoothly than we expected. We believe that we can bring the product to market by obtaining early approval during this fiscal year.

Regarding the monkeypox vaccine, the smallpox vaccine can now be converted to the monkeypox vaccine. The smallpox vaccine was originally purchased and stockpiled by the government.

We cannot disclose the amount of the stockpile of vaccines, but the authorities have stated that it is sufficient. How much we will produce and sell to the authorities is not determined yet. If we produced, we expect the amount will probably be quite small since the stockpile is sufficient.

Therefore, we have announced that the impact on our business performance will be minimal.

Q-8-2-2

I understand. Thank you. Regarding the schedule for the COVID-19 vaccine, I think you said that it would be delayed slightly. The vaccine is now scheduled to be launched or shipped by the end of this year. Are you thinking that the schedule can be completed by the end of this fiscal year, although there is a risk of a slight delay from here?

A-8-2-2

Furuta: Yes, it may be difficult this year, but we would like to do our best to achieve this by the end of this fiscal year.

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