Morinaga & Co., Ltd.

Q&A Session at Results Briefing for Third Quarter of Fiscal Year Ending March 31, 2024

(held February 8, 2024)

Q. In the outlook for the fourth quarter, I believe you are looking at a decrease in sales of about 3% in the Confectionery & Foodstuffs Business. I find it strange that sales will decrease while they have been growing steadily in the first three quarters. What risks, if any, do you anticipate in the Confectionery & Foodstuffs Business during the third and fourth quarters? Is it a conservative projection?

A. Our forecast for lower fourth-quarter sales in the Confectionery & Foodstuffs Business is based on the premise that there was a high level of sales last year since we launched many limited-edition products in the fourth quarter. In contrast, this fiscal year, we plan to adjust the product SKUs with a focus on limited-edition products and adjust the sales mix with an emphasis on profitability. Since the Confectionery & Foodstuffs Business has been performing so well in the first three quarters, there is potential for an upward swing as a result, but at this point in time, we are forecasting a slight decrease in sales.

Q. Concerning *HI-CHEW* in your United States Business, market data for the fourth quarter is below the previous year's fourth quarter. What is underlying this decline? How has *HI-CHEW* been performing relative to market trends? Should we understand that business conditions are having an impact? Also, *HI-CHEW* has continued to grow at double digits. Should we view this trend as a risk or recognize that the growth level will stay the same?

A. Price revisions were implemented for *HI-CHEW* in November 2022. The market data for the fourth quarter, therefore, are also affected by the absence of the positive impact of price revisions seen last year. Also, looking at trends from the first to the third quarter, growth of both the overall market and of *HI-CHEW* slowed during the third quarter, and store turnover for *HI-CHEW* has also tended to slow slightly of late. On the other hand, we are gradually increasing *HI-CHEW* SKUs with the aim of expanding customer contact points, but we envisage a time lag before this leads to sales. In the fourth quarter, we will continue efforts to increase sales by strengthening advertising and other promotional activities. *HI-CHEW* will remain positioned as a pillar of our medium- to long-term growth, as a business in our Focus domains. We will continue to invest strategically in this business and commit management resources to promote business growth.

Q. Concerning your outlook for operating income next fiscal year, do you expect the positive impact of price revisions that you announced on January 30 will offset next year's soaring raw material prices? Do you project that operating income will increase or decrease in fiscal 2024?

A. Forecasting the outlook for raw material prices is difficult. While prices for cacao-related raw materials are surging, prices for overseas dairy products, saccharification products, wheat and so on have settled somewhat from the sharp increases seen in the previous fiscal year. Although we expect some hikes in raw material prices again in fiscal 2024, specific figures will be explained when we announce our new Medium-Term Business Plan in May.

Q. The domestic Confectionery & Foodstuffs and Frozen Desserts Businesses continue to increase their top line. What is behind the strength of this growth?

A. In the Confectionery & Foodstuffs Business, strong growth has been shown by *Morinaga Biscuits* as well as *HI-CHEW* and *Morinaga Ramune* in the sugar confectionery category. We have had success with our product development and promotion measures that leverage the unique value of our brands, and they have been well received by our customers. The product mix in this business is also shifting toward more profitable products, and there is a link between our strategic intent and the actual situation.

In the Frozen Desserts Business, warmer temperatures have of course provided favorable winds, benefitting not only Morinaga but the entire market. We are aggressively working on quality renewal and promotions. For example, we launched two winter-only products: *Choco Monaka Jumbo* with an increased amount of chocolate, and *Vanilla Monaka Jumbo* with a rich vanilla flavor. Both products have been very well received by customers and sales are growing. In addition to the *Jumbo Group*, sales of *Ita Choco Ice*, *The Crepe*, and *ICEBOX* have also increased significantly during the first three quarters, resulting in high growth across the entire Frozen Desserts Business.

Q. The fact that the top line has grown so much this fiscal year raises the bar for fiscal 2024. What are your thoughts on the top line for next fiscal year?

A. We recognize that the very strong performance this fiscal year has raised the bar, and being one the businesses in our Focus Domains, we will invest management resources in the Frozen Desserts Business in order to achieve further growth. In the fourth quarter, we plan to increase strategic investments in advertising and implement promotional measures designed to contribute to top-line growth in fiscal 2024 and beyond. We will provide a more detailed explanation on growth levels in May.

Q. It appears that you plan to spend nearly JPY 2 billion in the fourth quarter on advertising and DX investments, etc. Will you use the expenditure as planned and what are your thoughts on these investments?

A. We expect to increase advertising investment for the full year by JPY 1.5 billion compared to last year. In the fourth quarter, we plan to make strategic investments in each business in order to accelerate growth toward the next medium-term business plan. As for investments in digital transformation (DX), we are accelerating efforts in DX projects and will implement investments steadily. In addition, as per today's news release, we are planning to relocate our head office. The costs associated with the relocation are also included in the fourth quarter as estimates to be incurred.

Q. On the subject of advertising investment, would it be correct to view the additional investments at this time as suggestive that overall business performance is progressing more favorably than expected? Also, regarding the specifics of advertising investment in the "in-," Direct Marketing and Frozen Desserts Businesses—in which you plan to make the additional investments—what approach will you take and what effects do you expect?

A. As you have pointed out, one of the reasons we are able to significantly increase our investment in advertising at this time is that our overall business performance is strong. Taking advantage of this timing, management has made this decision to increase investment in advertising with a view to enhancing corporate value over the medium to long term and managing current business performance in a controlled, well-balanced manner. As for details of the advertising investment, each business has different aims and objectives, and hence the content of the advertising will be different. Going forward, actual advertisements will be released one by one, so please check them out for specific details. Our approach to advertising in each business is as follows. The basis of advertising in our United States Business is to improve brand recognition with a view to medium- to long-term growth. The key point in our Direct Marketing Business is to increase the number of subscription customers, which is the foundation of this business. In the "in-" Business, sales growth had been limited for the first three quarters due to the previous year's exceptional demand related to COVID-19, but in the fourth quarter, we plan to achieve significant growth, primarily in sales of *Energy Glucose Boost*, and we aim to carry this momentum forward into the next fiscal year. And in the Frozen Desserts Business, we will similarly work to maintain the current positive trend by accelerating promotions.

Q. Regarding the United States Business, fourth-quarter market data shows that growth is slowing due to the aftereffects of the price revision. In your full-year results forecasts, whereas net sales have been revised downward by JPY 0.9 billion, operating income has been revised upward by JPY 0.2 billion. Can you please explain the background to this?

A. Looking at cost trends for our United States Business, shipping costs are settling following a period of steep prices, and this is contributing positively to operating income. We have revised our results forecasts to include appropriate control of operating expenses while strengthening our advertising investments.

Q. Can you provide some background on the very large quarterly volatility in the operating income margin of your United States Business (FY23 Q1: 23.4%, Q2: 20.0%, Q3: 15.0%)? Are there any costs other than those actively initiated by your company that are a factor in the volatility? Also, would you say that the fluctuations in fiscal 2023 are within an acceptable range?

A. As you point out, volatility in the operating income margin of our United States Business this fiscal year has been high, but if you look at the trend over a slightly longer period of time, profitability is improving. Gross profit margin is affected by the timing of when price revisions take effect, changes in shipping costs, and price hikes in raw materials such as malt syrup, fats, oils and sugar. Profitability fluctuates according to these factors. Furthermore, with increasing costs of human resources and other inputs amid rising prices in the U.S., HR costs are also increasing for Morinaga. We are also making strategic growth investments in advertising for *HI-CHEW* and in marketing for *Chargel*, the timing of which will also affect profitability. These various factors combine to contribute to increases and decreases in operating income margin. Fluctuations in fiscal 2023 are within the expected range. The United States business is a focus domain, and we will not hesitate to invest management resources to accelerate growth. We therefore ask for your understanding that the operating income margin may increase or decrease depending on the timing of the measures we implement.

Q. Regarding the growth investments you have planned for the fourth quarter, what do you intend to invest in and what results do you expect from those investments? Also, can you tell us about your approach to investment and your numerical targets and other indicators? Some investors may feel that aggressive investment will be a strain on this year’s business results, so it would be helpful if you could break down the investment aims and effects a little more.

A. Decisions on strategic investments in the fourth quarter are being made with both our current business results and achievement of the 2030 Business Plan in mind. The 2030 Business Plan targets net sales of JPY 300 billion and an operating income margin of 12%—targets that we believe are by no means low relative to the current situation. This fiscal year is the final year of our 2021 Medium-Term Business

Plan, so we are naturally aware of the performance targets. But achieving this year's targets is not the end goal. Our investment decisions are made based on an overall balance, taking into account areas that need to be further strengthened leading up to 2030 as well as measures necessary to enhance our corporate value.