

MORINAGA & CO., LTD.

Results Briefing for the Fiscal Year Ended March 31, 2021 Question & Answer

【Tokai Tokyo Research Institute : Mr. Araki】

Q. Could you give us a more detailed description of the use and purpose of capital investment in the fiscal year ending March 2022? I am surprised at the large amount. What is your approach to capital investment for the next fiscal year and beyond?

(Uchiyama)

A. We have already announced the amount of JPY24.4 billion in capital investment for the fiscal year ending March 2022 in the Consolidated Financial Summary for the Fiscal Year Ended March 31, 2021.

For example, refrigeration facilities for Frozen Desserts at new Takasaki Factory number 3 will start operating. In addition, there will be spending worth around JPY6 billion for the completion of the new research center and others in the second half of the current fiscal year.

Moreover, there is investment in several facilities already in process, such as those related to chocolate and Frozen Desserts. In that sense, investment worth JPY24.4 billion for the current year of the JPY45 billion over the 3 years is a large amount. More than half, 54% will be centered on the year ending March 2022, so this is the peak year.

Q. Considering the large capital investment amount, I am concerned that free cash flow may be in the red. Please show us your FCF strategy.

(Uchiyama)

A. Earlier, we explained operating activities, capital investment, shareholder return, and growth investment in the conceptual diagram of cash Allocation over the 3 years of the 2021 Medium-Term Business Plan. (Refer to P34 material of the Fiscal Year Ended March 31 2021 Results Briefing)

In this sense, although there will be some discrepancies on a single year basis, especially in terms of the cumulative period of the 2021 Medium-Term Business Plan, the overall figures will come within the range of the conceptual diagram for the 3 years as mentioned earlier.

As we keep a certain amount of net cash surplus, we believe that we will be able to manage our FCF within the range.

【CREDIT SUISSE SECURITIES (JAPAN) : Mr. Ihara】

Q. I sympathize with your plan to change into a Wellness company in 2030. While competitors are strengthening their wellness operations, what are your exclusive attributes of your wellness? I would like to know about your company's strengths in the wellness area as well.

(Ota)

A. We have contributed to provide the value of the "health of mind" through our products. We will make a deep dive into it. Including Confectionery, Foodstuffs, and Frozen Desserts, deepening "health of mind" leads to improvement of emotional values or sense of happiness. I think that one of our strengths lies in the history of 120 years, including our brand.

In providing value for "health or body," we have the strength of the "in" brand. In Jelly has grown in scale and Direct marketing business has steadily grown. Including accelerating the health of body, I believe that our history, brand, reliability, and technology have a sufficient advantage in conveying the importance of the health of mind and body. And we would like to make this happen.

Q. I understand that you place emphasis on upfront investment. Your operating income target for the year ending March 2024 of JPY21.5 billion is close to JPY21.2 billion, the full-year result in the year ended March 2020. Is it correct to understand that these 3 years are a period for establishing a foundation for jelly drinks US development and challenge to value-added Frozen Desserts?

We heard a variety of measures. Would you please prioritize them?

(Ota)

A. As you said, a large theme of the 3 years of the 2021 Medium-Term Business Plan is to build a new foundation toward a leap forward. As I told in terms of *in-Jelly*, we aim at recovering the “in-“business, including *in-Jelly* and *in-BAR*. There is a very good current of recovery after the second quarter of the previous term. And we will see how well-performing Frozen Desserts will accumulate their figures.

We also think that the recovery of business subsidiaries is also significant. There are also expansion of candies and biscuits and better profitability of chocolate in the Confectionery & Foodstuffs business. I also explained structural reform measures. We aim to reap the benefits in the area as much as possible.

The JPY21.5 billion target for the third year is a high hurdle while there is heavy investment burden. However, we aim steadily at it as it is attainable enough based on the current business plan.

【Nomura Securities : Mr. Hazama】

Q. In achieving the sales target for 2030, how will you allocate your management resources to the domestic and overseas operations?

(Ota)

A. The target for the overseas sales ratio for 2030 is 15%. We will strive to grow the business in the US. We aim to raise sales in the US to JPY30 billion. As sales of *HI-CHEW* are JPY7.2 billion, there is a high hurdle ahead of us. However, we expect that there is very big potential for jelly drinks, the third arrow product, and others. In terms of allocation of investment, the US business turned into the black in the year before last and profit increased in the previous year. We still have to make investment for the expansion of jelly drinks, the development of the third product, and the possible manufacturing system on a global basis if sales of *HI-CHEW* exceed JPY10 billion.

It is difficult to answer the allocation ratios for the overseas and domestic operations. However, we will inject our management resources to grow both the domestic and overseas businesses toward our goals for 2030.

Q. Toward achieving the JPY30 billion target in the US business, the growth rate of sales is expected to be accelerated from 2024 onward. What is the position of the 3 years of the 2021 Medium-Term Management Plan? Will you need to enhance the manufacturing system? Please also show us your sales initiatives.

(Ota)

A. Our sales target for *HI-CHEW* for the third year of the Medium-Term Plan is JPY10 billion, which is just a passing point. We will be able to speed up sales from that point. Our jelly drinks, whose sales are still zero, will enter a very large market of energy drinks or bars in a new form of product.

Including them, we set a target of JPY30 billion in the US for 2030. We strive to ensure that sales of *HI-CHEW* will exceed JPY10 billion during the Medium-Term Plan so that we can establish a system to aim for the next stage.

As a matter of course, we will need to enhance our manufacturing system. Moreover, we will get off to a good start of the jelly drinks during the 3 years to prepare for steady growth.