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Meiji Holdings Co., Ltd.
Financial Results for the Q3 of FYE March 2024 (FY2023)
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

The progress as of Q3 to the full-year plan is on track, but you have not revised the plan. I would like to know if there is an upward trend and why the plan has not been revised. If you have any figures for Q3 that show how much your company exceeded its internal plan, please share them with us as well.

A-1-1-1

Furuta: For the full-year forecast, I will talk about the food business and the pharmaceutical business.

First, the current full-year forecast is positioned as a minimum, and we are aiming to exceed the plan as much as possible in the food business.

However, as you can see from these figures, the recovery in volume is a little weak. We need to consider how to connect this to the top line, or how to accelerate the top-line trend by using sales promotion and advertising expenses. In this sense, we have decided to leave sales and profit unchanged.

As for the pharmaceutical business, operating profit is already in excess. In particular, antibacterial drugs, which are the foundation of our business, including long-listed products, are performing very well, and the pharmaceutical business itself is doing very well.

On the other hand, R&D expenses are increasing in late-stage pipelines, such as Phase II and Phase III. Therefore, especially in Q4, we have recorded a large amount of R&D expenses. In this sense, we have not changed our FY2023 plan of JPY22 billion for the pharmaceutical business. Q4 has historically been seasonal, with deficits or break-even. In addition to these factors, R&D expenses are expected to increase, so we have left the full-year forecast unchanged.

Q-1-1-2

Other and domestic subsidiaries in the food business are looking at a loss of JPY700 million for the full year, but in the cumulative Q3, it is making progress with a profit of JPY2.5 billion. Is it possible that costs will be posted in Q4, like in the R&D expenses of pharmaceuticals, and that we will see

a sudden negative turnaround, or is it safe to assume that you are on an upswing?

A-1-1-2

Tanaka: As for Other and domestic subsidiaries, we are carrying a large amount of budget in costs, including raw materials, but in reality, the deficit will not expand to this level in Q4. However, I think the declining sales trend will result in a lower profit.

Q-1-2

I would like to ask about the outlook for cost increases in raw materials and energy costs. On page 3 of the presentation document, I think the Q3 cost increase of JPY4.7 billion is less than halfway against the H2 plan. Is the situation in Q4 such that costs will not increase by more than this JPY4.7 billion? Looking at the market prices of raw materials in the appendices, some costs are decreasing, but cocoa and other costs are going up. Can you tell us about market conditions and your company's view of future costs for 4Q and the next fiscal year?

A-1-2

Furuta: As for the cost increase in raw materials, as you pointed out, we have not changed our forecast for the full year. So if we subtract the cost increase in raw materials for Q4, the cost increase in the food business will be about JPY8 billion or more. I am not sure if it will come out with this much cost increase, but I think it probably won't.

On the other hand, as I mentioned earlier, the actual trend in the sales volume due to the price hikes is a little weaker than the amount of subtraction in Q4. So I think if both together will be on par with the plan.

Q-2-1-1

Regarding the top line of the food business, I would like to check the sales of each brand in Q3, such as *R-1*, *LG21*, *SAVAS*, and chocolate. I would like to know if there are any signs of recovery in sales volume for brands that are struggling with these sales. If you do have issues, I would like

to know if you have any ideas about what the issues are and how they need to be reversed.

A-2-1-1

Furuta: For the top line of mainstay food products, first, sales of *R-1* have increased. However, our internal expectations were a bit higher, and we have not reached them.

To give you some concrete figures, in Q3, the *R-1* sales increased by 2%. The cumulative total in Q3 is almost the same, with a 2% increase in sales. On the other hand, sales of *LG21* declined significantly. For Q3, the sales decrease was 8%. This was a significant jump thanks to package renewals, including functionality labeling, and physician-recommended promotions in the last fiscal year. Last year, Q3 was up about 4% over the previous year, but that has since settled down.

As for *SAVAS* powder, sales have been doing well. In Q3, the YoY growth rate is almost flat, but in the Q3 cumulative total, the rate is 7%. As for the powder type, Q3 was flat. Once consumers buy powdered protein, they will have it in stock for a while, so I expect Q4 to be more active again.

Sales of *SAVAS* milk have been very strong, especially in stores. Q3 is a 23% increase and the Q3 cumulative total is a 19% increase. Therefore, the sales of powder type and drinking type are now about the same, although powder sales will probably be slightly higher than drinking type for the full year.

Regarding chocolate, *Chocolate Kouka* continues to be favorable. *Chocolate Kouka* has resulted in a 9% increase in Q3 and a 6% increase in the Q3 cumulative total. In addition, the sales of standard chocolate, including chocolate bar, nuts chocolate, and *Kinoko no Yama* and *Takenoko no Sato*, have increased by about 2% in Q3. The Q3 cumulative total is up 5%. Nuts chocolate has been performing very well recently, up 6% in Q3, and up 19% in the Q3 cumulative total.

On the other hand, sales of gummies decreased for Q3. This is mainly due to the sell-off of Meiji's subsidiary called Meiji Sangyo Co., Ltd. and the decrease in the number of SKUs of gummy products that it was making. The market for gummy is doing very well, and we expect it to recover again after Q4.

Q-2-1-2

I think you are saying that there is an issue in the recovery of sales volume. I would like to know if there are any signs of improvement, or if there are no signs of improvement, what are the issues you are aware of and how do you think they should be changed?

A-2-1-2

Furuta: I think that the issue we are facing is the sales volume in functional yogurt and yogurt. Other than that, as I mentioned earlier, we are at the point of fairly strong growth, so we would rather fully extend this trend.

As for yogurt, sales of *Meiji Bulgaria Yogurt Plain 400g* have been recovering quite well and have cleared the previous year's level. While sales of the 900g drink-type yogurt were discontinued in H1, and they were replaced with a medium-volume yogurt, they have not reached our expectations. So, we are in a situation where the overall *Bulgaria* brand itself seems to be very depressed.

However, as *Bulgaria Yogurt* brand is celebrating its 50th anniversary, we are conducting various campaigns and measures. For sales of *Bulgaria Yogurt plain 400g* are doing quite well, and I think we can expect growth from Q4 onward.

On the other hand, for *R-1* and *LG21*, it is necessary to consider a rebound from last year. As for *R-1*, I think it would be good if we could maintain sales increase of approximately 1% to 2% for Q4. Originally, our internal expectations were higher, but nowadays, there are many kinds of health foods with health function claims on the market, and customers are buying a wide variety of products. Therefore, I think it is difficult to expect too much from *R-1*.

Q-2-1-3

I thought that the sales of *R-1* were a bit weak, even though the flu is quite prevalent.

A-2-1-3

Furuta: I believe that the correlation between *R-1* sales growth and the flu pandemic has weakened more than before. Therefore, I believe it is necessary to consider a different campaign, a different

way of appealing and adding value.

Q-2-2-1

You said that raw materials are not rising as much as expected now. However, when you think about the next fiscal year, what is your estimate of the raw material cost of the food business? Since your company will still have the effect of price hike of chocolate and gummy products in the next fiscal year. I would like to know if profits will turn positive when the effect of the price hike and the high cost of raw materials are netted out, or if it is necessary to offset them and build up profits through volume growth.

A-2-2-1

Furuta: Regarding the view of raw materials for the next fiscal year, as you know, cacao beans and sugar have been rising. Therefore, chocolate products are affected the most. We raised the price of chocolate products in last October, ahead of other companies. We will carefully assess whether we can maintain the current price with the further rising costs of raw materials.

For other raw materials, for example, no revision is expected for domestic raw milk, and overseas dairy ingredients are also on a downward trend. We believe that the pressure to increase raw materials costs will be less than this year and will appear in the form of profits.

Q-2-2-2

The raw materials increases and the already announced price hike can offset each other. But if there is a situation where the raw materials costs are going to increase, you must announce a price increase for that, for example, in chocolate. Furthermore, by recovering sales volume, should we imagine that you are going to build up profits in the food business?

A-2-2-2

Furuta: That's right. I believe that our basic strategy is to consider price hikes in a manner commensurate with any rise in raw materials costs. Since cost increases have settled down from

last year through this year. I think our basic strategy for the next fiscal year and beyond will be to increase the top line and the sales volume based on this settled cost base.

Q-3-1-1

For the mainstay products, if you include the effect of the price hikes, the sales volume is still decreasing in Q3 as well, isn't it? Is there any recent news that it is going to turn positive, or something like that?

A-3-1-1

Furuta: You are correct, there is a slight difference between sales volume and sales. In terms of quantity, roughly speaking, some products are reduced by 5%, or even 10% in some cases.

For some mainstay products, the sales volume has already cleared the previous year's level, so it can be said that the situation is still unclear. However, the decrease in sales volume of yogurt and functional yogurt has had a slight impact on our profits.

The volume of chocolate, SAVAS, and B-to-B products has cleared the previous year's level, and I think it can be said that the movement is quite strong.

Therefore, we are concerned about the decrease in sales volume, and we think that we need to increase the top line such as yogurt and functional yogurt.

Q-3-1-2

I understand very well. I would like to hear how the yogurt and functional yogurt recovery is responding.

A-3-1-2

Furuta: As for yogurt, *Meiji Bulgaria Yogurt Plain 400g* is on the road to recovery, so we are feeling a positive response. For the *R-1* and *LG21*, I think we should maintain the current level.

Q-3-1-3

How do you plan to bring back the volume for next year?

A-3-1-3

Furuta: We aim to get the sales volume of yogurt and functional yogurt back to the flat level of the previous year. In addition, we will expand the top line with products that are otherwise strongly growth. It is our idea to recover the growth trend as a whole.

Naturally, we would like to increase sales of functional yogurt as well, but with such health food products abounding in the market, we cannot expect 10% or 20% growth as we have in the past. We would like to strategically use marketing expenses to determine how to bring this to a point of flat or slightly increased revenues.

Q-3-1-4

Are there any other categories other than *SAVAS Milk Protein* that is showing solid growth in sales volume?

A-3-1-4

Furuta: *SAVAS* powder and B-to-B products are also growing in sales volume. *Meiji Oishii Gyunyu* is on the road to recovery. We believe that drinking milk for the consumer market can be expected to turn a profit from next year onward.

In addition, the sales volume of infant formula also cleared the previous year's level, and chocolate is also almost at the same level as the previous year. In this sense, we recognize that other mainstay products are performing well.

Q-3-1-5

I see. So, you really need to take care of yogurt and functional yogurt.

A-3-1-5

Furuta: Sales of *Bulgaria yogurt* have been strongly affected by the discontinuation of its yogurt drink. I think that if the influence of that is diminished, our yogurt products will remain stable.

Q-3-1-6

I understand that your company is not pushing too hard in yogurt sales, as demand in general is still not strong enough on a sales volume basis. On the other hand, what is your thought on the risk of price competition?

A-3-1-6

Furuta: It is not only for yogurt, but I think there is a polarization between PB and commodity-type NB products, and high-end products with relatively high added value. In such a situation, I think we should sell high-end products and approach consumers who purchase such products. Therefore, if we can reach out to consumers who purchase value-add products and attract fixed customers, functional yogurt *Bulgaria Yogurt* brand will continue to grow in the future.

Q-3-1-7

It is important to create a cycle of marketing and sales growth, isn't it?

A-3-1-7

That's right. *R-1 the GOLD* is attracting quite a few new customers. Our survey estimates that about 70% are new customers. In this sense, we are confident that we will be able to attract new customers if we continue to develop new business opportunities. We would like to manage our business aggressively.

Q-4-1-1

Regarding the food business of China and other foreign countries. I think there was a loss of about JPY1.1 billion in Q3. I think that the CPI for food products in the Chinese market has been declining.

What is the outlook for chilled milk for the consumer market in China, and what is the status of your study of improvement measures?

A-4-1-1

Furuta: We recognize that the China business is a major challenge for us. Depreciation, sales and marketing expenses have increased significantly, but chilled milk for the consumer market is in severe competition with major Chinese dairy manufacturers. Therefore, I believe that it is necessary to compete with them in a different field, instead of in the same field.

For example, B-to-B is performing very well, so I believe there are various measures we can take, such as focusing more management resources on such areas. I would like to discuss such specific measures and strategies again when we announce the 2026 Medium-Term Business Plan in May. We believe that our drinking milk business for the consumer market in China is a very big and urgent issue, and we naturally cannot ignore the current situation. We would like to bottom out this fiscal year, and would like to have a thorough discussion again on how we will emerge in the next fiscal year and beyond.

Q-4-1-2

I understand. By the way, if you have not decided at this stage, does that mean you are still in the red to some extent next year?

A-4-1-2

Furuta: We will not be in the black right away. We would like to bring the operating profit of our China business to break even within the three years of the 2026 Medium-Term Business Plan.

Q-4-2-1

In the revised plan for the pharmaceutical business as of November 2023. I think you dropped about JPY10 billion in operating profit for H2. I would like to ask you to review next fiscal year's guidance for the self-amplifying mRNA vaccine against novel variants.

A-4-2-1

Furuta: Regarding ARCT, we received approval in November 2023 for the original stain, but unfortunately was not launched.

Currently, we are developing a subvariant vaccine with BA.4-5, and we are getting good results. We are now in the process of developing a vaccine against a new novel variant to be launched on the market. With support from the government subsidies, we are determined to make the development a success and launch a product.

The product is scheduled to be launched in fall of this year, but to be honest, we are not sure yet. This is because, from this year, the government will no longer be purchasing the product. So there are many uncertainties regarding the amount of sales and profits that can be generated. We are also discussing whether to include it in the plan of the next fiscal year.

Q-4-2-2

If you include it in the plan, does that mean that the JPY10 billion of profit that was revised downward in H2 will be the base?

A-4-2-2

Furuta: We will announce our specific numerical plan in this May, and I would like to talk about them properly at that time.

Q-5-1-1

I would like to ask you about the pharmaceutical business other than the self-amplifying mRNA vaccine. I think the trend is continuing to be very good, especially for antibacterial drugs. In considering the next fiscal year, please tell us about your thoughts on what will and will not change from the current fiscal year's trend.

A-5-1-1

Furuta: In the pharmaceutical segment, we believe we have become profitable due to the structural

reforms we have undertaken to date. Therefore, we believe that the basic trend, such as top-line and profit growth, will remain unchanged in the next fiscal year and beyond.

We have many basic pharmaceuticals, especially antibacterial drugs, for which NHI drug price revisions have stopped falling or even increased are contributing to our sales and profits. Accordingly, we expect the same trend to continue in the next fiscal year and beyond.

In addition, the some pipelines are in the process of applications and approval, so there are some bright spots: sales and profits will gradually grow after the product is launched.

In addition, we expect the self-amplifying mRNA vaccine to be launched and to contribute to sales and profits. Although there are uncertainties, there are a few things to look forward to. I think this is the situation where we can add to our sales with new drugs, while maintaining sales of base antibacterial drugs and generics, so there are no negative factors at the moment.

Q-5-1-2

I think the situation for antibacterial drugs is very good. I would be very grateful if you could give me your thoughts, for example, on your supply capacity and the continuity of demand, which may be difficult to predict.

A-5-1-2

Furuta: First, in terms of supply capacity, we don't have much more production capacity. Unfortunately, I think we are in a difficult situation to supply enough to meet all the demand.

As for the market, there are few suppliers, so I think the market will continue to have an imbalance between supply and demand, with demand being stronger and supply being lower for the time being. I don't know when that will be adjusted, but I believe that we will be able to extend our top line to some extent, at least for the next few years.

Q-5-2-1

About *R-1 the GOLD*. I think the contribution to sales is still small, but I would like to get an idea of the scale of these sales in Q3, and to what extent do you feel that they will grow in the future?

A-5-2-1

Furuta: As for *R-1 the GOLD*, as I mentioned earlier, I believe there are solid sales, especially at CVS. We are considering a scale of about JPY3 billion for the full year.

Q-5-2-2

The JPY3 billion is for H2 of the year, since the product has been on the market since October, is that correct?

A-5-2-2

Furuta: That's right.

Q-6-1-1

What do you see as the momentum of the next fiscal year's performance and the drivers of profit growth? I think the idea is that your company's performance will bottom out this fiscal year and recover next fiscal year, so I would like to know what factors will be the drivers.

A-6-1-1

Furuta: Regarding the pharmaceutical business, as I explained earlier.

In the food business, we believe that the driver of profit increase will be the growth of the top line. Basically, the past two years up to now have been a period of how to catch up by revising our prices in response to increasing the raw materials costs. On the other hand, for the next fiscal year, we expect the costs of major raw materials other than cocoa and sugar to remain stable. Based on this assumption, I believe that the major issue going forward will be how to extend the top line.

Therefore, we believe that from the next fiscal year onward, aggressive management will be required to increase the top line and increase sales volume while making firm marketing expenses. We still have some issues with yogurt and functional yogurt, but in other categories, such as chocolate, nutrition, and B-to-B, our strategy of promoting our value-added products has been well accepted, and I believe that these products will be the growth drivers for our business.

Q-6-1-2

When raw materials become cheaper, there are probably risks that some companies struggling with the top-line growth will lower prices or grow PB products to take on sales volume. What do you think will happen when raw materials costs fall in your yogurt and your mainstay products?

A-6-1-2

Furuta: Looking back at the past, even when raw materials are cheap, the processed food industry has not often lower retail prices. Instead, some companies increased the volume content of the products.

I believe that if the world were to become more inflationary in the future, the pressure to lower prices would be lessened. In the past, there have been discussions about what to do when raw material costs become low under conditions such as deflation, but if the recent inflationary situation continues, we believe that the pressure to lower prices will be relatively weak.

Q-6-1-3

I don't think that in the past there has been any attempt to lower prices. On the other hand, is the idea that your company is leading the way in creating an atmosphere in the dairy industry, including retailers and local manufacturers?

A-6-1-3

Furuta: Not only raw material prices, but also there are various inflationary factors such as labor costs, logistics costs, foreign exchange rates, and others. Considering all of these factors, I believe that the argument cannot be made that retail prices should be lowered because raw materials costs have weakened. As I mentioned earlier, as long as inflation remains healthy at 2% to 3%, we believe that the pressure to lower such prices is extremely weak.

Q-7-1

In announcing the 2026 Medium-Term Business Plan, I understand that the food business has

issues with sales volume, but is there any initiatives for food products other than sales volume? For example, in the 2023 Medium-Term Business Plan, you set forth the utilization of ROIC, but I think it did not work well.

A-7-1

Furuta: We will announce the 2026 Medium-Term Business Plan in May, so I will talk about it on that basis. Regarding ROIC, we intend to strengthen the management system and make more effective use of ROIC than before.

While working to recover the sales volume of existing products, we will introduce new and innovative products as we go forward. In the past few years, we have been rather forced to adopt a defensive strategy, trying to find ways to compete among our existing products. As the business environment improves significantly in the future, we hope that we can create a cycle of launched new products, established them, and raising the top line.

Q-7-2

I think that the 2023 Medium-Term Business Plan was the investment phase, but in the 2026 Medium-Term Business Plan, I think that the investment in China is coming to an end and there should be some spare cash available. Please let us know how your company is thinking about using that cash.

A-7-2

Furuta: We would like to focus on growth investments in the future. We do not necessarily believe that cash-rich is the way to go, so we would like to discuss how we will consider investments for growth, including M&A, in our 2026 Medium-Term Business Plan. At the same time, we would like to provide more returns to shareholders.

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