[Key Q&A] Conference Call on Financial Results for the First Quarter of 2023

[Company-level]

Q. You mentioned that the Company had a better start than expected. Were there differences in strength by area? Are there any changes in your assumptions for the impact of raw material costs?

A. Overall, the topline was strong in the first quarter. This was partly due to stronger-than-expected sales growth for our core brands as a result of focused activities for them. Favorable weather conditions also had a positive impact. In Japan, in particular, a recovery in foot traffic also provided a very significant boost. On the other hand, costs in Japan deteriorated by approximately 6.3 billion yen year on year in the first quarter, but were roughly in line with expectations. Overseas costs were also within the expected range.

Q. Operating income on an organic basis in the first quarter met the Company's full-year growth guidance. What is the outlook going forward? Can the strong topline be sustained in the second quarter and beyond?

A. In the first quarter, topline growth exceeded expectations, which also resulted in the higher-than-expected operating income. Of course, we would like to exceed our guidance for the full year, but the external and cost environment remains uncertain in the second quarter and beyond, and we need to assess the situation carefully. On the other hand, the price revisions we started in Japan in May are a positive factor as they were not included in the guidance.

[Japan]

Q. Could you reiterate your thoughts on the additional price revisions?

A. First of all, we want to ensure that the price revisions initiated in May will lead to improved profits. We think that the time has come to think flexibly about price revisions in Japan, similar to overseas. We will continue to consider further price revisions while keeping a close eye on changes in the environment.

Q. What was the situation by channel from January to March? Is the channel mix improving? Will there be a positive contribution going forward?

A. We estimate that the supermarket and drugstore market was down about 2% due to the reactionary decline from last year's stay-at-home demand, but we outperformed the market and last year. On the other hand, the CVS market is estimated to have grown about 3%, and we grew in the mid-single digits, outperforming the market. While the overall vending machine market is estimated to be down 1%, we were flat year on year. The channel mix has not improved dramatically, but the CVS and vending machine channels, which were severely impacted by the pandemic, are on the road to recovery and are supporting the Company's performance. Going forward, we expect the channel mix to improve as foot traffic recovers.

Q. You previously mentioned that you will launch a reversal offensive in the vending machine business in 2023. What specific initiatives did you implement in the first quarter?

A. We have implemented three key initiatives. The first is to drive operational efficiency. Productivity improvement per person in route sales is steadily generating positive results. The second is to strengthen corporate sales, with a special focus on sales in prime locations such as offices, factories, and locations with high sales per machine. The third is to strengthen the product lineup as a retailer by utilizing AI. From January to March, sales volume in the vending machine channel outpaced the market and remained at the same level as the first quarter of last year. Our structural transformation is steadily bearing fruit.

[Overseas]

Q. In Europe, segment profit increased by 2.8 billion yen on a currency neutral basis. What were the contributions from the three key markets?

A. We were initially concerned about the impact of the recession, but thanks to the warm winter and other external factors, the soft drink market as a whole was very strong. Our topline grew significantly, driven by the growth of our core brands in each country. Price revisions implemented over the past year also continued to have a positive impact. A risk factor for the second quarter and beyond is the impact of weather during the summer season, when demand is at its peak. We see no signs of a rapid downturn in the European economy, and we hope to continue to generate additional profits. In terms of profit contribution by country, the UK and Spain made strong contributions, while France was almost flat.

Q. APAC seems a bit slow compared to your plan. Are there any concerns, such as progress in the health supplement business, economic stagnation in Vietnam, etc.?

A. While overall revenue in APAC was strong in the first quarter, one of the factors behind the decline in segment profit was the health supplement business. The products in this business are relatively high priced, and the Thai market itself has not fully recovered due to inflation. Since the renewal of *Brand's Essence of Chicken* last October, we have thoroughly implemented brand enhancement activities, and both brand conditions and trends are gradually recovering. In addition, inbound sales are also gradually recovering. We will rebuild the health supplement business under a favorable external environment going forward. We are aware of the risk of a GDP slowdown in Vietnam, but we do not currently expect any immediate major impact.

Q. What is the reason for the margin improvement in Europe? Will the margin continue to improve in the second quarter and beyond?

A. Topline growth and price revision effects were the main contributors. We hope the improvement trend to continue in the second quarter and beyond, but the key point is to what extent we can absorb the cost deterioration through self-help efforts, including topline growth, price revisions and structural transformation.