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Morinaga & Co., Ltd.
Q&A Session at Results Briefing for Third Quarter of Fiscal Year Ending March 31, 2025
(held February 10, 2025)

Q. What are the objectives of the change of representative directors announced today (February 10) whereby President Ota will become Chairman and CEO and Managing Executive Officer Mori will become President and COO in April?

A. In order to achieve our 2030 Business Plan, it is necessary that we step up and become a truly global company. Under the new structure, the element of reinforcing global governance is also included. By creating a new structure where CEO Ota is responsible for strategic decision-making and COO Mori is responsible for business execution, we intend to accelerate our efforts toward achieving our 2030 Vision.

Q. Does this mean that you will be creating a structure that can take action, including M&A, with even greater speed?

A. Yes. We will steadily implement measures to carry out the various initiatives for achieving the 2030 Vision.

Q. Concerning your outlook for operating income next fiscal year, I believe it will be necessary to generate about 23.0 billion yen in the next fiscal year (the fiscal year ending March 2026) in order to achieve operating income of 24.6 billion yen in the fiscal year ending March 2027, which is the final year of the 2024 Medium-Term Business Plan. In light of the outlook concerning soaring raw material prices and the effects of price revisions, will you be able to achieve a solid step up in the next fiscal year toward achieving profit of 24.6 billion yen?

A. We must assume that today is not the proper timing to convey concrete profit target levels for the next fiscal year. However, as we manage our business targets using a backcasting method, we recognize that the business environment will become even more challenging next fiscal year, and we will set our profit targets for next fiscal year with a view toward achieving operating income of 24.6 billion yen in the fiscal year ending March 2027.

Q. It is correct, then, that you will steadily build up profit?

A. We are currently holding internal discussions on the need to increase profit.

Q. Concerning *HI-CHEW* sales trends in the United States Business, it seems that net sales on a yen basis in this business increased by about 1% in the third quarter and about 8% in the fourth quarter. What are the figures on a local currency basis for each quarter? I believe that sales conditions in the U.S. convenience store channel are challenging; it is your sense that demand has hit bottom, or is it recovering, starting in the fourth quarter? Please include details about the market environment.

A. Net sales in the United States Business increased by 0.6% year-on-year in the third quarter and will increase by 8.4% in the fourth quarter on a yen basis, and decreased by 2.8% and will increase by 6.3%, respectively, on a local currency basis.
Sales conditions, including consumption trends overall, remain challenging in the convenience store channel. About half of sales of our *HI-CHEW* products are in convenience stores, and consequently, sales are being affected by these conditions. On the other hand, our policy is to strategically develop the food channel, and we are steadily implementing measures including SKU expansion, and this fiscal year, sales in the food channel achieved double-digit growth.
As our strategies are progressing in line with our targets despite continued uncertainty over the outlook for the U.S. market, we will bolster collaboration by production with marketing and sales over the medium term and accelerate our initiatives even further in preparation for the start of operations of our second plant in the U.S. in 2027.

Q. How much did sales in the convenience store channel decrease in the third quarter? In addition to that, please discuss sales trends by channel during the current fiscal year.
Also, is it correct that the outlook for a 6.3% increase in net sales on a local currency basis in the fourth quarter is based on a conservative outlook for sales conditions in the convenience store channel?

A. We would like to refrain from disclosing specific figures concerning sales conditions by channel, but in summary, in the convenience store channel, sales increased in the first quarter and decreased starting in the second quarter. There was a moderate recovery from the third quarter to the fourth quarter, but the outlook is that conditions will remain challenging for some time.

Q. Is it correct that the projected increase in net sales of 6.3% in the fourth quarter was due in part to the development of new sales channels?

A. Yes.

Q. Regarding your views on operating income in the next fiscal year, assuming that challenging trends continue in the United States Business, in domestic business, cost increases are likely to occur first, with price revisions following. When planning for higher profit, which business segments are expected to be drivers?

A. In the United States Business, we are taking action with an emphasis on accelerating business growth and expanding business foundations over the medium to long term, and therefore, our fundamental approach is to pursue higher profit in domestic business as a driver of profit growth. Under these circumstances, the effects of higher raw material prices have been considerable in the previous and current fiscal years, and we expect significant effects to continue into the next fiscal year as well. We are implementing price revisions February and March, and it will be necessary to consider price revisions next fiscal year too. Until now, we have been able to maintain and even increase sales volumes in the Confectionery & Foodstuffs and Frozen Desserts Businesses, even after price revisions. However, to continue this, we will carefully examine consumer trends and the status of price policies of competitors and take action to absorb the effects of cost increases while considering the strengths and weaknesses of each brand.

Q. For the "in-" Business, you set high targets in both the full-year plan at the beginning of the fiscal year and the revised plan after the second quarter. Based on sales in the third quarter, which appear to be on a slight recovery trend, please explain the issues and potential for growth in the next fiscal year.

A. The "in-" Business had been in a bit of a difficult situation since the beginning of the fiscal year, but after we launched "*Win Jelly*" limited-time products in December for the "*in Jelly* for Entrance Exam" project, our marketing and sales efforts started to produce results, and the situation is beginning to change. In addition, the recovery trend is strengthening, supported by the impact of the flu epidemic. Although it remains to be seen whether this situation will continue into the fourth quarter, we believe that business is gradually recovering. In terms of revenue, costs have improved slightly, and our strategic response to advertising investment has been improving the operating income margin in the current fiscal year. The plan for the next year will be based on these circumstances.

Q. Regarding the results for the third quarter, the top line is strong, but profits seem weak on the whole. How are individual businesses performing in the third quarter compared to the recently-revised full-year forecasts?

A. Net sales in the Confectionery & Foodstuffs Business have been slightly better than the forecast revised in November. The "in-" Business is performing slightly behind, partly because we planned for a strong top line recovery in the second half. Other businesses have been progressing with no major changes from the November forecasts.

Operating income in the Confectionery & Foodstuffs Business declined as the impact of rising raw material prices was somewhat greater than expected. The forecast for the “in-” Business has been revised downward, as the sales fell below expectations and a greater improvement in costs had been expected, though costs are showing an improving trend. On the other hand, in the Food Merchandise segment, for which we implemented several price revisions during the current fiscal year, demand is expanding and profit is increasing.

Q. Does the Confectionery & Foodstuffs Business have sufficient margin for further price revisions to increase profits in the next fiscal year?

A. We will implement price revisions in the Confectionery & Foodstuffs Business in February and March. In the fourth quarter, we will have to see how these price revisions affect sales volumes. Since we the forecasts are somewhat conservative, results may exceed the forecasts to some small degree. For price revisions, strategic responses tailored to the circumstances will again be required in the next fiscal year, and we intend to continue to grow very strong sales. We will work to improve profitability and increase the top line while minimizing the impact on sales volume.

Q. Cacao prices have remained high against the ROIC target for the Confectionery & Foodstuffs Business. Will the management changes in April lead to an acceleration of measures to improve capital efficiency going forward?

A. Rising cacao prices have had a major impact, mainly on the Confectionery & Foodstuffs Business and the Frozen Desserts Business. The full-year operating income margin for the Confectionery & Foodstuffs Business is forecast to be 4.6%, down 0.5 points from the previous year. The impact of higher raw material prices on margins has been relatively well controlled. In order to improve capital efficiency in the Confectionery & Foodstuffs Business while focusing steadily on what we can do now in the short term, we will work on medium- to long-term fundamental initiatives led by management, including the control of fixed assets and invested capital, based on a thorough examination of the plan.

Q. Concerning the outlook for individual businesses in the fourth quarter and beyond, are there any measures that can be expected to impact net sales and operating income, other than the price revisions in the Confectionery & Foodstuffs Business?

A．We have hopes for the domestic candy and *in Jelly* initiatives in the fourth quarter. For *Morinaga Ramune* and *in Jelly*, in particular, we are aiming for higher sales growth than in the previous year by strengthening in-store exposure through initiatives during the entrance exam season.
