

FY2025 1H Financial Results Briefing (Online) Key Q&A

Q.	<p>Please provide a little more information about the top line for each region.</p> <p>Could you please explain why it has grown this much while there are constraints on production capacity in the United States?</p> <p>There was steady growth in the Asia Pacific region, and I am aware that performance was strong in China as well despite not achieving the planned sales growth rate there.</p>
A.	<p>Production has reached its limit during this first half of the year in the US, and we achieved sales growth by exporting in addition to improving production efficiency at the California Factory. For the second half of the year, we expect steady growth to continue due to promotions while production gains pace at the Tennessee Factory. The production system is already fully in place, and we intend to continue creating further value in the future.</p> <p>Next, the Asia Pacific region is performing extremely well. In particular, in Indonesia and Malaysia, distribution to small-scale stores called “mini market” has advanced rapidly as a result of our sales activities, in addition to economic growth in these countries. Exports are steadily growing in Thailand. Both the domestic market and exports are functioning effectively, and we are seeing strong growth.</p> <p>Finally, in China we are now feeling a sense of progress. In China, people were not really in the habit of eating salads. However, in recent years, the culture of eating salads is gradually becoming more widespread due to the influx of food cultures from around the world.</p> <p>So that we can respond to this type of change in eating habits, we have been active in communicating the value of eating salads through steady activities such as “dietary education” and “factory visits.”</p> <p>We will continue to work on these type of activities in the future while increasing our competitiveness, and will proceed with developing products and marketing that targets the expanding middle-class market.</p>
Q.	<p>I understand that conditions are good in the US but are there any signs of a positive change in terms of demand?</p>
A.	<p>Demand remains at a high level and customer demand remains strong. We were unable to meet the demand because of the constraints on production capacity but we are currently at the stage where communication is gradually moving forward with customers.</p> <p>In terms of the launch of the new factory, we have introduced a production line that can support capacity until 2030. Currently, this production line has started operation and we are gradually increasing the production volume. Once the launch is complete, we will enter a phase that focuses on stable supply. Then from FY2026, we will transition to a stage in which we can fully speed up the production.</p>
Q.	<p>In terms of numbers, significant market growth is not expected in China.</p> <p>I heard there is movement from newcomers and such but will market growth proceed at an accelerated pace or continue at the current pace?</p>
A.	<p>Although the Chinese economy is still facing tough conditions, it is a large market that is important to us so we are planning to implement intensive promotions during the second half of the year.</p> <p>This is a measure for the future with the aim of continuing to create growth from FY2026 and beyond. Although we do not expect to see rapid growth, this is a policy that aims for continued growth by taking advantage of the large size of the Chinese market.</p> <p>In terms of competition with local companies, currently we have an overwhelming superiority in both sales and market share, and awareness of our brand is extremely high. We believe that it is necessary to face this competition head-on while we hold a strong position, and we are moving forward with initiatives with awareness that competition is intensifying.</p> <p>This competition will not end easily but we believe that we can continue to constantly maintain our position at the top of this large market in the future as well.</p>
Q.	<p>For the outlook of the overseas top line, could you please explain how you view the top line growth rate over the next several years?</p> <p>Production and supply systems are now in place, and I believe that you can respond effectively to the increased demand in the future.</p>
A.	<p>In the Medium-Term Business Plan, we set the goal of at least 10% for the annual growth rate, and we recognize that the production environment is already in place.</p> <p>Building on this foundation, we are now starting the full-scale implementation of sales and promotion activities. If everything goes well with these activities, we believe that it is possible to achieve even higher growth rates. First, we are prioritizing the achievement of an annual growth rate of 10%.</p>

Q.	Quantities for mayonnaise and dressings in Japan were overall largely unchanged for the first half of the year. Since the decrease in the 1st quarter, I recognize that the quantities recovered with an increase in the 2nd quarter. How did it recover in the 2nd quarter? Also, is it OK to believe that this recovery trend will continue into the 3rd quarter and beyond?
A.	<p>The quantity of mayonnaise and dressing in Japan experienced a difficult situation in the 1st quarter, and a major cause for the decrease was the rising vegetable prices. Since our condiments are mainly used for salads, when the price of vegetables increases, this has an effect on salad consumption.</p> <p>As we entered the 2nd quarter, the price of vegetables settled down and consumption recovered. From the 3rd quarter, we will continue various promotions for the ongoing event of our mayonnaise 100th anniversary, and expect this to maintain our momentum.</p> <p>We are also planning to revise prices for retail market mayonnaise and dressings in September and must carefully assess the impact of this revision. We will use mayonnaise to recover profit in conjunction with the measures of the 100th year anniversary.</p> <p>We will implement price revisions for dressings based on the premise of maintaining their market share. These price revisions will not be applied to all products, but will be implemented by bottle size. We will revise the price of mostly 180 ml bottles, which have a significant impact of container costs and such, but the 380 ml and 500 ml bottles will remain unchanged. This will maintain sales of mayonnaise and dressings during the 2nd half of the year, with the aim of creating further growth.</p>
Q.	Record high temperatures and hot weather continues. Do you have any concerns about the impact this will bring?
A.	<p>The hot weather definitely has an impact on our business. Although the price of vegetables is currently falling, the weather has disrupted ideal conditions for producing crops.</p> <p>The continuing hot weather and lack of rainfall are a cause of concern. In view of the effect of these factors, we will proceed with preparing countermeasures.</p>
Q.	<p>With regards to price revisions of retail market condiments, am I correct in understanding that you feel some sense of progress concerning the quantity and that you can confidently move forward?</p> <p>During the briefing at the end of the previous year, you said that you would implement promotions for the mayonnaise 100th anniversary this year, and that you would consider price revisions while looking at quantity trends.</p>
A.	<p>The mayonnaise 100th anniversary campaign is performing well, and as a result, our market share is increasing. We recognize that the campaign is continuing to move along well while receiving favorable reviews from customers.</p> <p>Meanwhile, the decision for the current price revisions is based on the decision that we should directly address the structural cost factors of the high market price of chicken eggs rather than the results of the campaign.</p> <p>We are proceeding to prepare every possible measure to ensure that the price revisions do not weaken our momentum. In addition, the 100th anniversary promotion will continue into the future so we would like you to keep a watchful eye on it.</p>
Q.	In the current plan, SG&A expenses are being controlled. Am I correct in understanding that this is not due to factors such as 100th anniversary-related cost control or reduced sales, but rather due to the progress of cost reduction through proactive optimization?
A.	<p>Yes, you are correct. We have not reduced expenses for initiatives relating to the 100th anniversary, and expenditure for any necessary future investment is proceeding as planned.</p> <p>In addition, we are aiming to make overall improvements using various initiatives, such as creating innovations in our sales activities.</p>
Q.	<p>It was mentioned that making AOHATA a wholly-owned subsidiary would lead to an increase in corporate value for the Kewpie Group. Could you explain what kind of quantitative effect this will have?</p> <p>And how will you improve AOHATA's profit margin? I would also like to ask about the valuation approach and about the option to sell AOHATA shares.</p>
A.	<p>As a result of an in-house review on all possibilities concerning AOHATA, we selected to make AOHATA a wholly-owned subsidiary.</p> <p>First, a major reason was because of the fact that the AOHATA brand is just as strong as Kewpie. Using the Kewpie Group's expertise for developing brands, we believe that we can maximize brand value.</p> <p>In terms of sales outlets, Kewpie has a diverse range of sales outlets and deep research and technical knowledge. By combining these aspects, we believe that previously-difficult-to-achieve results will now become more tangible.</p> <p>Furthermore, being able to utilize group resources is also significant, and this includes the utilization of finance functions within the Group, reducing costs to maintain stock exchange listing, as well as headquarter functions and back office functions.</p> <p>For a quantitative indicator at this time, we expect to achieve a 1.5 billion yen operating income in the final year of the Medium-Term Business Plan as Fruit Solutions. Overall, profitability is still at a low level but there are many possibilities that include the synergy effect in overseas business and investment efficiency that aims to improve production efficiency.</p> <p>The entire Group believes that achieving these possibilities will lead to future growth.</p>

Q.	Your company's balance sheet lists KRS Corporation (a logistics company) as an equity-method affiliate. Could you explain if there are any points you feel may be a challenge from the perspective of further developing governance?
A.	<p>The logistics industry is currently experiencing a growing momentum to reorganize, and we are also aware that this movement has recently been accelerating. We believe there are various options available under this type of situation. The most important point is how to maximize the corporate value of our company and KRS Corporation.</p> <p>It is extremely important how we can reliably and quickly deliver products manufactured for the food business that we are developing, and KRS Corporation's position as an important partner will not change. However, we recognize that there is a need to review the situation from various perspectives, such as business trends, as well as both stakeholder and market demands.</p> <p>We are currently at a stage where a review that includes this is in progress, and we have not yet reached a conclusion at this point in time.</p>
Q.	<p>With regards to withdrawing from baby food, I think the baby food lineup are socially responsible products even if they produce a small amount of sales and profit in the portfolio.</p> <p>Even so, were there any underlying factors such as problems with growth potential or profitability or a decline in support for these products that led to you deciding to withdraw from baby food?</p>
A.	<p>We considered baby food to be a symbol of our quality. Since baby food is eaten by small children, this type of food is a cornerstone of the Kewpie Group's quality, from the selection of ingredients to production and then communication with our customers. We always had a sense of value in wanting to continue making these products as much as possible. However, during the 64 years of making baby food, we have not been able to consistently make a profit. In recent years, production volume has dropped and it has also become difficult to procure safe and reliable ingredients. Additionally, since it is a product for babies, we were in a difficult situation where it was not possible to easily implement price revisions. Additionally, production equipment has aged, which would have required a significant amount of capital investment to continue making baby food.</p> <p>After taking into consideration all of these circumstances and after much discussion, we decided to discontinue the production and sale of baby food.</p> <p>However, our primary goal is to minimize inconvenience for our customers so we decided to end production by August 2026. Until this date, we will proceed by ensuring that purchasing options are available to customers. We are making arrangements to ensure that the supply of baby food from other manufacturers is not disrupted.</p> <p>Our thoughts for children has not changed, and we would like to put more effort into dietary education activities in the future.</p> <p>The Kewpie Group remains committed to working on initiatives with the same attitude as before to ensure the happiness of children in the future.</p>
Q.	I would like to ask again about your approach for such as strengthening capital policies and shareholder returns to achieve the goal of an 8.5% or higher capital efficiency in FY2028, and whether the Company intends to aim for even higher levels. I would also like to confirm whether the Company intends to buy back additional shares.
A.	<p>Our approach has not changed for the current medium-term period. Achieving a ROE of 8.5% or higher is not easy but it is the minimum goal we have set, and we aim to exceed this figure. To achieve this goal, we must first significantly increase profitability as a prerequisite, and then aim to reach 45.0 billion yen in operating income by FY2028, the final year of the business plan.</p> <p>On top of this, we plan a total of 50.0 billion yen in returns over 4 years, which includes shareholder returns. Of this amount, 10.0 billion yen will be used to purchase treasury shares this time. In the future, we will review the purchase of treasury shares based on company performance, growth investment, and the stock price while considering dividend balancing. For additional growth investment, we are considering specific initiatives that include new business development, M&A, and alliances.</p> <p>If none of these types of projects are available, we will actively consider additional shareholder returns.</p>
Q.	Could you provide a quantitative image of your approach to financial strategy? Also, please explain the utilization of interest-bearing debt. Capital investment over 4 years is 100.0 billion yen, which is at a high level. Are you considering any further increases in growth investment in addition to this? Or will you redirect these funds to shareholder returns?
A.	<p>We have developed our financial strategy based on the goal of ROE 8.5%. We have set rules to ensure safety for the utilization of interest-bearing debt. Our approach is to achieve a target equity ratio of 60% and keep interest-bearing debt/EBITDA ratio to less than 2 times the amount. We want to utilize interest-bearing debt within this range.</p> <p>In the future, we will consider the final scale and weighting of shareholder returns, including factors such as growth investment. The Company's approach to treasury shares is that we want to continue actively reviewing the purchase of treasury shares in the future. We cannot make any promises right now about the scale of shareholder returns but we intend to continue to proactively work on this matter.</p>

Q.	I understand and accept your message that you want to boost growth during the next fiscal year by such as implementing price revisions. Could you share the details of any recent discussions concerning your goals for profit growth in the next fiscal year?
A.	<p>Currently, we are at the end of the first half of the year, and the details are subject to change due to future changes in the environment. However, we are expecting an operating income of 38.0 billion yen at this time.</p> <p>If we can achieve 38.0 billion yen and further maintain this momentum, we believe it is entirely possible to achieve the 45.0 billion yen in operating income set for the final year of the Medium-Term Business Plan.</p> <p>We are proceeding with various initiatives to achieve our goals in the next fiscal year.</p>
Q.	For operating income in the next fiscal year, it seems that the profit increase from this fiscal year's planned profit is rather modest. How did you arrive at this figure?
A.	<p>It is just an estimate. We expect the following. First, for the overseas business, after factoring in the increase in depreciation of the new factories and the ongoing costs to invest in the brand, we are aiming for an increase in income of around 1.5 to 2.0 billion yen from this fiscal year.</p> <p>For the business in Japan, we perceive that the impact of price revisions will seriously contribute to the next fiscal year. Factors such as other structural reform measures are expected to also create further value. Meanwhile, future investment will continue but the future of chicken egg prices is uncertain. We expect an increase in income of around 2.0 billion yen after assuming various cost increases other than egg prices.</p> <p>Based on the above, the current outlook is based on a figure of 38.0 billion yen. However, there is also a possibility of a downturn depending on market conditions, and a significant upturn is also possible if the market remains stable. We have been thoroughly preparing to achieve this outlook, and want to provide more precise figures in 6 months from now.</p>