Financial Results Briefing Q&A Session for FY 3/2024

[Time and Date] 1:30 p.m. to 3:00 p.m., Tuesday, May 14, 2023
[Speakers]
Koki Ando, President & Representative Director, CEO
Noritaka Ando, COO and Executive Vice President, and President & Representative Director of NISSIN FOOD PRODUCTS CO., LTD.
Yukio Yokoyama, Director, CSO, and Managing Executive Officer
Takashi Yano, Executive Officer and CFO

Overseas Business

Q. Your revenue growth rate will be still high in FY 3/2025, mainly overseas. However, your profit growth rate seems to be lower than the revenue growth rate. Should we assume that the growth rate for core operating profit of existing businesses will be low for the next one to two years as capital expenditures increase?

A. We plan to make flexible capital investments toward the year 2030. We anticipate growth in global demand and we will prepare supply to meet that demand. To this end, we are focusing presently on strengthening our sales base through marketing expenditures. We expect profits to follow, once we establish a strong sales base.
In the future, EBITDA growth should allow us to maintain a certain level of profit while dealing with depreciation costs. We plan to prioritize investments where demand is high, taking into account the timing of capital expenditures in response to demand trends and changes in the external environment.

Q. Either quantitatively or qualitatively, can you share how the cost-effectiveness of premium products is perceived in the U.S. market and whether there is room for price increases? Also, what is the relationship between the use of sales promotions or rebates to stimulate demand and any room for price increases?

A. Prices are extremely high in the U.S. compared to Japan. We believe that premium products—even the highest-end —at a cost of $2 or more present an attractive option. The economy is slowing while inflation remains high, and there is still room for growth, including down-trading. Cost-effectiveness and time performance are especially appreciated by the younger Millennials and Gen Z.
We plan to examine the room for price increases while keeping an eye on market trends. Our current marketing costs are focused on raising awareness, including awareness of premium products, and other strategies, such as high and low*. Once things settle down, we will be able to time our price increases.

We also see a competitive price range for CUP NOODLES vis-a-vis the Big Mac to be in the approximate 20% to 35% range. In the U.S. right now, the percentage is very low at around 10% to 15%, depending on the product. With this in mind, we believe there is plenty of room for growth in the higher price ranges, if the products are attractive.
*High-and-low: A technique in which products sold at regular prices are sold at reduced prices for a set period of time

Q. What are the short-, medium-, and long-term milestones for your growth strategy in the U.S. market?

A. We are considering many approaches to the U.S. market, and not just extensions of what we have done in the past. First, we intend to expand premium products using the third plant, now under construction. While I cannot give details on specific strategies at this time, we plan to move forward with focus of intent.

Q. What are your strengths against Korean competitors in the U.S. market, and what is your differentiation strategy in the competitive environment of the premium market?

A. Our understanding is that our main competitors are basically developing expensive, high-value-added products. So, we consider this to be a competition of premium products, and a very stimulating competition at that. Our policy is not to compete on price, but to differentiate ourselves through value-added competitiveness. We also offer products that compete with the spicy and sticky noodles that characterize Korean products. In terms of variations, we have a wider range of products than our competitors, including directly competitive products and premium products. We also believe that we can differentiate ourselves by expanding our premium product line and increasing valuation through the development of new products using food technology. We believe we can expand our premium product line while competing with the Korean products and growing the high-priced market together.

Q. We believe that the production problems in Brazil are being corrected on a case-by-case basis, although it seems that problems are occurring repeatedly. How do you plan to make fundamental improvements, and what are your future measures?

A. Regarding the problems in Brazil, the prospects for improvement are good. It is not a question of market conditions or product popularity, but mainly a question of production troubles and the natural environment. The former was due to the fact that the construction work to accelerate and improve production efficiency—work to prepare for a future demand growth phase—did not proceed as planned. The latter was due to flooding and power outages caused by abnormal weather conditions affecting production. We addressed these problems by increasing production staff support from the head office, and operations are returning to normal now. We believe we can achieve double-digit growth on a volume basis in FY 3/2025 and that demand will continue to grow in the years ahead.

New Businesses

Q. Can you provide a concrete idea of how you plan to take the KANZEN MEAL business from a loss to a profit?

A. We invest between 5% and 10% of profits in new businesses annually. These investments include the development of dry products, frozen products, healthcare cooperation, cafeteria meals business, and development overseas. Of these products, we expect dry foods to be the first to turn a profit, sometime around 2027. The other businesses are still in the investment phase. We expect our online subscriber model for frozen products will become independent and turn a profit in five to seven years. In the future, we intend to shift our new development budget overseas, leveraging our cumulative knowledge of Optimized Nutri-Dense Meals developed in Japan.

Mid- to Long-Term Growth Strategy

Q. How serious are you about improving ROE toward a market cap of 2 trillion yen? And how serious are you about expanding shareholder returns while using debt to achieve this goal? What led you to think in these terms? We understand that raising ROE in the short term is a challenge, but what is your path to improvement?

A. First of all, we believe that organic growth is fundamental, and that mid-single-digit growth is the minimum standard for growth toward 2030. In this context, capital investment is an important factor toward achieving organic growth rates. We believe that capital investment will allow us to conduct activities as we address labor-savings, energy-savings, and environmental issues. Addressing these issues will lead to added value. Now that EBITDA exceeds 100 billion yen, we believe a certain level of capital investment is possible. Having said that, it is important to control capital while returning profits to shareholders. In addition, profitability, including profitability from inorganic sources, and the scale of capital are important. We are entering a new stage of profitability different from the past. The idea of ROE emerged naturally as we considered the appropriate scale of equity in response.
For shareholders, the higher the ROE, the better. And higher levels of ROE are a requirement of the times. Compared to the high ROEs of large foreign food manufacturers, we know we must make more effort to improve our ROE. At times in the past, ROE has been less than 10%. In FY 3/2024, ROE was 11.7%. Along the

growth trajectory we envision for the future, we hope to reach about 15% by 2030. An ROE as high as 20% could be possible once we complete our capital investment. To this end, we believe the CUP NOODLES branding is the business capable of creating added value. Making advancements in global branding leads to the potential for high added value of the type we want to achieve.

Q. What is your current thinking related to M&A? What options are you considering? For example, are you considering expanding the application of equity-method accounting or investing in new business areas?

A. We experienced significant growth over the past three years. We feel we have become very strong in cash generation, especially in terms of EBITDA. With this cash, we hope to pursue inorganic investment as well as capital investment and shareholder returns.

Over the past three years, the conversion of Premier Foods into an equity-method affiliate and the consolidation of KOIKE-YA as a subsidiary have had a very positive effect on our company. We will continue to explore M&A opportunities in various forms, both domestically and internationally. We could pursue M&A of a type in which the target becomes a wholly owned subsidiary. Or we may pursue capital participation and apply the equity method. The type of businesses we target could be those that expand our distribution network or those that represent new businesses. We are a food manufacturer. But we are willing to explore any business—even outside the food industry—over which we can exercise control.

Q. Under your revised plan through 2030, what goals do you most want to achieve as a top manager? In what new areas would you like to invest?

A. Since our founding, NISSIN FOOD PRODUCTS has been known for innovation and marketing. In terms of innovation, our No.1 focus is on food technology. We want to delve even deeper into this part of our business. This is the most creative part of being a processed food manufacturer. We must build marketing based on this innovation.

Food technology also leads to M&A, which calls for significant investment. Creativity is the highest value-add, so this is where we must focus. As a processed food manufacturer, we believe our underlying strength relies on our pursuit of food technology.

Q. What are your thoughts on global human resources management as you expand into food technology and other new areas?

A. When thinking of global branding, the local CEO in each country is already at the helm. People seconded from Japan serve mainly in support divisions for the chief officer level. We expect the world of food technology to transform into a development business on a global level. We will invest in good technologies we discover and continue to pursue development at the Wave, which is our research center and home to expanding human resources. In either case, we know we must create links with global operations moving forward.

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