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Morinaga & Co., Ltd.

Q&A Session at Results Briefing for Third Quarter of Fiscal Year Ending March 31, 2023

(held February 10, 2023)

Q. Regarding third quarter net sales, please tell us what factors contributed to the Confectionery & Foodstuffs Business being able to outperform the market, as well as the reasons for the strong sales in the "in-" Business in December. Regarding the "in-" Business, were there any special factors such as the launch of additional new products?

A. In the Confectionery & Foodstuffs Business, results picked up from the third quarter. In terms of product domains, the drivers were *Morinaga Biscuits* and *HI-CHEW*. As for *Morinaga Biscuits*, there were some supply constraints in the fiscal first half, but all of these have now recovered. From the third quarter, we have been carrying out promotions centered on *Moonlight* in particular, and these have been received well, and sales of biscuits have shown an extremely high level of growth. With respect to *HI-CHEW*, we have a diverse lineup of products, and we have maintained strong performance for all products, including sticks, pouches, and bags. In addition, in terms of the environment, the COVID-19 pandemic has had an impact, and we have strengthened our product lineup as the so-called "eating scenes" become increasingly diverse. I believe this is the main reason for the positive benefits. With respect to *in Jelly*, in addition to our core products of energy, vitamins, and minerals, we launched a glucose product in 2019 to create a new market. All of the products are performing well – it is not a situation in which there have been winners and losers. I feel that this is the result of our responding to the changes in lifestyles amid the COVID-19 pandemic and thereby being able to capture a wide range of demand, such as consumption settings that include snacking between meals or drinking while working or studying, as well as demand for supplemental nutrition when sick or in response to other health-related needs.

Q. Regarding the repurchase of treasury stock, please discuss the background behind this timing for announcing the repurchase of JPY 4 billion in treasury stock. Also, at the IR Day this past December, you mentioned that you would reduce cash and deposits by about JPY 20 billion (compared to the end of the previous fiscal year) to two months' worth of monthly sales. From the perspective of cash position, do you still plan to reduce cash? What is your approach to the repurchase of treasury stock and your cash position?

A. We have disclosed that the repurchase of treasury stock will be up to a maximum of JPY 4 billion. We have already disclosed our policy for the medium- to long-term financial strategy in our Integrated Report. In this context, our basic principle for shareholder returns is to implement continuous or stable shareholder returns. Regarding dividends, we are conscious of having stable dividends as we want to raise DOE over the medium to long term. However, concerning the repurchase of treasury stock, our basic policy is to flexibly repurchase treasury stock in the necessary situations. We announced an additional repurchase of treasury stock this time around, but considering our balance sheet situation, we will make adjustments toward our goal at the end of the fiscal year as soon as the environment is in place. With respect to cash and deposits, one of our targets is two months' worth of monthly sales, but we have yet to reach that level. As I explained earlier, we will make additional contributions to the retirement benefit trust in March, and going forward we will continue to make adjustments aiming for that target level.

Q. Please discuss the outlook for rising prices of raw materials in the upcoming fiscal year, and measures for responding to the effects of price revisions. Do you have any specific outlook for returning the level of operating income in the upcoming fiscal year?

A. There are still some very uncertain elements with respect to our outlook for raw materials prices. We are currently analyzing things carefully, and I will explain our plan in May when we announce our financial results for the full fiscal year. As for our measures to respond to the rising prices of raw materials, the presentation materials show the quarterly trend. We have been carrying out price revisions since last June, and we fully expect incremental effects in the first quarter of the upcoming fiscal year. Furthermore, we will carry out price revisions once again this March, and including these March price revisions we are expecting to be better able to control revenue than we have been in this current fiscal year.

Q. Regarding the outlook for the change in full-year operating income, please explain the background behind the upward revision of the effect of price revisions and the downward revision of the effect of the net sales increase in comparison to the revised forecast announced in November.

A. This is because, as explained in our full fiscal year results forecast, we made a slight downward revision to our net sales forecast from the amount we disclosed in our revised forecast in November. This is mainly applicable to the U.S. Business. In the U.S. Business, the fiscal year ends three months earlier than in Japan, and the last three months of the fiscal year are October – December, but we make adjustments due to sales initiatives. Still, sales in the US market continue to grow at a high level, and we do not believe there is any slowing down of the trend in the business.

Q．What is your approach to capital investment in the upcoming fiscal year? I get the impression that the restructuring of factories in Japan has come to an end, but what is your thinking on investment cash flow, including whether you need to consider building new factories in the US due to manufacturing capacity issues?

A． In terms of the medium- to long-term trend, up until recently we had continuous periods in which we invested heavily in renewal investment, centered on confectionery, but this has gradually been settling down and the amount of such renewal investment is now decreasing. However, please understand that renewal investment will continue to be necessary, and that the ratio of renewal investments to new investments will change rather gradually. With respect to new investments, we are finalizing plans to improve the structure of the depreciation and amortization burden. I will have more to say about this in May when we announce our full fiscal year results. We will also prepare to be able to explain it in the context of the 2024 Medium-Term Business Plan.

Q． (With respect to capital investment), in terms of future new investments, which are you referring to, domestic or overseas?

A． Both. I am referring to new investments both in Japan and overseas.

Q． In your full fiscal year results forecast you are forecasting a JPY 6.85 billion increase in raw materials costs as a result of soaring raw materials prices, but can you tell us specifically which raw materials are increasing in price? Are you seeing changes as the quarters go by, such as in the magnitude of the price increases or the types of raw materials that are surging in price? Also, is my understanding correct that, heading into the upcoming fiscal year, there will be a change in mix of raw materials with soaring costs?

A． The impact of the soaring prices is relatively large for raw materials such as imported milk ingredients, wheat, palm oil, and saccharified products. The situation varies depending on the type of raw material, but we do not disclose the amount for each one. The impact of soaring raw material prices is also different depending on the sales mix, and therefore we are finalizing plans for the upcoming fiscal year, including with respect to those impacts.