

[Key Q&A] Conference Call on Financial Results for the Third Quarter of 2022

[Company-level]

Q. What is the impact from the rise in raw material prices this fiscal year, and how much will it be next fiscal year?

A. This fiscal year, there will be around 25 billion yen of impact for the full year to our operations in Japan, while the impact overseas will be even larger, at around 35 billion yen, because we will be affected by higher energy prices as well. The total impact to SBF will be around 60 billion yen. As for next fiscal year, it is very hard to assess what the impact will be, due to the extremely high volatility, but the price hike began gradually from the first half of this year, and we will see the reverse effect in the first half of next year. The second half of next year is even harder to forecast, but we will plan our initiatives based on the assumption that the full year impact will be at least similar to this year (60 billion yen), and potentially larger.

Q. What were the extraordinary factors in the first 9 months of the year? You say you will target profit growth in each region next fiscal year, but does this mean you aim to grow profit on an organic basis, excluding the extraordinary factors you had fiscal year?

A. In this fiscal year, we transferred the fresh coffee business in the 2nd quarter and booked a gain of 15.8 billion yen. In the 3rd quarter, we booked expenses of 4.7 billion yen in relation to the APAC business portfolio review. Moreover, in Europe we booked an expense of 1.7 billion yen in relation to the production integration in Spain. As for next fiscal year, we will aim to grow the organic profit.

Q. Japan has underperformed in the first 9 months of the year, but is the organic profit growing for the whole firm? Did you revise up your forecast because you are outperforming your plans?

A. On an organic basis, we achieved profit growth in the first 9 months of the year. We are revising up our earnings forecast based on the revision of the currency rate and the outperformance especially in Europe and the Americas.

[Japan]

Q. How is the progress of the price revisions from October? What are your views on pricing and volume?

A. We have been raising prices step by step since October 1. It has not been that long since we started, and we are currently right in the process of assessing the impact. Last year the weather conditions were favorable, while this year there was a jump in revenue due to Covid restrictions being eased, making it quite hard to assess the impact only from the price revisions in the month of October. The temporary demand in September was probably around 2-3%, which also had some impact. We will carefully monitor future developments.

Q. Are you expecting a 0.4 billion yen decline in profit in the 4th quarter (Oct-Dec)? How was that calculated? Is it correct to assume that the ASP will rise by 8% in the 4th quarter?

A. Yes, we are expecting profit to decline by 0.4 billion yen in the 4th quarter. As for our profit structure, price revisions will contribute more than 20 billion yen per year, and there should be some positive effect in this 4th quarter too, at around the percentage of sales in the quarter. The other factor is the improvement in channel mix. The recovery in the CVS and vending machine channels had been slow until now, while the supermarket channel was achieving significant growth, but in the 4th quarter this structure will change, leading to a rise in ASP.

Q. If the channel mix improvement is going to continue in the 4th quarter onwards, could it be possible that the contribution from price revisions and channel mix improvement will be enough to absorb the 25 billion yen of negative impact from raw material price hikes you are currently assuming for the full year? Why are you expecting a higher portion of the channel mix improvement effect in the 4th quarter?

A. We do not expect the channel mix in the 4th quarter to continue through the whole of next year. If we just look at the 4th quarter, the price revisions are having a temporary effect on sales in supermarkets. In the next fiscal year, we will work to minimize the impact on profit from cost increases, while benefiting from volume growth and the price revision effect, as well as initiatives to optimize sales channel costs, etc.

[Overseas]

Q. For Europe, you are planning to grow organic profit in the 4th quarter. How probable is this?

A. We expect significant impact from raw material and energy price hikes to continue in the 4th quarter, but current demand is strong, and we expect sales volume to grow. We are flexibly revising our prices, and expect stable operating profit.

Q. Will SBF be impacted by downtrading and the growth of Private Brands (“PB”) in Europe and Asia?

A. We are currently not being impacted by PBs, and neither do we see a trend of downtrading.

Q. Any issues with the Health Supplement business?

A. Both revenue and profit declined due to several reasons. In Thailand, the inflation rate is high among Asian countries, which is dampening consumer sentiment. The recovery in tourism, which accounts for a certain percentage of GDP, has only been around 30-40%, a huge typhoon hit the regional areas leading to massive flooding, and the price gap with peers has widened. We conducted a renewal of *Essence of Chicken*, which accounts for the majority of revenue in the Health Supplement business, and we have begun sales & promotion activities from November, and hope to achieve a recovery in the 4th quarter.