**Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.**

# Morinaga & Co., Ltd.
# Q&A Session at Results Briefing for First Quarter of Fiscal Year Ending March 31, 2024
# (held August 8, 2023)

---

Q. Regarding the operating income of the United States Business, compared to the 16.6% operating income margin in the forecast for the full fiscal year, the first quarter's margin was in the 20% range, which is the highest margin ever of the data you have disclosed. What risk factors are assumed to exist in securing 20% or more in the future? In addition, can you provide us with what measures you plan to take to further increase the operating income of the United States Business in the future, together with the target level of the operating income margin?

A. The operating income margin of the United States Business was 23.4% in the first quarter and 13% in the same period last year, showing a drastic improvement in profitability. We believe that the most significant contributing factor is the effect of price revisions. Since 2019, we have increased prices for core products five times. Although we have been able to grow steadily without a decrease in sales volume. This has enabled us to significantly improve profitability.

As the United States Business is a strategic growth domain for us, short-term performance is very important. However, we believe that it is more important to continuously realize medium to long term growth rather than to maintain the operating income margin of 20% range. Therefore, it is important to continue to invest in advertising and strategic marketing. In addition, the current supply system does not have sufficient production capacity in the medium to long term. Therefore, if we invest in increasing production in the future, it is assumed that profitability will decline due to a temporary increase in the burden of expenses. However, we intend to maintain high profitability in the medium to long term.

---

Q. You implemented price revisions for *Morinaga Biscuits* in the Confectionery & Foodstuffs Business in March this year, but the growth rate far exceeded the biscuit market. Is there any factor unique to *Morinaga Biscuits* that shows such a remarkable growth while other companies are also implementing price revisions?

A. We revised prices of *Morinaga Biscuits* in March, but they achieved a significant increase in the first quarter over the same period of the previous year. Marketing efforts such as the release of limited-time designs and *Marie*'s 100 year anniversary activities also contributed significantly. Furthermore, the slightly lower level in the previous year also contributed to the growth rate due to temporary constraints on the supply of products in order to expand production capacity. The key point is that the Business is doing well and we are able to aggressively expand our products compared to the previous year.

---

Q. I have a question regarding the “in-” Business. There was a slight decrease in operating income in the first quarter. Can you tell us more about *in Jelly*'s initiatives in the second quarter and thereafter? I think competitive products with relatively low prices have emerged. How are you going to make more effective efforts?

A. In the previous year, due to demand from COVID-19 patients including deliveries to local governments, net sales growth was slightly lower in the current fiscal year, contributing to the decline in operating income. The impact of last year's deliveries to local governments is expected to continue until the end of the third quarter. Excluding this, net sales have grown. In particular, net sales at convenience stores, our core channel, remain strong, so it does not mean that the momentum of business growth has been slowing. On the cost side, the increase in raw material prices, particularly for thickeners and packaging materials used for *in Jelly*, has had an impact on the decline in operating income. In the product mix, the “in-” Business has two main product lines, *in Jelly* and *in Bar*. While net sales of *in Bar* increased by 116%, those of *in Jelly* remained unchanged at 100%. Since *in Jelly* is more profitable, changes in the sales composition also affect profitability.
As for marketing measures, we are confident that the direction we have followed is correct. As we continue to grow by expanding the purchase rate through the development of consumption scenarios and targets, we believe it is fundamental to continue these measures.

Q. The forecast for the full-year shows an increase in net sales and operating income of the “in-” Business. Is it correct to assume that the decrease in operating income in the first quarter is within expectations, as this plan takes into account the decline in demand for local governments in the previous year to some extent?

A. Demand for local governments has been factored into the plan, so the decline is within expectations.

---

Q. Can you tell us how much operating income rose in the first quarter compared to the internal plan, together with the factors?

A. We do not disclose quarterly actual and internal plan comparisons. As a whole, there is no significant discrepancy between the actual and the internal plan, and gross profit is slightly higher. In terms of selling, general and administrative expenses, there is a gap in the timing of input, but there is no significant discrepancy between the actual and the plan.

---

Q. If we calculate backwards, operating income would increase by 9% in the second quarter, and operation income growth would slow compared to the first quarter. What are the reasons for this slowdown?

A. The factors include the impact of soaring raw material prices and the yen's depreciation from the planned rate of 133 yen. It may look conservative in terms of numbers, but we would like to bring it in an upward direction.

Q. Also, as the price revisions effects would work in the second quarter, and the effect of energy costs is lower than expected, I think an increase in operating income higher than the first quarter can be expected. Can you share your thoughts on this?

A. We will continue our efforts to realize profit growth higher than the first quarter, but we are cautiously considering the impact of foreign exchange and raw material prices as risk factors. In addition, we believe it is necessary to take into account that the effect of price revisions implemented from June to July last year will be reduced as a result.

---

Q. With regard to the price revisions in March, I see the strength in light of the market movement. Can you tell us how you have analyzed this?

A. There are some differences depending on the competitiveness and brand strength of each product. The price increase has not led to a decrease in sales volume for competitive products with brand power. Prices are increasing not only in confectionery & foodstuffs but also in the market as a whole, so we need to closely monitor changes in consumer acceptance.

---

Q. What are your thoughts on the possibility of future price revisions and the escalation of raw material prices in the future?

A. The situation of raw material prices is very difficult to predict. In the first quarter, we were affected by soaring prices of cacao and overseas dairy products, so we need to keep a close eye on the trend, and we are not optimistic. We will assess changes in the situation, analyze customer responses, and consider more price revisions if necessary.

Q. I think price revisions could be an opportunity to improve the profitability of chocolate products. What is your take on this?

A. There is a possibility that a price revisions will not lead to an increase in operating income. We will carefully assess the impact on sales volume and proceed with the discussion when necessary.

---

Q. In Japan as a whole, costs have been reduced relative to the plan. Does this mean that the main reason for the decline in operating income in the “in-” Business is the impact of the product mix and the impact of soaring raw material prices is limited?

A. We believe the impact of deteriorating product mix and soaring raw material prices have contributed to the decline in operating income of the “in-” Business. Specifically, price increases in thickeners and packaging materials affected the decline in operating income.

Q. Is there no current prospect of the escalation of raw material prices to subside?

A. The escalation of raw material prices is very difficult to predict. In the “in-” Business, we intend to implement various measures to improve profitability even in the face of persistently high raw material prices.

---

Q. What is the rationale behind the consumers’ support for *HI-CHEW* in the United States through product differentiation? Please also tell us about your efforts to meet the demand for events such as Halloween.

A. The product strength of *HI-CHEW* is that there are no products in the soft candy sector in the United States that are close to the texture of *HI-CHEW*. Since 2019, we have raised prices several times, but the sales volume has not decreased and continues to grow with high consumer acceptability. We also combine multiple marketing measures and keep implementing active promotions.

In addition, we continue to work on marketing initiatives triggered by events such as Halloween. We are also strengthening our partnerships with MLB teams, signing contracts with four teams in the current fiscal year.

---