MORINAGA & CO., LTD.

Main Questions & Answers at Small Meeting (held July 5, 2021)

Q. What are the targets for each of the four focus domains for the final year of the 2021 Medium-Term Business Plan? How are those targets positioned relative to the sales target of 300 billion yen for 2030 (the fiscal year ending March 31, 2031), and what is the order of priority for the focus domains and the expected timeline for the results of each initiative?

A. Since 2000, our medium-term business plans ("MTBP") have only been three-year business plans, and we always set operating income of 10 billion yen as a business target. However, in the 2015 MTBP we dropped this target of 10 billion yen in operating income for the first time, and conducted fundamental structural reforms. These reforms were successful, and due also to favorable market conditions, we surpassed our long-sought operating income target of 10 billion yen in the first year of the 2015 MTBP period.

Since then, we have steadily grown our businesses and have established a revenue base that has enabled us to steadily generate an annual operating income of 20 billion yen over the three years of the 2018 MTBP period. To achieve dramatic growth by leveraging this revenue base, we formulated our 2030 Business Plan and 2021 MTBP by backcasting from where we want to be in the future. Following the formulation of these new business plans, we reviewed our disclosure policies and decided to disclose our business targets for 2030 and the net sales targets for each of the four focus domains. We recognize that it will be very challenging to achieve these targets as each business will need to achieve disruptive growth following a trajectory that is not simply an extension of current growth trends.

Furthermore, in the 2021 MTBP we are planning for an increase in depreciation due to large-scale investment. We acknowledge that this, combined with the non-disclosure of the targets for the four focus domains, has led to people pointing out that it is unclear whether we'll be able to attain our 2021 MTBP targets. Internally, we consider the fiscal years ending March 31, 2024 (FY2023), and March 31, 2027 (FY2026) as crucial stages on the way to achieving our targets for 2030 (the fiscal year ending March 31, 2031).

We would like to introduce our vision for the growth of the four focus domains in the lead-up to FY2023. We envision a net sales CAGR in the high single digits for the "*in-*" business and direct marketing business, double digits for the US business, and mid-single digits for the frozen desserts business. As for the confectionery and foodstuffs business, a basic domain, we are aiming for a net sales CAGR of about 2%.

With regard to business subsidiaries that were significantly impacted by COVID-19 during the fiscal year ended March 31, 2021, we expect them to return to their pre-COVID levels within three years and we aim to grow them further. We have also been undertaking various structural reforms and aim to reap the benefits of these as rapidly as possible while pursuing our 2021 MTBP business target of operating income of 21.5 billion yen.

Q. The net sales CAGR targets you mentioned are very high considering past performance. What has changed that's enabling you to aim for those targets?

A. The recovery and further growth of the *in Jelly* business is the key factor. For example, we will expand our target customers and consumption settings to include women and children. At convenience stores, the shelves in jelly drink corners are generally arranged in three tiers. Currently, one of those three tiers is fully occupied by our products, but we are planning to expand this further. We have also boosted the number of *in Jelly* personnel in order to take on a variety of new challenges.

As for the *in Bar* business, the products containing 20g of protein continue to perform well. Increasing the protein content of products can impair their flavor, but our masking technology makes it possible to maintain the products' good taste, and we are proud of the fact that we have earned the support of consumers because of this. We have set up a system to boost our production capacity on the way to achieving further growth and we are aiming to achieve significant growth during the 2021 MTBP period.

We believe that consistently making these kinds of efforts in other businesses as well will be the key to our success.

Q. As you expand your top line, what are your plans for your production system? Is there any need for upfront investment?

A. The investments necessary to achieve the net sales targets in the 2021 MTBP have already been factored into the plan. However, if the growth in net sales surpasses our expectations, we may need to expand our production facilities. We especially need to pay attention to the *in Jelly* business and the *HI-CHEW* business in the United States. The *in Jelly* business had been growing continuously after the expansion of production facilities in 2017, but net sales decreased during the fiscal year ended March 31, 2021, due to the impact of COVID-19, so we think there is still some spare capacity for growth. As for the *HI-CHEW* business in the United States, we will have no supply problems relating to the net sales target of 10 billion yen for the fiscal year ending March 31, 2024, but we need to consider the situation beyond that. Capital investments could either surpass or fall below expectations; therefore, we need to monitor how the business is progressing and make appropriate decisions accordingly.

Q. What is the timeline for the rollout of the jelly drink business in the United States?

A. In the current fiscal year, we are planning to launch the products in limited areas and limited sales channels. We are feeling encouraged by the results of an acceptability survey we conducted, and we will continue to use a process of formulating hypotheses and then steadily testing them. We recognize that the supply system will be an issue that needs to be addressed going forward. As we will be developing the jelly drink market from scratch, we do not expect it to make a significant contribution to net sales in the 2021 MTBP period, but we do expect the business to grow during the 2024 MTBP period. *in Jelly* sales are strong in Taiwan, and we see a promising future for the development of the jelly drink market outside Japan. In Japan too, we developed the market from scratch through continuous steady efforts, and we will do the same in the United States.

Q. I think it is necessary to ensure a good resource investment balance. While you are planning to focus on investment in the focus domains, from where are you planning to obtain the resources for that? And what are your thoughts on the balance of such investments?

A. Basically, our idea is that capital investment should be within the range of operating cash flow generated from a stable revenue base. As for advertising costs, we are planning an increase of 10% in the 2021 MTBP period compared to the 2018 MTBP period. In terms of allocation, we plan to increase the ratio for focus domains by 5 percentage points, while decreasing both the ratio and the amount for basic domains. The confectionery business, which is positioned as one of our basic domains, has a large number of products, and there was a time when we invested in across-the-board advertising, but from now on we will use various methods to further improve efficiency. In terms of human resources, we have increased personnel in the "*in-*" business, and human resources that become surplus to needs as operational efficiency improves due to the digital transformation will be transferred to more value-added operations. Capital investment is mainly focused on the frozen desserts business.

Q. I feel the return on investment is not clear. What are your plans in terms of how much to invest in what, and how much return you expect and in what timeframe? Are you considering using indicators such as ROIC?

A. We streamlined our internal rules for capital investment decision-making two years ago. Specifically, capital costs are deducted from the future cash flow generated by investments, and we then prioritize based on payout periods. We also review payout progress periodically, and if the progress is below our initial target, recovery measures will be discussed.
The investments of roughly 40 billion yen included in the 2018 MTBP and the 2021 MTBP are mainly for the updating of aging equipment and facilities, which had to be postponed before. Besides that, investments for mid to long-term growth are included in the 2021 MTBP. We have disclosed the overall companywide ROIC, while the ROIC of each individual business is currently not disclosed. We recognize the need for this, and we will continue to work on the matter internally, including IT infrastructure.

Q. You mentioned the streamlining of the internal rules two years ago, however consumer purchasing behavior has changed significantly due to COVID-19, and sales channels and business models have changed accordingly. I think the kind of information required for decision-making has changed from two years ago. Do you have any newly added elements?

A. While it is important to consider investments based on the changes in sales channels, it is also sometimes necessary to invest in expanding product lineups. For example, by adding new products to the standard *in Jelly* lineup such as *Energy* and *Multi-vitamin* products.
When we talk about investment, we tend to focus on capital investment, but in a broader sense,

there is also the use of cash to improve capital efficiency. The recently announced 2021 MTBP states that we will take total shareholder return ratio into consideration. We think that capital efficiency improvements, in a broad sense, should be seen in a similar light to capital investment.

Q. You have said that you will increase shareholder returns, but will there be a decrease in investment in your main business? Also, how do you prioritize investments in the four focus domains?

A. Investing for growth is our top priority. It is difficult to set an order of priority, but we will carefully determine where especially high returns can be expected. When it comes to determining where to invest, it is important that we take into account the characteristics of each of the four focus domains. As for the "*in-*" business and the frozen desserts business, both have high operating income margins and ROIC, and we plan to raise these further. Regarding the direct marketing business, as a business model that connects with customers directly, it requires a variety of approaches. As for the US business, while we are still in the investing phase, we will make efforts in anticipation of better ROIC in the future.
Each business is important and each business has its own characteristics and therefore different approaches are required. We are prepared to do our best to achieve the 2030 sales ratio target of 60% for the focus domains.

Q. Have you established a business management system that pays attention to capital costs and allows more precise control of return on investment? What are your thoughts on the investment in the Takasaki Factory so far?

A. We do not clearly state capital costs, however, according to external estimates we understand the standard level is around 6%. As for past chocolate-related investments at the Takasaki Factory, we made an investment decision concerning *Carré de chocolat* in order to aggressively expand in response to rapidly growth of chocolate market backed by the high cacao content product boom. Currently, market sentiment has changed and has been leveling off. We consider the factory as important infrastructure for the future growth in high cacao products, which have health promotion aspects and long-term growth potential. The investment in *DARS* is for the updating of aging equipment and facilities, and was essentially made for business continuity purposes.

Q. Do you have any plans to acquire treasury stock from the market? (Given that past treasury stock acquisitions have not been from the market)

A. We are conscious of the need to be flexible in the acquisition of treasury stock.

Q. Consumer behavior has been changing significantly due to COVID-19. In terms of sales channels, new openings of convenience stores have slowed, and there is also pressure to change the business model. I think the high value-added product strategy is facing some difficulties as well. The confectionery market does not have high barriers to entry, and it may be difficult to continue winning based on brand power alone. Please provide your ideas on marketing, product, and sales strategies in the post COVID-19 era.

A. The weighting of convenience store sales is higher for us than other companies. It's around half for the *in Jelly* business and more than 40% for the frozen desserts business. Each company in the convenience store industry has its own characteristics, and we need to operate our business considering each company as a separate sales channel. More specifically, we have a merchandising team that includes marketers, researchers, and production personnel who work together on product development. As convenience stores have limited retail space, we believe it is important to strengthen relationships. The convenience store industry has a long history and is integrated into our daily lives, and we believe it will recover in the post COVID-19 era.
Another channel is drugstores. We are strengthening our efforts with each company and have launched exclusive products. We are targeting high growth and have established a dedicated drugstore team to advance our efforts. As for supermarkets, which are our current main battlegrounds, it is vital that we maintain and improve our net sales. Strengthening e-commerce is also essential. Looking toward the inbound tourist market in the post COVID-19 era, bolstering products such as *Souvenir Hi-Chew* and *Salted Caramel* will also be important.
We will continue pursuing increases in unit prices through adding health value to our products.

Q. Drugstores have lower in-store prices than other channels. What are your thoughts on the profitability of sales within that channel?

A. We will make steady efforts such as the development of exclusive products based on sales strategies that take the characteristics of each company into consideration.

Q. What direction are you planning in terms of inorganic growth?

A. This time, we clearly stated in our business plan and declared both internally and externally that we will actively consider M&A and alliances in order to realize our 2030 Vision. To compensate for our lack of expertise in M&A, we have hired outside specialists. We will establish a dedicated team and launch full-scale activities in the future.
Since it involves significant risk, we will conduct these activities based on appropriate risk management. We believe that we have the capacity to invest several tens of billions of yen, depending on the balance of our financial standing. We will be flexible in how we engage in fund procurement.

Q. I think that M&A and alliances are a way to enhance strengths and mitigate weaknesses. What are some issues that you are currently aware of?

A. We should prioritize accelerated growth in the focus domains. We have various options such as accelerating development of the jelly drink market in the United States, or expanding our customer data in the direct marketing business. We may try to cover shortfalls, or buy time. We may also bolster businesses outside of the United States, which are currently positioned as “exploration & research” domains. We intend to consider various options while controlling risks.

Q. I would like the company to prioritize bank financing over convertible bonds, etc., which may dilute per-share value. What are your thoughts on fund procurement?

A. In general, our financing plan is based on bank borrowing and corporate bonds. We will choose the best financing option considering the business environment and other conditions at the time.
