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Morinaga & Co., Ltd.

Q&A Session at Results Briefing for First Quarter of Fiscal Year Ending March 31, 2025

(held August 8, 2024)

Q. It seems that you have made a solid start in the first quarter. How much did the first-quarter operating income exceed your expectations? Also, can you tell us if you see this progress as sustainable for the second quarter?

A. Although our company's plan for the first quarter has not been disclosed, I can tell you that operating income is slightly higher than planned. The impact of sales growth has been the most significant contributor.

The sharp rise in raw material prices is at the level we had expected, but the soaring price of cacao has also impacted the chocolate category of our Confectionery & Foodstuffs Business as well as our Frozen Desserts Business which has many products containing chocolate. Due to the time lag between the procurement of raw materials and turning those materials into a product, we expect the impact of soaring cacao prices on operating income to increase in the second quarter and beyond, and this is a point that we will have to watch closely. In terms of countermeasures, we will implement price revisions in September. Although we achieved top-line growth in the first quarter, we will keep a close watch on trends from the second quarter onward to see how sales are impacted, including on the relationship between the price revisions and consumption trends, as we believe that trends could change.

Q. Your U.S. Business saw sales growth of 10% on a local currency basis. Is it fair to say that momentum is improving compared to the fourth quarter (October–December) of the previous fiscal year? According to Circana (formerly IRI) data, momentum for *HI-CHEW* has improved from January–March to April–June. Are there signs that your shipments will return to double-digit growth or higher from the first to the second quarter? Also, can you tell us if you have felt any impact of the economic downturn in the U.S.?

A. Amid poor conditions in the U.S. market overall, our U.S. Business faced somewhat difficult conditions in the January–March quarter, but there have been signs of recovery in the April–June quarter.

Nevertheless, looking at the U.S. macroeconomic environment, the employment environment is deteriorating slightly, so we need to keep a close eye on how much this will affect consumer spending. In the short term, we are somewhat concerned that the market as a whole is unlikely to turn around.

In spite of this, we are steadily working to expand the number of SKUs and develop new sales channels. In the U.S. market, the effect of these efforts is characterized as being more pervasive and effective over time, rather than being immediate. We therefore expect that the effects of our efforts will be gradually reflected in our business performance in the second half of this fiscal year.

Q. I understand that your first-quarter results are better than planned, but can you tell us if there was any variance in performance between different businesses? I think you saw an upturn in both sales and profits particularly in the Confectionery & Foodstuffs Business, but what about your other businesses.

A. As you pointed out, our Confectionery & Foodstuffs Business, and in particular, the sugar confectionery category, performed very well in the first quarter. Our Frozen Desserts Business also performed better than planned. Although temperature was a factor, the success of our marketing strategy and the positive reaction to our products were also contributing factors in this business.

Q. Looking at the first-quarter results for the "in-" Business, sales grew by ¥0.2 billion, but operating income grew by ¥0.4 billion. Can you tell us the reasons for the greater increase in profit?

A. The first reason relates to the timing of when selling expenses are recognized. In this fiscal year, we will allocate selling expenses from the first quarter to the demand period in the second quarter, which has contributed to a slight increase in first-quarter profit. Another reason is the progress that we have made in optimizing inventory, with lower storage costs also contributing to higher profits.

Q. Can you tell us how you evaluate the 2% growth in sales? Is it more or less in line with your annual plan?

A. The overall sales growth of 2% in the "in-" Business is in line with general expectations, but there are variations within the business. In particular, sales of *in Jelly Energy Glucose Boost <Ramune flavor>* have continued to grow at a very high rate. The peak demand period for *in Jelly* will fall in the second quarter, so we will strengthen our efforts, including for promotions.

Q. Can you tell us what is behind the top-line growth in the Confectionery & Foodstuffs Business, which has continued despite the high hurdle of last year's significant growth? Also, what is your outlook for the future?

A. In our Confectionery & Foodstuffs Business, we also saw a very high rate of growth in the fourth quarter of the previous fiscal year, with *HI-CHEW* and *Morinaga Ramune* in the sugar confectionery category in particular experiencing strong demand. The growth rate of *Ramune* in particular has been very high, and we expect it to continue as demand for *Ramune* becomes more established rather than being a temporary blip during the entrance exam season.

Q. Regarding profitability of the Confectionery & Foodstuffs Business, your operating income margin improved to 8.3% in the first quarter, which is up on your forecast. Given the impact of the sharp rise in cacao prices on profits, though, what level of profitability can you target in the future?

A. Although the impact of soaring cacao prices has been seen in the first quarter, the impact of sharp price rises may also exceed projections from the second quarter onward. In response, we will implement price revisions in September, but considering consumption trends and the impact on sales after the price revisions, we do not expect very strong top-line growth in the second quarter and beyond. While we believe that *HI-CHEW* and *Ramune* will continue to contribute as highly profitable products, since different categories in the Confectionery & Foodstuffs Business have different demand periods—despite the very good results in the first quarter—we do not expect to see the same trend in profitability in the second quarter onward.

Q. In response to the possibility that the impact of soaring cacao prices may exceed initial projections, can you tell us whether you will consider additional price revisions after the September price revisions?

A. Although it may be difficult to fully cover the impact of soaring raw material prices with the September price revisions, we will need to keep a close eye on sales trends, including consumption trends, after the price revisions, and we will make a decision on any further price revisions based on a comprehensive review of these developments.

Q. You mentioned promoting ROIC management from the current fiscal year. Can you tell us about any contributions to improved profitability in the Confectionery & Foodstuffs Business that are as a result of changes to your past efforts?

A. Having introduced ROIC management in the 2024 Medium-Term Business Plan, some of the results of our business strategy tactics are starting to show in our business performance. In the short to medium term, our plan of action for the Confectionery & Foodstuffs Business is to improve profitability by changing the category portfolio and increasing the sales composition of the sugar confectionery category. We will then proceed with a strategic review of our capital investment structure and other aspects. I recognize that we are making steady progress in changing the category portfolio, and we are seeing the results of this.

Q. You commented that you want to carefully assess the impact on sales volume following the September price revisions. Can you tell us if there are any indications at this current time, such as sales channels or categories that require careful assessment?

A. Price revisions were implemented over several cycles in the past two years, and in the case of Morinaga, the overall impact on sales volumes has not been significant. In the case of products with strong salability, we have continued to see growth in sales volume even after the price revisions. On the other hand, given the macroeconomic environment and the fact that companies throughout the market are continuing to implement price revisions, we believe that we have entered a phase where we should carefully look at whether sales will continue to progress in accordance with past trends.
