

Meiji Holdings Co., Ltd.
FYE March 2017 Results Briefing for Analysts and Institutional Investors
Q&A Summary

Date and time: May 16, 2017, 10:00 -11:30 am

Presenters: Mr. Masahiko Masao, President and Representative Director

Mr. Takashi Hirahara, Member of the Board and Senior Managing Executive Officer

Mr. Kazuo Kawamura, President and Representative Director, Meiji

Mr. Daikichiro Kobayashi, President and Representative Director, Meiji Seika Pharma

Q1 Meiji expects raw material procurement costs to increase in the food segment in FYE March 2018. Tell us your basic stance on reflecting those procurement cost increases in sales prices?

A1 We will pass on the cost increase to the sales prices when we cannot absorb it internally. Due to the increase in domestic raw milk prices for dairy products in FYE March 2018, we increased prices for consumer butter products.

Q2 In the food segment, Meiji is planning to increase capital expenditures by JPY 11.5 billion in FYE March 2018 compared to the previous fiscal year. Is your strategy for capital expenditures on expanding production capacity shift from functional yogurt to chocolate?

A2 No, this doesn't mean shift from functional yogurt to chocolate. We will increase production capacity for both functional yogurt and chocolate as necessary. We have been increasing production capacity for functional yogurt over the past 4 years in response to rapid increase in demand. Moving forward, we will continue expanding the capacity based on increasing demand and sales results so as not to incur lost opportunities. Recently we are seeing significant demand growth for high cacao-polyphenol content (dark) chocolate. We are considering our production capacity expansion for chocolate so that we can respond to increasing demand timely.

Q3 Meiji is accelerating growth for China businesses in the food segment. Explain your strategies to grow business in China markets?

A3 We are engaged in three businesses in China: confectionery, milk & yogurt, and ice cream. We will be realizing a profit on a single-year basis for the three businesses in total in FYE March 2018.

Income levels are improving in China. Now, consumers in China are interested in high-value added products. It is important for us to respond to their needs. But it may take some time to launch high-value added products to the China market.

We need to build a robust strategy for successful launching new products. In addition we should establish a production structure to cover large China market.

In the next Medium-Term Business Plan, which we are currently drafting, we will consider our future product lineups and production structure.

Q4 The sales of functional yogurt have continued to record double-digit growth thus far. Meiji is planning for 2.4% growth in FYE March 2018, suggesting that the sales growth is entering into a stable growth period. Tell us how you view the future sales growth?

A4 The sales of functional yogurt in the fourth quarter of FYE March 2017 declined year on year. This was because of record high sales and a dramatic jump in growth, up 38.6% year on year, during the fourth quarter of FYE March 2016. However, fourth quarter sales grew by 6% compared to that in the third quarter of FYE March 2017. So we believe there is still room for significant growth.

Last year, the functional yogurt business grew to sales of approximately JPY 120 billion. The business seems to reach to a stable growth period during which the sales will repeat plateaus and new growth cycle. In light of such conditions, we plan year on year growth of 2.4% in FYE March 2018. Over the medium term, we will achieve stable growth.

Q5 The Meiji Group's target is to grow consolidated income to JPY 120 billion by FYE March 2021. It seems that Meiji should, in addition to extending current efforts, implement new measures to achieve this target in the food segment. Explain what strategies are you going to implement/execute?

A5 We are drafting our next Medium-Term Business Plan and our main strategy is to grow our core domains, Fresh and Fermented Dairy, Chocolate, and Nutritionals. We also will grow our International Business as large that contributes to income. The detailed plan will be released in May 2018.

Our financial structure has been improving due to the recent income growth. We will invest heavily during next Medium-Term Business Plan. Not only increase production capacity for existing products but we will also invest in developing new value added products, something innovative.

Q6 The Meiji Group 2026 Vision (Outline) explains one of your core policies that you will exploit a market in developed countries where there is strong needs for high-value added products. The environment will change significantly over the next 10 years. Show us some examples, when will you launch, launching initiatives, etc.?

A6 We believe our products will be successful in developed countries. For successful launching we should resolve various issues, including pricing strategies, production structures, investment, financial and personnel plans. Detailed strategies will be examined in our next Medium-Term Business Plan.

Q7 From FYE March 2019, it is expected that NHI drug price revisions will be implemented annually. In the pharmaceuticals segment, tell us your strategies to secure your operating income plan of JPY 11 billion for FYE March 2018?

A7 In our Long-Term Business Management Strategy, the Meiji Group 2020 vision, our target operating income is JPY 20 billion in 2020. Today no specific details on the government's Basic Policy for Fiscal and Economic Management 2017 and the fundamental reforms to NHI pricing have been under discussion. Thus the environment surrounding pharmaceutical industry lacks transparency.

In the ethical pharmaceutical business, we will grow sales of *Reflex* and three drugs newly launched in FYE March 2017, *Sycrest*, *Bilanoa* and *Ultibro*, and secure operating income. The 2-week limit on the prescription period for *Sycrest* and *Bilanoa* will be lifted in FYE March 2018.

We are schedule to release a new drug in FYE March 2020. Also in the agricultural chemicals and veterinary drugs business, we are projecting that two agricultural chemicals under development overseas will contribute to income in FYE March 2021.

We recognize that we should change our overall value chain structure to ensure that growth in sales volume leads to income growth. We will implement measures to resolve this issue.

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