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**Meiji Holdings Co., Ltd.**  
**Financial Results for the Q3 of FYE March 2022 (FY2021)**  
**The Telephone Conference Q&A**

February 9, 2022, 3:00 – 4:02 pm

**Presenters:**

Jun Furuta	CSO, Member of the Board and Senior Executive Officer
Yoichiro Yamagata	General Manager of PR & IR Department
Sayo Chiba	Manager of PR & IR Department

\*This material has been edited to make it easier to understand some of the questions and answers.

### Q-1-1-1

In the Probiotics business, sales in the third quarter and sales in the fourth quarter are also expected to decline by double digits. Could you tell us the background of this for *R-1*, *LG21*, and *PA-3*? Also, I would like to hear comments on how you are going to turn things around, including the functionality labeling.

### A-1-1-1

**Furuta:** Although we expect a significant decrease in functional yogurt sales in the second half of this fiscal year, the sales of *LG21* and *PA-3* are almost in line with our forecast for the second half of the fiscal year, but the sales of *R-1* decreased significantly. This is more than 10% less than the previous year, and also 10% less than the budget we had expected.

I believe that the casual consumers of *R-1*, who used to enter the market during the winter season, are flowing out to other health-conscious products. As for the heavy users, basically little has changed. In fact, our analysis shows that heavy users are firmly established and keep buying the products.

Originally, we thought that sales of *R-1* would be a little stronger in the winter season due to the seasonal factors, such as casual consumers, but unfortunately, this is the result.

As for turning things around, for the *LG21* product, our main challenge has been to stop the downward trend, and as you can see in this slide, we are trying to promote the product with a catchphrase such as “95.3% of doctors recommend.”

In order to appeal to the public, we have to change the package, so in April, we will make the package as shown in the slide on page five and appeal to the public.

Also, in the past, *R-1* was available in sugar-free or low-sugar versions, and in versions with different flavors. We have been trying to revitalize yogurt in this way, but we would like to appeal to the original qualities of yogurt. In order to do this, we would like to launch series of yogurt with add nutrients that people want to consume.

In addition, we are planning to introduce new products that contribute to society, such as SDGs or sustainability products, or new products with limited sales channels. I can't tell you about the details

yet, but we would like to make some efforts to strengthen our business.

As I'm sure there will be questions, I'd like to mention early on that I had mentioned something about the new product that we were planning to launch this fiscal year, but unfortunately, negotiations with the authorities have not progressed yet. The time frame is yet to be determined, so please bear with us.

**Q-1-1-2**

You mentioned that casual consumers are leaving the *R-1* market, but what specific products are you seeing this trend towards? Also, the plan says that it will be difficult to reverse the situation in the fourth quarter, but how is the current situation like?

**A-1-1-2**

**Furuta:** It is quite difficult to say where the *R-1* is flowing out, but as I have mentioned before, it is flowing into various products, such as soy milk, almond milk, and yogurt with functionality labeling, such as those produced by other brands. I believe that the trend is toward products that appeal to health.

In the past, the image of *R-1* was that it was equal to health maintenance, but recently, a wide range of products including those with functionality labeled yogurts have been released, so I think people are moving toward to a wide range of products.

**Q-1-2-1**

I would like to know again about your approach to raw material prices and price hikes. In this fiscal year, the impact of raw materials prices is approximately JPY3.1 billion. So, if the current market conditions continue, how big will the impact of raw material prices be in the next fiscal year? I would like to know how you are actually going to counteract this with price hikes.

**A-1-2-1**

**Furuta:** The price of raw materials has risen higher than we expected that it is very difficult for us

to absorb it through our own efforts alone. Therefore, we are now considering absorbing raw material costs increase including price hikes.

We are in the process of calculating how much the cost of raw materials will rise in the next fiscal year, and we are also in the process of studying price hikes for which products and when, so unfortunately, we cannot give you any details at this time.

**Q-1-2-2**

I am not sure about the impact of raw materials prices in the next fiscal year, but I would like to know if your company intends to basically counteract all of the raw material prices that will rise in the next fiscal year through price hikes. I would like to know more about your thinking on price hikes and raw material costs.

**A-1-2-2**

**Furuta:** We are currently examining how much impact there will be and how we can absorb that impact through price hikes or internal efforts. I would like to talk more about this when we announce our financial results in May.

**Q-2-1-1**

Regarding an inactivated vaccine for COVID-19, it would be great if you could give us a little update on the status of the development and early approval.

**A-2-1-1**

**Furuta:** First of all, regarding the inactivated vaccine, the development of the vaccine is going well. We are currently conducting Phase II and Phase III clinical studies and are collecting data for these trials.

From here on, our collected data will be analyzed by the authorities and they will make the decision. We will do what we can. In short, for Phase II and Phase III, we need to conduct clinical trials well, collect data, and publicize the superiority and efficacy of the drug.

**Q-2-1-2**

In Phase II/III, are there any data that are responsive, such as safety and antibody titer?

**A-2-1-2**

**Furuta:** Originally, inactivated vaccine is very safe. I think the other thing to consider is how effective it is. The data on this is very confidential, so I can't tell you about it, but I am looking forward to it.

**Q-2-1-3**

Also, how is the booster shot test going? There was some talk of doing it in January or so.

**A-2-1-3**

**Furuta:** Yes. We are discussing about booster shot test. First of all, we are conducting clinical trials to see how effective the vaccine is when given as a regular vaccination.

**Q-2-2-1**

In the Food segment, overseas profits seem to be down quite a bit, but I would like to ask you again about the background to this, and whether the measures you are taking are steadily working, or whether something strange is happening overseas.

**A-2-2-1**

**Furuta:** In terms of profit decrease in overseas group companies, the biggest impact is in the Drinking Milk and Yogurt business with China and the Confectionery business in the US.

First of all, the Drinking Milk and Yogurt business in China, has been doing very well up until now, but our local competitors have been very aggressive in their pricing, and sales have been struggling a bit. The situation for yogurt is similar, and this became quite apparent in the third and fourth quarters. Although, business use has recovered.

In the US, cookies are the mainstay of their business, so they use the raw materials that go up in

price, such as flour, sugar, and fats. We raised the price once, but it was not enough to cover the cost, so we had to consider raising it further.

The second point is that we produce both Meiji products and local products, and although there is a certain amount of demand for local products, sales have dropped significantly. One of the reasons for this is that there is a lack of workers. In the US, there is an unemployment subsidy or benefit, and it is better to receive it. It was difficult to gather workers and make a good production plan, and so on. This is why there was a significant decline in the third and fourth quarters in the US.

#### **Q-2-2-2**

Regarding the business in China, do you see any clues in the future? I think you are in a difficult phase even though you just increased the production capacity.

#### **A-2-2-2**

**Furuta:** Up until now, we have focused on high quality, high value-added, and good taste. However, in order to expand our business in the future, we will need to introduce new products in addition to our current products. The market for chilled milk has grown considerably, and I think that the Chinese market has also become a market where people want high value-added and good tasting products. This is why local manufacturers have shifted to chilled milk, I think. However, we do not intend to compete on price, we would like to reconsider how we should market and what kind of new products we should introduce in the next fiscal year.

#### **Q-3-1-1**

I think the slowdown in the food products is quite severe. Chocolate and Nutrition businesses were revised upward from the previous plan. Is the reason why you are seeing a decrease in profit in the fourth quarter because of cost increase or some other factor other than costs? Please tell us about the background of the plan for the change in momentum.

### **A-3-1-1**

**Furuta:** First of all, as for the slowdown in the fourth quarter of Chocolate and Nutrition business, we are aware that the decline is not that large. As for the chocolate and gummy products, we have already almost finished shipping the products in the fourth quarter, and we generate sales and profits in the third quarter and proceed at cruising speed in the fourth quarter. So, this isn't something to be concerned about.

As for Nutrition business, I think that the impact of raw materials is bigger than we expected. Even though the sales have been very strong, we are taking a slightly more stringent look at the impact of raw materials especially for whey that is used for SAVAS.

### **Q-3-1-2**

The price of raw materials for SAVAS is very high, but has the company ever raised the price of this product in the past? I think it is a relatively high-priced protein, but do you think there is any possibility or room to raise the price of this product? Looking at the trend, if you don't raise the price here, it's a little bit like the fourth quarter, but you're going to lose out on the cost a little bit, which means you can't increase the profit.

### **A-3-1-2**

**Furuta:** I don't think there has been a price increase for SAVAS since the business integration, I believe. As for the question of how to raise prices in the future, whey is now in short supply worldwide, and the cost of whey has increased for all companies. Therefore, we believe that all companies will probably raise their prices, but we will keep an eye on the situation as we consider the matter.

The market for protein is steadily growing. In addition to the growth of our products, there are also major overseas protein manufacturers that sell their products through EC, and their market share is increasing considerably. Compared to the past, the protein market has more players, and more competition in the EC market.

Therefore, while we will of course continue to promote the quality and advantages of our products,

we also think that we need to do some kind of marketing so that we can compete with our competitors.

**Q-3-2**

What are your thoughts on business performance for the next fiscal year? I know that the main theme is to pass on increased costs to customers through price increases, but is there anything other than that that you can think of, such as an improvement in productivity, or a temporary return to profit growth in overseas operations? Please tell us if you have any ideas for increases or decreases of the profit.

**A-3-2**

**Furuta:** Regarding the business performance for the next fiscal year, we are in the middle of preparing the budget and will discuss it properly in May. To increase the profit, we need to increase sales by launching new products and market them well. We believe that this is the source of our profits. While this fiscal year will be the bottom, we would like to make a significant rise in the next fiscal year.

**Q-4-1**

While the price of raw milk in Japan ended up remaining unchanged, there was an increase in the cost of packaging materials and distribution. I think it would be a good idea to consider raising the prices of dairy products, so what are your thoughts on this?

**A-4-1**

**Furuta:** I don't think there is any history of rising the price of drinking milk while milk price hasn't gone up. Other dairy products, such as cheese, can go up without being linked to the raw milk price, but I don't think that is the case with drinking milk.

On the other hand, packaging and packaging materials, etc., have become more expensive, so we have to decide how to look at that and how to convince distributors and retailers of that. So, I think



we have a very difficult decision to make. At this point in time, we are still considering what to do in the future.

#### **Q-4-2**

I think the fourth quarter profit for domestic pharmaceuticals is expected to be lower than the previous quarter. The sales situation is not expected to be that bad, so I would like you to explain about the background quantitatively.

#### **A-4-2**

**Furuta:** In the fourth quarter of domestic pharmaceuticals, the income from AstraZeneca's contracts is still included in the sales profit. What we were supposed to get in the fourth quarter has been delayed to next fiscal year. We revised our full-year plan and reduced the profit by JPY10 billion. We reduced JPY8 billion in the Food segment and reduced JPY2 billion in the Pharmaceutical segment. A large part of this JPY2 billion is due to the delayed contract revenue from AstraZeneca. Therefore, this was the first factor for the decrease of profit in the fourth quarter. Secondly, we sell the fractionated plasma products produced by KM Biologics. There was some production trouble with this, and the cost of goods deteriorated.

The last factor is *SYCREST*, which we thought would sell well, but unfortunately it did not sell as expected. So it resulted in the deterioration in PM. Considering these kind of factors, we reduced operating profit in the fourth quarter.

#### **Q-5-1-1**

One thing I would like to check again is the part about China in overseas food products. For the third quarter alone, the profit decreased by about JPY1.2 billion.

I would like to know how serious this is in China as a factor in the decline in profits. Is price competition is spreading throughout all areas you operate? Please let me hear again about the Drinking Milk business, and if the situation is severe or not. The margin is quite high, and I think it has been good until now, but things have changed quite drastically here, so please tell us about it.

**A-5-1-1**

**Furuta:** Until last year, sales grew relatively steadily and we made a profit, but now competition has become more intense. I think that the situation in the third and fourth quarters was that we were unable to respond to the price offensive of chilled milk in particular.

In the next fiscal year and beyond, we do not intend to get involved in price competition, but we will consider launching new products, renewing our products, and expanding sales of functional yogurt. Under such circumstances, we will start up a new plant in 2023, and we will expand the area and increase the production capacity and production volume. In the meantime, we would like to recover the current situation to some extent in the markets of East China and South China. In any case, we cannot afford to end up with a decline in both sales and profits at this rate, so we will take firm measures in the next fiscal year.

**Q-5-1-2**

Is it correct to say that of the JPY1.2 billion or so decrease in profit, China accounts for a large part of the decrease?

**A-5-1-2**

**Furuta:** The US business and Milk and Yogurt business in China. I think it's slightly more in the US.

**Q-5-2-1**

I would like to confirm the YoY figures of the Pharmaceutical segment in the fourth quarter. I understood the main reason for the revision, but in the so-called others category, which includes the profits and losses of subsidiaries, there will be a large decrease in profit of JPY3.9 billion in the fourth quarter. What are the factors?

**A-5-2-1**

**Chiba:** The reason we explained earlier was that we were looking for a large factor in the ratio to the plan. If we look at the previous year, we can see that not only the profits and losses of

subsidiaries but also technical factors such as unrealized gains are included in this figure, so I think that is the most significant factor in our analysis rather than the profits and losses of subsidiaries.

**Q-5-2-2**

So, AstraZeneca's contract revenue is not included? Does this mean that there is no impact on the year-on-year comparison?

**A-5-2-2**

**Chiba:** If you are referring to the others section in the chart for analysis of operating profit, which includes the profits and losses of subsidiaries, the contract revenue of AstraZeneca will come from KM Biologics so it is included in it, but referring to your question, I think you were talking about the YoY comparison in the domestic business, so then the explanation will be that it is not included here.

Incidentally, the domestic pharmaceutical business has a large year-on-year decline in the fourth quarter, but this is due to factors such as the impact of the NHI drug price revision and in addition, we have not been able to use any of the dissemination costs, so factors such as these are also included.

**Q-5-2-3**

Do you feel that the negative unrealized profit is actually going to appear?

**A-5-2-3**

**Furuta:** The current plan here is a prospect. The impact of unrealized profit to the profit was positive last year, but this year, it is significantly negative.

**Q-6-1-1**

In the case of the Food segment, you mentioned that the price hike will be discussed from now on, but compared to 2019, I feel the speed is a little slow. There are a lot of obvious things that are

going to go up, and in this circumstance, considering that your company is a leading company in yogurt and chocolate, you've already announced the price revision at this timing in 2019, so I thought it's kind of slow. I would like to know if there is anything that you think is different from the last time.

**A-6-1-1**

**Furuta:** As for the increase in raw materials costs of full year, the budget at the beginning of the fiscal year was JPY2 billion, but we expect JPY3.6 billion for the full fiscal year. Therefore, we are expecting an increase of about JPY1.6 billion from the initial budget. In addition to this, we also expect energy costs to increase by about JPY1 billion, so in total, we are looking at a cost increase of about JPY5 billion for both raw materials and energy costs.

Regarding this, I think it is not a matter of speed. We will consider measures to absorb this problem including price changes.

**Q-6-1-2**

In the first half of the fiscal year, at that time you said that costs would increase by JPY3.3 billion this fiscal year due to various cost increases, but does it mean this changed to JPY4.6 billion?

**A-6-1-2**

**Furuta:** When we announced the financial results on November 9, the first half of the fiscal year, I think we said that the full year cost of raw materials was JPY3.1 billion. So, it's a transition of JPY2 billion, JPY3.1 billion, JPY3.6 billion or so. The energy cost was zero at the beginning of the period. On November 9, we reflected the increase of energy cost a little bit in our plan. And now the JPY1 billion has come to light, and this is the situation here.

**Q-6-1-3**

I understand. So, in terms of raw material cost and energy cost, it means that it went from JPY3.1 to 4.6 billion. But even so, the downward revision in food products is large. Are there any other

reasons except for raw material costs and overseas business? Since yogurt and chocolate have been revised downward, is it correct to understand that the deterioration of mix was quite large?

**A-6-1-3**

**Furuta:** Yes, that's right. The breakdown of the JPY8 billion is as you mentioned, about JPY1 billion to 1.5 billion for raw materials and energy. Overseas is about JPY1.5 billion. The remaining JPY5 billion will come from the Yogurt business. Of the Yogurt business here, it is mostly *R-1*. *R-1* is for a 10% decrease in revenue and the impact of this decrease is bigger than we expected.

**Q-6-2**

In the Pharmaceuticals segment, it says that the transfer price of agricultural chemicals has been revised downward. Please tell us how much of an impact this has on cash and special gains compared to what you had originally expected. Also, if you could tell us the reason of the downward revision, I would appreciate it.

**A-6-2**

**Furuta:** As for the Agricultural Chemicals business, we revised the amount by about JPY4.5 billion in the course of discussions with the transferee company. The reason for this is that there are various pipelines, and there was some gap between the two companies in terms of the projected sales of those pipelines, so the reduction was made to make up for that gap. This means that both cash and profit will fall directly into the JPY4.5 billion parallel.

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