

MORINAGA & CO., LTD.

**Q&A Session at Results Briefing for First Quarter of Fiscal Year Ending March 31, 2023
(held August 10, 2022)**

Q. Please discuss the progress on operating income in the first quarter versus your full fiscal year and first half forecasts, as well as the factors behind this progress.

A. Both net sales and operating income were slightly below our forecasts. The main reason for this was that the impact of soaring raw materials prices was larger than we had anticipated.

Q. The impact of soaring raw material prices in the first quarter was approximately JPY 1.1 billion, compared to an impact of roughly JPY 4.3 billion for the full fiscal year. What is your outlook for the full fiscal year? Do you anticipate making changes to the forecast for the full fiscal year?

A. Our outlook with respect to soaring raw materials prices is extremely murky. There is a time lag because we will pay from now for the raw materials we have already procured, but the current price level trends in the futures market also suggests that the steep rise of key raw materials prices has peaked. We recognize a bit of a risk in this, and we believe that there is a decent chance that raw materials prices will rise even more than we expect, but we will implement countermeasures in anticipation of this. Therefore, we decided to not make any changes to our full fiscal year forecasts at this time.

Q. Compared to a full fiscal year impact from soaring raw materials prices of roughly JPY 4.3 billion, the benefit of price revisions is only around JPY 2.9 billion, so you have not been able to fully absorb the higher prices of raw materials with price revisions. Do you have any plans to further revise prices heading into the second half of the fiscal year?

A. As I explained at the full fiscal year results briefing in May 2022, we will keep a close watch on the situation, and flexibly execute price revisions when we decide they are necessary. However, at this point in time, we have not made any decisions.

Q. Is my understanding correct that following the price revisions, excluding the impact of the planned halt in the production line for biscuits, sales of confectionery and ice cream have not been negatively

impacted much by the price revisions? What do you see as the reason for the price revisions having gone so well?

- A. First, with respect to biscuits, as per your understanding, the impact of the tight supply and demand situation was larger than the impact of our price revisions. For other products, our goal is for the sales value to increase after price revisions, but I believe it is too early to judge the success or failure of the price revisions based on only this one month, as some products were significantly impacted by the weather, and sales can be impacted by our competitors' actions. We will carefully analyze how things go over the next few months.
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Q. Is my understanding correct that the biscuits production line is currently back to operating normally and is able to meet demand?

- A. There is no issue with your understanding that the planned stoppage was contained to the first quarter. This planned stoppage was the result of investment targeting increased production at the Takasaki Factory, and the supply-demand constraints are on the way to being resolved.
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Q. Is my understanding correct that net sales in the Confectionery & Foodstuffs Business were slightly lower than in the same quarter of the previous year and are basically on par with the market? It seems to me that Morinaga's strength is that you possess a variety of brands in multiple categories, and have grown overall sales in the business by being able to offer a diverse range of offerings.

- A. The situation is different for each category and it varies depending on the product. For example, for *HI-CHEW*, we were able to achieve growth exceeding the market, even though the overall market was growing at a relatively high rate. On the other hand, sales of biscuits underperformed the market due to the impact of our supply-demand adjustments, as I mentioned before. Sales of chocolates and snacks were also slightly below the market. Our approach is to work to achieve growth in the relatively profitable categories of candy and biscuits.
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Q. For *Charge!* in the U.S., please discuss your current initiatives, the status of sales, and people's reception of the product. You said that you placed advertisements, but are you carrying out promotional activities, such as endorsement deals in the sports market?

- A. We launched our own e-commerce site in February, and started selling at brick-and-mortar outlets in

March. We are conducting sampling at marathons and other sports events, targeting people we assume are involved in the sports scene. We have seen solid purchases and good responses from the target group, and this is what we initially anticipated. We want to utilize the information of customers who have accessed the e-commerce site in future marketing activities in order to lay the foundation for expanding sales at brick-and-mortar outlets.

As for partnerships, we are considering this, but I cannot provide details yet.

Currently, our sales channels are still limited, so we will slowly and carefully develop this business while verifying our marketing activities.

Q. Can you use the e-commerce site to market *HI-CHEW*? Is it a marketing tool only for sports-related products that is independent from *HI-CHEW* ?

A. We launched this e-commerce site for *Chargel*. After our sampling program, we felt we needed a platform to give people who showed an interest in *Chargel* a place to purchase it.

Q. The 5% increase in net sales seems to have been quite good. Can you tell us specifically what areas were good and what areas were not?

A. Please refer to the results by business segment found on Page 5 of the presentation materials. The Confectionery & Foodstuffs Business and the Frozen Desserts Business were flat year on year. We were hoping for a bit more growth in the Frozen Desserts Business, but there was a gap between our expectations and the actual results.

Q. I think that you can raise prices and grow sales for categories that are seeing increases in net sales due to a favorable market environment, but what is your outlook for sales volume after raising the prices on chocolate?

A. I believe the point of your question is that we need to take the competitiveness of our products and our market position into account as we consider price revisions. We revised prices for chocolates in July, so it is not yet the time to decide whether those price revisions were successful or not. We will analyze in detail the trends, including sales volumes, over a longer period of time, and respond as necessary.
