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Meiji Holdings Co., Ltd.
Financial Results for the Q1 of FYE March 2024 (FY2023)
The Telephone Conference Q&A

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Presenters:

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

Q-1-1-1

For Q1, I think it was a great start, but I don't think the top line of the food segment is extremely strong. Can you tell me what was good about the plan?

A-1-1-1

Furuta: I believe we have achieved relatively good results in both the food and pharmaceutical segments this time.

As for the food segment, we believe that the effect of price hikes contributed to profits. In FY2022, the gap between the cost increase and the effect of our price hikes was a negative JPY8.6 billion for the year, especially a negative JPY3.1 billion in H2. On the other hand, this fiscal year, the gap was planned to be positive JPY5.8 billion in H1, but the result of Q1 was a positive JPY4.8 billion. We believe that this positive effect contributed more to profits than we had expected. The top line is performing as planned.

Q-1-1-2

Was the effect of price hikes more than expected? I think this is a rather large decrease in volume.

A-1-1-2

Furuta: Sales are up roughly 5% overall. Of this amount, we estimated that the effect of the price hikes was roughly 10%, resulting in a volume decrease of roughly 5%. Since the range of price hikes varied depending on the product, we believe that the product mix had a positive effect on profits to some extent.

Q-1-1-3

Would the top line be plus 7%?

A-1-1-3

Furuta: Yes. I mentioned approximately 5% as a rough estimate to give you an idea of our thinking.

Q-1-2

I think that marketing costs were less digestible. Will you spend on marketing costs from Q2 onward?

A-1-2

Furuta: Raw milk price increased this month and the price of milk and yogurt has increased. As a countermeasure, we stepped up advertising and we are running TV commercials for *Oishii Gyunyu* right now.

We would like to take measures to prevent a decline in demand for the milk market as a whole. We would like to spend marketing expenses mainly on yogurt and drinking milk, so we expect to generate a little more than the previous year.

Q-1-3

In the pharmaceutical segment, H1 of the fiscal year was planned to see a significant decrease in profits, but profits increased from Q1 of the fiscal year. Can you tell me about the changes from the plan you drew at the beginning of the term?

A-1-3

Furuta: We have several formulations of which prices increased due to the NHI drug price revisions. Some of these include the fact that antibacterial drugs performed very well. As a result, we could rebound from negative factors such as the decline in contract revenue from AstraZeneca and the impact of the NHI drug price revisions.

Our generic and long-listed drugs performed very well. In addition, new drugs were also good, and in general, our products performed very well. In addition, we have been implementing various structural reforms and reducing costs in the pharmaceutical business. I believe that these factors, along with very strong sales, contributed to the current financial results.

Q-2-1-1

Both the food and pharmaceutical segments performed well against the plan. Specifically, how much did operating profit for food and pharmaceutical exceed the internal plan for Q1? Is it correct to understand that the upswing will continue after Q2?

A-2-1-1

Furuta: First of all, we do not disclose internal plans for sales and profits for Q1, so I will tell you qualitatively. First, the top line is almost in line with the budget. As for profits, they were higher than planned.

As for Q2, we hope you will understand that the trend in Q1 is continuing. The situation is relatively firm.

Q-2-1-2

I see. Please tell me if I can assume that the upward trend in food profits in Q1 will continue in Q2, but some expenses will be invested more than in Q1.

A-2-1-2

Furuta: For Q2, we have not changed our H1 forecast, so if we subtract it, I think it looks a little bit odd. I would like to consider the risk factors I mentioned earlier and see how things go.

But looking at the trend in July, we are continuing the trend of Q1, and we expect it to be somewhat favorable.

Q-2-2

Regarding pharmaceuticals, why is the growth of antibacterial drugs so strong both in Japan and overseas? Also, I would like to know about its sustainability.

A-2-2

Furuta: There are several factors contributing to the strong performance of antibacterial drugs.

One of the reasons is that production is tight at many companies, and orders for our company have been very strong. Second, antibacterial drugs are always necessary when performing surgery. However, even if there are solid demands, many companies had struggled to increase or keep their profitability. Therefore, some of them had quit in recent years. Under such circumstances, we have continued to supply the products until now, and now some drugs have higher due to the NHI drug price revisions. It can be said that both the increase in NHI drug prices and the increase in volume have resulted in such a situation of increased sales and profits.

Surgeries and outpatients had decreased at the time of the COVID-19 pandemic, but these have returned in full force. The demand for these antibacterial drugs has returned to its previous level, but the supply side is tight. In such circumstances, we have been able to supply properly. Therefore, we believe that this trend will continue.

Tanaka: I would like to add something about antibacterial drugs.

Domestic sales of oral antibacterial drugs are also doing very well and doubling last year's sales. With immune systems have been weakened, infectious diseases are spread by children, which are then brought into the home.

In this context, *MEIACT* is doing very well. *MEIACT* is listed as a fundamental pharmaceutical, and NHI drug price has not fallen, which is one of the reasons for its increase in profits.

Furuta: The sales of *MEIACT* in Q1 were about double compared to the previous year. The sales of an antibacterial drug such as *SULBACILLIN* were up about 30%, and *TAZOPIPE* was up about 25%. We expect this trend to continue.

Q-2-3-1

For functional yogurt, what was the percentage growth for *R-1* and *LG21*? I think you were talking about the price hike from August being considered a risk, but sales in April are also doing well, and I'd like to know whether this August price hike should be viewed as a risk.

A-2-3-1

Furuta: For *R-1*, Q1 results were up 2.5% over the previous year. *LG21* is also on an increasing sales trend at 2.6%.

Sales of these increased, but sales volume has not caught up with the previous year. We would like to bring the volume to a flat level by promoting the product and to ensure that the positive effects of the price hikes are reflected in our profits. We are considering various measures at this time and hope to recover all of these during the current fiscal year.

Q-2-3-2

As for the functional yogurt business, is there a continuing situation where the consumer market business is growing but the home delivery business is falling? Can you also tell me if there is any risk, including functional yogurt, to the August price hike?

A-2-3-2

Furuta: As for functional yogurt, the consumer market business is moving stronger than the home delivery business. The home delivery business is experiencing issues from the COVID-19 pandemic, and coupled with a shortage of salespeople, we have been a bit slow in developing new contacts. Normally, we have tried to recover the decrease due to customers who are no longer users by developing new customers. However, we are a little behind in cultivating them, and the number of home delivery contracts is decreasing overall. That is one of the things that is affecting the sales of *R-1*, *LG21*, or drinking milk.

As for the August price hike, we have not fully grasped the situation, so I will talk about it again at a follow-up meeting.

Q-3-1-1

Regarding your company's view of the yogurt market itself, do you have a sense that aggregate demand has bottomed out a bit? Or do you see that the demand is not that strong yet because the volume is still declining? Can you tell me if there is any change in your view of this yogurt market?

A-3-1-1

Furuta: Regarding the yogurt market, we are seeing market growth of about 4% in Q1, due to the effect of price hikes. Since there is a decrease in volume, we will have to take a closer look.

Sales of our functional yogurt and *Bulgaria Yogurt* plain type exceeded the previous year. On the other hand, there are some companies that their sales are in a difficult situation, so I feel that the yogurt market as a whole has not yet fully recovered.

Q-3-1-2

What is your impression about *Bulgaria Yogurt* is coming back a bit?

A-3-1-2

Furuta: For *Bulgaria Yogurt* plain type, the sales volume is still down a bit, but sales are exceeding the previous year. Since this year is the 50th anniversary, we put Disney characters on the package, or change the manufacturing process to make it even tastier than before. We will be running various campaigns in Q2 and after, so we expect that *Bulgaria Yogurt* plain type will grow even more.

On the other hand, for *Bulgaria Yogurt* drinking type, unfortunately, the downward trend continued. I believe that by taking drastic measures, we will be able to further develop the *Bulgaria Yogurt* brand as a whole.

SAVAS yogurt, which is rich in protein, has been doing very well. I would like to do my best to overtake the products of other companies that are ahead of us.

Q-3-1-3

I think the yogurt market has been in decline for the past three years, but the negative impact of the price hike on sales volume has become a little milder.

A-3-1-3

Furuta: I think the negative impact of the price hikes remains. If the price is higher than the price the customers used to pay, the customers may shift to products other than yogurt with health as a

keyword.

Q-3-2

Can you please explain why the effect of the price hikes is greater than expected?

A-3-2

Furuta: The positive effect of the price hike on profits includes the effect of the product mix. If we achieve the budget and the product mix is good, we believe that the positive effects of this price hike would be well realized. Initially, we thought Q1 would be the toughest for us, because of the significant price hike on April 1. In short, the positive effects of the price hike were expected to manifest themselves from Q2 onward.

Q-3-3

Regarding the overseas business, you initially planned a profit loss, but Q1 started flat. Can you tell us if this is a better start than expected and how sustainable it is?

A-3-3

Furuta: As for the overseas business, I think things are going relatively well. The concern, as I mentioned before, is the drinking milk and yogurt business in China.

Competition from major local companies, up-front investment costs, such as depreciation of the newly established plant, and marketing costs are a concern. However, since we have changed the drinking milk package, we believe that sales have been improving and we have high expectations for H2 of the fiscal year and beyond.

Except for the Chinese milk business, all other overseas businesses are performing very well. Sales of ice cream, confectionery, B to B business in China, confectionery in the US, and Southeast Asia have been very strong. Especially in the US, we have raised prices three times, and the effects of these price hikes have been well received. In addition, Meiji brand products are also doing very well, and we can expect an increase in profits.

Q-4-1-1

Domestic food products are very profitable. Regarding the impact on sales volume when price hikes, can you tell us anything specific that you did after the price hike that worked? I know that the sales volume didn't drop as much as expected, which was very good, but what is something specific that your company is working on?

Also, you mentioned that *the Meiji Oishii Gyunyu* TV commercials have started early in response to the August price hike. I would like to know if it is safe to assume to some extent that there will be a second, third, or other various initiatives and that the sales volume will not drop off quite the same way.

A-4-1-1

Furuta: We will of course make such efforts, including putting in TV commercials, marketing expenses, and in-store promotions. However, this initiative itself is being done by all other companies.

In this context, I think the difference between us and other companies is the pricing. I think customers are sensing things a little differently at a higher price point, then a middle price point, and then a lower price point, such as PB. For example, our milk products are more expensive than others in the market. It may be that customers are more likely to accept the higher price of the product with a strong brand by promoting its value. In other words, even if the same measures are taken, we believe that it may be possible to say that products that originally have value other than price are more likely to be effective and thus have less impact on volume.

Q-4-1-2

In general, I think there is a pattern that after a price hike, products tend to be taken off the special sales list, and sales of the products themselves tend to drop. In the case of your company, is that not the case now?

A-4-1-2

Furuta:

In some cases, the profit may be squeezed because the delivery price gradually declines, or the delivery price is maintained but rebates are paid through special sales. We are considering a sales strategy to avoid such a situation so that we can properly reap the effects of the price revision.

Q-4-1-3

So you are saying that the main focus will continue to be on reducing the sales volume decrease by strengthening the advertising, as in the case of *Oishii Gyunyu*, even after the August price increase?

A-4-1-3

Furuta: Yes. That is what I mean. For example, with the August price increase, *the Meiji Oishii Gyunyu* is sold at about JPY298 at CVS, and private brands are now sold at almost JPY200. Other national brands are also available from JPY250 to JPY260, with prices in the JPY200 range. Previously, *the Meiji Oishii Gyunyu* was in the JPY200 range, and private brands were in the JPY100 range. If the price of the other companies' products and PB has settled at the JPY200 range, consumers may be willing to buy even at JPY298.

Q-4-2-1

I would like to ask you about the subsidiary in the pharmaceutical business because the improvement in profit is significant.

I understood very well that your products are good for the increasing number of surgeries and infectious disease epidemic in Japan. In the overseas ethical pharmaceutical business, you mentioned earlier that antibacterial drugs have grown in Spain and Thailand as well, and royalty income from vaccines for human use has also contributed to the growth. There are also major improvements in profits. Can you comment a bit on this sustainability?

A-4-2-1

Furuta: Regarding overseas ethical pharmaceuticals, the first thing that is doing well is Medreich Ltd., in India. Being CMO (Contract Manufacturing Organization) and CDMO (Contract Development and Manufacturing Organization) in pharmaceuticals is the trend in the world today, and we have very strong inquiries from major companies. We believe that Medreich Ltd. will continue to perform well.

Our subsidiary in Spain sells our products called *MEIACT*, which is also doing very well. Europe is also experiencing a supply shortage of antibacterial drugs, and I have heard that the supply and demand situation is tightening.

For our subsidiaries in Indonesia and Thailand, we sell locally, but also export to Japan. With domestic demand in such a situation, production in Indonesia and Thailand is also operating steadily, which also has a positive effect on profits. In general, we believe that the overseas pharmaceutical business will remain relatively strong.

As for vaccines, last year, despite the increased production of influenza vaccines, the vaccination rate was low, and the industry experienced a very difficult situation with approximately 30% of the vaccines returned. So this year we are also planning to adopt a sales structure to minimize returns as much as possible. Early shipment is important for this purpose, so our strategy is to ship from September to October. Last year's sales increased on a shipment basis and profits were up, but in Q4 we posted a major negative impact in the form of returned goods. We hope to work to prevent that from happening this year.

Q-4-2-2

I wonder if the JPY 300 million increase in profits in other (incl. change in results of subsidiaries) from human vaccines is royalty income, not from influenza vaccines.

A-4-2-2

Tanaka: Yes. That is correct. Since this is royalty income, it happens in only Q1.

Q-4-2-3

I see. I understand that after Q2, you will continue to take the same measures as you have just told us about the influenza vaccine.

A-4-2-3

Tanaka: I think that is the key point.

Q-5-1-1

The following is a comparison of Q1 results with the company's profit progress in H1 of the fiscal year compared to the company's plan. For example, the volume effect is a negative JPY4.4 billion for Q1, and I think the plan for H1 is a negative JPY1.6 billion, so I think the volume effect progress in Q1 is quite bad.

From this perspective, it appears that while the volume effect is having a negative impact, expenses and other costs are progressing well above the H1 plan. In your initial explanation, I was a little uncomfortable with what you said about the quantities not falling as much as expected, so how should I look at this point?

A-5-1-1

Furuta: There is certainly a volume decline. When I said earlier that the drop was less than expected, I was only giving you an impression in the absence of a Q1 external announcement plan and based on the sales volume of representative products. The actual change in operating profit is affected by the product mix in addition to the change in sales volume.

On the other hand, in terms of cost increases, energy costs, such as electricity, were lower than expected. This has been mitigated by subsidies, so some of these have been quite effective.

Q-5-1-2

Am I correct in understanding that the Q2 volume is expected to be as negative or more negative than Q1?

A-5-1-2

Furuta: Regarding the volume forecast for Q2, we expect the volume decline in nutrition, yogurt and cheese products that price hikes were implemented in April and May, to be less than in Q1. On the other hand, we consider drinking milk, yogurt, and confectionery products, which are implemented from August to October, to be a factor in the Q2 volume decline.

Q-5-1-3

Do you expect to spend JPY3.5 billion for marketing expenses as planned for H1?

A-5-1-3

Furuta: We have not changed anything about the marketing expenses plan currently.

Q-5-1-4

Are the other part of the expenses, mainly the energy costs, likely to swing up? The gap between the H1 plan of a negative JPY5.1 billion and the Q1 result of a negative JPY0.2 billion is large, so are there any factors other than energy costs?

A-5-1-4

Furuta: It is possible. We were quite strict about the electricity cost. That cost is an upside factor in Q1 as well. We assume that the impact will continue in Q2.

Tanaka: Other than energy costs, general and administrative expenses are currently the variable factor.

Q-5-1-5

For other (incl. change in results of subsidiaries), do you mean that subsidiaries, mainly overseas, were good? This is likely to be an upside factor here as well.

A-5-1-5

Tanaka: The overseas subsidiaries plan to conduct sales promotions in China in Q2 that could not be conducted in Q1. In that sense, Q2 is less profitable.

Then there is the question of how the effect of the price increase will be felt. Though the price has been raised three times in the US, we must consider the fact that Q1 did not have a price hike in the previous year. Q1 was the period when the effect was most likely to be felt.

Q-5-2-1

The gap between Q1 operating profit results and the H1 plan is quite good for chocolate/gummies, drinking milk, and overseas. Are there any other categories that are performing better than expected? You also feel that the company's original assumption of a scenario where profits are severe in Q1 and recover in Q2 applies to all categories.

A-5-2-1

Furuta: That is our initial forecast. Q1 was better than that. The biggest upside of all was the B-to-B business.

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