

Meiji Holdings Co., Ltd.

Financial Results for the Q2 of FYE March 2024 (FY2023)

The Online and In-person Briefing Q&A

November 14, 2023, 10:30 – 12:00

Presenters:

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| Kazuo Kawamura | CEO, President and Representative Director |
| Daikichiro Kobayashi | COO (Pharmaceutical Segment), Member of the Board and Executive Officer |
| Katsunari Matsuda | COO (Food Segment), Member of the Board and Executive Officer |
| Koichiro Shiozaki | CFO, Member of the Board and Senior Executive Officer |
| Jun Furuta | CSO, Member of the Board and Senior Executive Officer |

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

Q-1-1-1

I am looking at the cost increase and price hikes for the food business on slide 9. I would like to have a quantitative image of the change for the next fiscal year.

Also, I believe that the operating profit of the food business was originally close to JPY90 billion, but now it is only close to JPY60 billion, even though it has been revised upward. In the first place, I would like to know if it is possible to return to this level of JPY90 billion, and where is the appropriate profit level for the food business. I would also like to know what kind of time frame you have in mind to restore the profit level. I would appreciate it if you can share your image.

A-1-1-1

Matsuda: As for cost increases in the next fiscal year, as you all know, only cacao and sugar have risen considerably. For other items directly related to the product, such as raw materials and packaging materials, we expect little increase.

However, I believe that energy costs will rise somewhat given the current global situation. The subsidy is available only until March so I cannot comment at this moment on what will happen after that.

The question is about when we will get close to the JPY90 billion in operating profit in the food segment, or if that is reasonable or not. I think it is reasonable, and we are working to get closer to that.

In terms of when and by how much, we are still in the process of creating a next medium-term business plan, and we are planning to reach that figure in FY2026, the final year of the plan. To do so, we are currently developing and expanding new products and we are investing in overseas business aggressively.

Q-1-1-2

I would like to know if you can share a more quantitative image for the next fiscal year. For example, the cost increase of raw materials was about JPY30 billion this fiscal year. If cacao and sugar bring an impact from the raw material cost, how much could the raw material cost be for the next fiscal

year?

Also, I believe that you raised prices of such as chocolate and gummies in October. I would like to know quantitatively what the specific price hike effects will be and how they will be offset.

A-1-1-2

Matsuda: We have not yet created a budget for the next fiscal year, but the cost increase, as I mentioned earlier, will be several billion yen in cocoa and sugar. However, it will not be at the level of JPY10 billion, or even JPY20 billion as in the past, so we believe that this is well within our ability to absorb it. Naturally, cacao and sugar are used in confectionery and chocolates, so we are planning to absorb this by raising the price of these products.

Q-1-1-3

Based on that, I think you said that you are confident that you can reach this JPY90 billion profit level by the final year of the next medium-term plan. To this end, I think the most important thing is to recover the sales volume that was lost due to the price hikes. To be honest, however, there are no signs of a recovery in volume.

Please tell us about the background of your confidence in the recovery of the top line, such as the fact that you are confident that you can get the sales volume will return toward the final year of the 2026 medium-term plan.

A-1-1-3

Matsuda: As you pointed out, the cost increase is JPY17 billion, and also the effect of the price hike is JPY30 billion, and the reasons why part of the difference is not contributing to profit are product mix (PM) and volume down.

I think we must think in terms of profit contribution through PM improvement. Regarding the sales volume, it is necessary to capture it on each size of the product. For example, regarding the drinking yogurt, the 900g drinking yogurt was discontinued and the medium-volume type was renewed at a higher unit price. Although the sales volume will temporarily drop, this is an improvement in product

mix through upfront investment in anticipation of lifestyle changes.

To be even more specific, the sales volume of 900ml of *Meiji Oishii Gyunyu* has dropped, while the sales volume of 450ml has increased. The idea is that an increase in the sales volume of 450 ml will improve the product mix.

Speaking in terms of sales volume, not all categories are decreasing in sales volume. For example, SAVAS powder has exceeded the previous year's sales volume.

The sales volume of confectionery is also approaching the previous year's level. For Chocolate Kouka, the small volume type is approaching the sales volume of the previous year, but the large volume type is in a difficult situation since the price is about JPY800. In terms of functional yogurt, which has been an issue for us, we have cleared the previous year in monetary terms and are gradually approaching the previous year in sales volume terms.

Since we are a leading company, our selling prices are higher than those of other companies. We should raise our prices as a price leader, otherwise, the category will be ruined. Therefore, we have been making solid sales prices while using our sales expansion expenses, And at this stage, with the competitor's sales prices also rising, we are almost back to a steady figure.

As for *R-1*, we have cleared the previous year in monetary terms, but, indeed, we have not yet cleared the previous year in terms of sales volume. However, this is the limit to expansion through marketing activities, and the unit price should be raised at a stage when growth has slowed somewhat. *R-1 the GOLD* was launched to raise the unit price, while also raising the quality and value of the product. Therefore, we will work hard to increase the sales volume, but more than that, we will try to increase the monetary base.

So overall, I believe that the sales volume has improved considerably since the middle of Q2. We are working on various sales promotions to bring the sales volume back to the previous year's base around next March.

Q-1-1-4

Would it be correct to say that you are in the phase of improving the product mix, and the improvement efforts will take shape this year, and the next year will be a phase where profit growth

with sales volume to be improved?

A-1-1-4

Matsuda: Yes. That is correct.

Q-2-1-1

On the right side of page 18 of the slide, it was a very interesting story to hear especially about new drugs. On the other hand, I would like you to add some points that you did not pick. One is generic drugs. I think you said in this medium-term business plan that you are undertaking structural reforms. I would like to know how your company's structural reforms are progressing and how has your company's position changed in the context of the industry environment. Since you have invested a lot in overseas pharmaceuticals, including CMOs and CDMOs, what is the position of overseas pharmaceuticals in your company's pharmaceuticals business?

Lastly, I believe that the company is now generally operating income over JPY20 billion on sales of JPY200 billion, but as a growth strategy, what kind of benefits should the stock market expect?

For example, what quantitative KPIs can you show us in the future? I would appreciate it if you can share your image.

A-2-1-1

Kobayashi: Certainly, in terms of the key points of the pharmaceutical growth strategy, we have mainly taken out and explained the contents of new drugs and vaccines, and we did not mention the overseas CMO and CDMO business and the generics business in this presentation.

At present, our domestic generic drugs business is focused on essential generics, such as rhinitis drugs and antihypertensive drugs.

In general, the entire generic industry is in short supply right now. Last year, we made the Odawara Plant a subsidiary, named Meiji Seika Pharmatech, and transformed it into a competitive generic production facility. Then, we have also carved out Me Pharma, a distributor of essential generic drugs, as a subsidiary.

We believe that a major restructuring trend will take place in the future. High-mix low-volume sales have become a problem for the generic drug industry. Even today, the concept of a consortium for the generic industry is reported in specialized press. I think it is possible to go in a direction where several companies will share a certain amount of production facilities and quality control to provide a stable supply of necessary drugs.

Therefore, we would like to join such a consortium by utilizing the functions of Me Pharma and Meiji Seika Pharmatech in Japan to provide inexpensive but high-quality drugs.

As for the CMO and CDMO businesses of Medreich Ltd. in India, we believe that the market has a potential of more than 10% CAGR in the future. In the midst of decoupling, the population is expected to grow in the Global South, where the demand for high-quality, inexpensive drugs will explode. We already have production bases in Thailand and Indonesia, but we consider the production base of Medreich will be an important base that can aim for India and Africa. Naturally, we would like to accelerate our growth strategy by making certain investments in the 2023 medium-term business plan and beyond.

Where does our pharmaceutical business have a competitive advantage? It is from our specialties as a supplier and developer in the infectious diseases area, including vaccines. There are not many companies in Japan that can provide a full range of services from APIs to production. We are also positioned as the main supplier of essential drugs, such as the two penicillin antibiotics that were designated as Specified Essential Drugs by the Cabinet in December of last year.

In addition, we supply approximately 60% penicillin in Japan, so we may be able to establish ourselves as a valuable company in terms of public health. However, it is important how much we can put other business pillars using new modalities on top of it. We will put the value of new vaccines such as ARCT-154, AMR measures, or Nacubactam on top of it.

Infectious disease drugs and vaccines are positioned slightly differently from other pharmaceuticals because these are important national security products that must be manufactured in-house in Japan. It is not a category whether having patent cliff or not, so we believe that we can fight uniquely in this area. We can also grow autonomously if we continue with this strategy with the increasing risk of emerging and re-emerging infectious diseases. We hope you will look forward to it.

Q-2-1-2

I think you have many very good news but if you are asked if it is connected to the overall corporate value of your company, I think it is not quite enough. If you have such good news, I think a certain amount of value should be reflected as corporate value. I think there may be issues in the way KPIs are defined and the way you communicate. I am wondering what you think about your communication methods, such as setting KPIs, and what kind of communication is necessary for people to find value.

A-2-1-2

Kobayashi: I think you are exactly right. We were on the edge of not knowing if we would get results in the pandemic until about 2020. It would have been ideal to increase business value ahead of time. However, we were in a once-in-a-century chaotic situation, it was difficult to send out a strong message.

However, as I mentioned here today, many of the pipelines have already been applied or are in the final clinical trial stage, so they will soon be on the approval line. For example, ARCT-154. People from outside may think they are not sure if it is a success or a failure. However, I would like to set up a press conference and presentation once we get approval from the authorities, along with data that can be published. We will make every effort to do so in the future.

Q-2-1-3

I understand. We look forward to the next medium-term plan.

A-2-1-3

Kawamura: If I may add, a pharmaceutical business has volatility. So, as you see this year, if one product is not launched, profits increase in H1 but decrease in H2. Therefore, we think carefully about this issue from now on.

As we explained today, the background is getting very good and there is great potential.

Q-3-1-1

Comparing the initial plan with the revised plan, I wonder if the change in cost of sales has not changed significantly. While the change in the cost of sales has not changed that much, the sales increase/decrease has changed from JPY49.6 billion to JPY41.5 billion, and other expenses have changed from negative JPY9.7 billion to positive JPY2.1 billion. I think this is the element that has changed so much.

Once again, I think the part of the cost that was different from the initial plan was largely energy costs. How much has the energy cost outlook changed? I think the view of sales volume has probably changed in terms of the increase/decrease in sales, but you explained earlier that some products are showing signs of a slight recovery. How far has it returned to the level, and what was different from the beginning of the period? In considering the next year, please tell us how you plan to recover from the decrease in sales volume of about JPY8 billion.

A-3-1-1

Furuta: First, for the full-year revised plan of FY2023, the JPY41.5 billion in the sales increase/decrease section is a very large factor in the profit increase. Regarding the energy cost, we were expecting a negative impact on profit, but we now expect this to be positive.

In terms of sales increase/decrease, the initial full-year forecast and the revised plan show the JPY3.1 billion increase in price hike effects, and raw material costs are almost in line. As a result, the effect of the price hikes is being manifested more than expected. This is the largest part, and the rest, as I mentioned earlier, is mainly because the energy cost forecast has improved considerably from the previous year, resulting in an upward revision of the full-year forecast.

Q-3-1-2

I think the JPY3.1 billion positive in sales increase/decrease section is due to your company's efforts or ingenuity in announcing additional price revisions. However, the upward revision is limited to JPY5 billion.

How did that occur, for example, how did Q4 change from the original view of H2, and how much

are you looking at now based on the assumption that you can recover in Q4? Also, can you tell us the assumption difference related to sales volume?

A-3-1-2

Furuta: In terms of sales volume, if we look at the revised forecast, the sales volume has decreased by approximately JPY10 billion from the initial forecast. The revised forecast for the full year includes the effect of the price hikes is approximately JPY60 billion and the cost increase for raw materials is approximately JPY30 billion, resulting in an increase of approximately JPY30 billion after subtracting these costs. On the other hand, we expect a decrease in sales volume of approximately JPY19 billion for the full year, which means JPY10.9 billion after subtraction.

So, to answer your current question, unfortunately, the sales volume decline is still affecting us this fiscal year.

Q-4-1-1

You have explained that the cost increase for raw materials would be several billion yen in the next fiscal year's performance. I would like to confirm whether the cost increase is that much. We should consider the current exchange rate of around JPY150, and the logistics costs concerning rising logistics costs in the run-up to 2024, when truck drivers will be subject to stricter working hour regulations (the "2024 problem").

One more thing, in thinking about the next fiscal year, please also tell us how the deficit of the overseas business will change in the next year and what kinds of measures you are going to take amid the deficit widening.

A-4-1-1

Shiozaki: For the exchange rate, we are currently working on the next fiscal year plan. We will keep a close eye on the future and exchange rate, and we would like to set the next fiscal year as stable as possible. Now, we are thinking of a level of JPY150 to a US dollar and we would like to finalize the plan, including the euro.

Matsuda: Regarding overseas business, it varies very much from area to area overseas. Our cube-type powdered infant formula is doing well in Europe, and our confectionery business in the US is doing better than expected. In addition, the sales of the Meiji brand products have caught up with the sales of the Stauffer brand products, and are now almost 50-50. The Meiji brand products have a higher profit margin, so it is contributing very much to profits. Southeast Asia, including CP-Meiji that are not included in the scope of consolidation, is also performing well.

There are issues in China business. The ice cream and chocolate businesses are doing well. As for chocolate, we are in a situation to the point where we cannot produce anymore. We are currently studying the possibility of enhancing chocolate production at Meiji Seika Food Industry (Shanghai), in addition to the factory in South China, which will start operation next year.

It is the milk business in China is dragging down. The BtoB milk business is doing well. Although we lost the business with a major coffee company, it has now recovered by expanding business with other café shops. Furthermore, as for cream products for BtoB in the Meiji Dairies (Tianjin), while there is still a lot of buttercream and compound cream in the Chinese market, we are doing well there while proposing cakes using fresh cream. However, drinking milk products, and yogurt products for consumers are not doing very well.

We restricted sales activities for two and half years during the pandemic following administrative directives. However, our competitors were doing stuff in various activities as a result. We are currently working to close that gap.

Before the pandemic, our milk products were recognized as high quality for being chilled milk. However, our competitors have launched chilled milk products, and we no longer have the advantage there. To address this issue, we are planning to start all over again and propose to the market with Meiji's unique technology and manufacturing.

In addition, we are planning to launch yogurt next spring, which only a Japanese manufacturer can do, using Meiji's unique lactobacilli. We are aiming for a drastic improvement, and we are also putting together a system to improve our current situation.

It is probably not enough yet however, since we are a manufacturer, we cannot expand our business without a manufacturing base and manufacturing capacity. Therefore, we are investing in

this area, even though we consider some risks. In our current business in China, we intend to absorb any negative effects through our other businesses, and the negative effects that cannot be absorbed by overseas business will be absorbed by our domestic business.

Q-4-1-2

I was wondering what the reason for this JPY3 billion negative profit in H2 overseas is. Is that structural reforms cost?

A-4-1-2

Matsuda: Regarding the JPY3 billion negative profit in H2, it is a negative fact that we have not yet been able to recover the sales of the milk business in China.

Q-4-2

In the costs for the next fiscal year, is it correct to understand that the costs will not go up that much if the exchange rate is JPY150? Also, can you give us a few words about your thoughts on logistics costs as well?

A-4-2

Kawamura: I cannot discuss the exchange rate for the next fiscal year at this time. Regarding logistics costs, I don't think our company is affected much as has been discussed in society. We already have a dedicated logistics system in place, and we can control some parts of the logistics system ourselves. If most of the logistics system is outsourced to other companies, the pressure increases, and the cost increase is significant. In our case, we do not expect costs to rise sharply. I understand there will be some impact due to the 2024 problem, but not too much.

Q-5-1-1

I would like to ask about the financial value of the COVID-19 vaccine in terms of profit contribution or sales contribution.

This time, you are working on the form of a self-amplifying vaccine and an inactivated vaccine, and I am very aware of the social significance of the vaccine in terms of domestically produced vaccines. On the other hand, the delay in the self-amplifying vaccine has resulted in a considerable loss of profit. I am wondering if you can make up for this in the next fiscal year and beyond. In other words, with government purchasing being difficult to expect, can you tell us how much of a sales and profit contribution you expect from the COVID-19 vaccine?

A-5-1-1

Kobayashi: The development was successful, but unfortunately, it was not eligible for government purchases because we had to respond to novel variants. I cannot comment on the details of the impact amount, but you can estimate it from the difference amounts between the plan and the performance.

For the next fiscal year and beyond, domestic pharmaceutical companies, including our company, are rushing to develop vaccines on the assumption that the fall and winter inoculations will be conducted and that the domestically produced vaccine will be ready in time for next fall and winter. It is very difficult to predict the scale of inoculation, but it is now estimated that about 30 million doses will be needed for the combined production capacity of those companies.

At this time, we cannot estimate how much of a share we will have in the market. It will depend on when we are successful in dealing with the novel variant. However, we believe that if we succeed in developing this vaccine, we can introduce it as a routine vaccination. We are closely monitoring the policy, and we have been told that the number of government purchases for the next fiscal year will be heard in the future when the companies are on track to launch vaccines against novel variants. If that happens, we believe we will be able to contribute to earnings with a certain profit.

Q-5-1-2

If there is an overall capacity of about 30 million doses, and if you can secure a certain market share, I wonder if it could contribute billions of yen in profit. Do you feel that there is a possibility of at least that much?

A-5-1-2

Kobayashi: Yes, that's right. Following Daiichi Sankyo's lead, Meiji Seika Pharma, KM Biologics, and Shionogi are making progress. We hope that these four companies will manage to supply the vaccines in the next fiscal year.

Q-6-1-1

I would like to ask about structural reform in the food business.

I think you said in May of this year that you were going to further strengthen structural reforms. I would like to know about the results for this fiscal year. Also, please tell us as much as you can about what you have in mind for the next medium-term plan.

A-6-1-1

Matsuda: We are considering structural reform of the food business from various angles, but the biggest one is that we are trying to structurally reform our product strategy, including the product mix. Naturally, this structural reform includes production sites and production lines.

As I mentioned earlier, we have decided to discontinue some products that are not expected to grow significantly in the future in response to changes in lifestyles. It is not easy, but we are working on structural reforms, even to the point of abandoning marginal profits, in this FY2023.

In addition, we are working to reduce fixed costs by promptly eliminating surplus production sites and production lines resulting from structural reforms and will continue to do so in FY2024.

Q-6-1-2

The decrease in sales volume has resulted in a large decrease in profit in this fiscal year. So this is a positive action, in other words, since you discontinued something that is not profitable, and you are already taking such actions?

A-6-1-2

Matsuda: Yes. The decrease in sales volume includes such effects, but not for all. There are still

some areas where we have not recovered due to a lack of promotion and sales efforts. As you just pointed out, there are also areas where we have discontinued to give up on sales and marginal profit. So, I think it would be better to think of both cases.

Q-6-1-3

Of course. So you are saying that some of these items are included, and you will be eliminating fixed costs and production lines from the next fiscal year onward, and will you be making more of an effort to be asset-light?

A-6-1-3

Matsuda: Yes. We are determined to do that, and we will do so for FY2024.

Q-7-1

I would be very interested to know your thoughts on the next medium-term business plan. You have introduced ROIC management in the current medium-term business plan. Please tell us what kind of thoughts President Kawamura has toward the next medium-term business plan, and what are you going to focus on. I would appreciate your comment as much as possible at this point.

A-7-1

Kawamura: We are not at the stage of being able to talk about the details yet. However, as you can imagine, the ROESG, which is a major pillar of the medium-term business plan for FY2023, will naturally continue to be an important concept for our company's management, and we want to continue it.

I understand that financial growth is very important, but I think it is also important to enhance the content, including the non-financial aspects, of how to increase the long-term corporate value. Therefore, we would like to make some changes to the current situation and strive to improve corporate value.

Q-8-1-1

In terms of the organizational structure in the food business, I previously heard that you are working on a combined domestic and overseas marketing organization for this fiscal year. I would like to know what changes have been made as a result of this. Any specific examples?

A-8-1-1

Matsuda: Starting this spring, we have reverted to a category-based organization. In addition, our overseas business, which used to be in the International Business Division, is now incorporated into each category-based division. Specifically, the organization became the Global Dairy Business Division or Global Cocoa Business Division. The objective was to change the organization so that the head of the category could look at it from a global perspective, including both domestic and overseas, rather than conducting overseas business solely through the International Business Division. As a result, I think it is working very well.

For example, the confectionery businesses in the US and Asia and the domestic business used to be considered separately, but now these are under a single concept, and we use each of them globally and have developed with a great sense of speed.

In terms of product development, until now, the domestic marketing division has not been very active regarding global specifications because the cost of products would go up. Now that the organization is combined, it will become more active. For example, *Poiful*, *Kinokono-yama*, and *Takenokono-sato* are already compatible with global specifications. Those products are made in Japan, exported overseas, and sold there. In the US, there is limited capacity to produce the Meiji brand products but can sell products from Japan over there. This has led to higher sales and profits overseas, as well as higher productivity in the domestic factories, which is going very well.

This is not only for the confectionery, but all four business divisions are proceeding with such awareness. In the case of the sluggish dairy business in China currently, marketing personnel from the Global Dairy Business Division are frequently visiting China to listen carefully to local conditions, sales areas, and the thoughts of local staff to respond to these issues. The organizational changes have been very successful, and we are looking forward to even greater results.

Q-8-1-2

Maybe you have an idea of expanding the brand overseas and producing locally, but exporting especially to the US is the most effective now.

A-8-1-2

Matsuda: Yes. For example, *Meltykiss* is not produced in the U.S., but *Meltykiss* produced in Japan will be specially packaged and released this fall. Our presentation to a retailer has received tremendous feedback. There is no confectionery with such texture in the US, so I would appreciate it if you could see it as a very fun and positive way forward, including such products and brands.

Q-8-2

By the way, you mentioned China in terms of human capital, can we also expect changes in brands and marketing strategies in China?

A-8-2

Matsuda: Regarding human capital, we are sending people to China who were doing development and marketing in Japan. In addition, we are now actively working to create a system that can respond to local needs with the head office in Japan. We are also hiring Japanese staff who have been working at other companies in China.

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