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Meiji Holdings Co., Ltd.
Financial Results for the Q1 of FYE March 2025 (FY2024)
The Telephone Conference Q&A

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Presenters:

Jun Hishinuma	CFO, Member of the Board and Senior Executive Officer
Masashi Tanaka	General Manager of IR Dept.

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

Q-1-1-1

You explained the overall impression of the Q1 progress is good. I see that the food segment is off to a slightly slow start and the pharmaceutical segment is good progress. Can you give us more details on the progress of Q1 against the plan for each segment?

A-1-1-1

Hishinuma: First of all, let me begin with Q1 progress in the food segment. Chocolate and nutrition businesses in the food segment are progressing well. The mainstay products of the chocolate business are doing well in addition to the effect of price increases in Japan, and Meiji brand chocolate snacks are doing well in the US.

In the nutrition business, sales of *SAVAS* milk have been strong in Japan. Overseas, infant formula is doing well in Vietnam.

In the food segment, the weak points are functional yogurt, infant formula in Japan, which was affected by the advance of shipments at the end of March this year, and chocolate business in China, which has been recovering since June, and ice cream in China, due to unseasonable weather.

Although sales are in such a situation, operating profit in H1 is still affected by cost increases, including the depreciation of the yen. Therefore, we implement price increases in June and October. Although there may be some delay in absorbing cost increases, the increase in sales of sports nutrition and BtoB in Japan will cover the delay, and profits are progressing according to the plan.

In the pharmaceutical segment, sales of antibacterial drugs in Japan and the Group companies overseas have been favorable. Although R&D and other expenses are progressing as planned, sales are a little higher than planned, which means that profits are also progressing a little higher than planned.

However, we will use costs as planned in H1 and throughout the year, so although H1 will be strong, we expect costs for the full year to be in line with our original plan.

Q-1-1-2

I understand that costs in the pharmaceutical segment are being spent as planned, but there has been almost no increase in Q1 compared to the plan to increase expenses by about JPY9 billion YoY this year. Is that correct that JPY9 billion increase planned for Q2 and beyond will actually come out as expenses?

A-1-1-2

Hishinuma: Although some of the Q1 costs were a little behind schedule, we now expect to spend approximately JPY9 billion for the full year, as originally planned.

Q-1-1-3

Considering the profit plan for the pharmaceutical segment for H1, Q2 is calculated to be considerably less profitable. Am I correct in understanding that H1 will be almost in-line with the plan?

A-1-1-3

Hishinuma: Now that sales are going well, and we will use R&D expenses as originally planned. Subsidiaries are also doing well, and we do not expect Q2 to be negative so far. In other words, we believe it may exceed the original plan.

On the other hand, for the full year, there are still uncertainties such as the trend of *Kostaive* and shipment of influenza vaccine. Therefore, we have left the plan unchanged, assuming profits will remain at the initial profit target.

Q-1-2-1

For the situation in China in the food segment, it seems to be bad in terms of dairy, chocolate, and ice cream. Please tell us what the situation is for each of these plans? In the case of dairy in particular, please explain how the external environment and the progress of your company's structural reforms are beginning to work together.

A-1-2-1

Hishinuma: First of all, I talk about the dairy business in China. In accordance with the revival plan, the biggest theme of the current situation is to correct selling prices. In the extremely competitive environment, the main theme is to raise the marginal profit ratio so as not to be dragged down by low prices.

The marginal profit ratio has been in a steady increase by reviewing unprofitable business partners and transaction terms. Therefore, I think it is safe to say that Q1 of the dairy sales was progressing as planned, although there were some delays in the start of the quarter.

Next, in the chocolate business, we changed the fiscal year end this time, so Q1 of the previous year was from January to March, and now it is from April to June. The peak season of chocolate is from January to March, so YoY looks a little weak. When compared to the April to June period, June is showing a recovery trend. Since nut chocolate and chocolate bars, which have been selling well since last year, we do not too worried about the chocolate business.

In the BtoB business, we are also increasing sales, mainly to café chains. The depreciation cost of the new plant in Guangzhou has increased, but this figure is included in the plan. We hope to recover this amount through increased sales in the future.

The issue is the ice cream business. We have been hit by heavy rainfall every month in April and May in Guangdong Province. 60% of our sales area is still in Guangdong Province, so our sales areas have been greatly affected. The other is that last year, in the same way, each company had quite a bit of inventory from bad weather, so they are now caught up in a pretty cheap battle to sell last year's inventory in the marketplace. We completed dealing with an excess inventory last year, so we do not have too much inventory anymore.

To sum up, the market was very difficult in April and May due to heavy rains and competition from low-priced products. Since this is the situation, we will strive to reduce costs as much as possible for the time being from Q2 onward.

We will start shipping ice cream for the new season in January. Our ice cream is mostly in the mid-price range. Our long-term strategy is to focus on the mid-price range and the high price range, but for the time being, we are trying to make up for the negative results of Q1 and Q2 by increasing sales during the period from next January to March by devising private brand products and developing products that are easy to pick up and sell at a reasonable unit price.

Q-1-2-2

I would like to have a breakdown of the JPY2.1 billion deficit in China for each segment. The plan for H1 is a deficit of JPY2.8 billion, so it is calculated that the deficit will shrink to JPY0.7 billion in Q2. Is this going to go as planned or is it still a bit behind?

A-1-2-2

Hishinuma: We do not disclose figures by business category in China, but for H1 of the year, the Q1 profit for China as a whole was JPY1.8 billion less than the previous year, and we think it will be quite difficult to recover this in Q2. We hope to somehow make up for the negative impact in China in other areas and in Japan, where our Group companies are performing well and increase overall food profits.

Q-2-1-1

You mentioned that the Q1 profit of the food segment was in line with the plan. If we calculate backward from the H1 plan, it looks like a double-digit profit increase YoY for Q2. I would like to confirm whether my understanding is correct or not.

A-2-1-1

I would like to talk about the reason why Q1 is a bit behind in profits. The major factors are as follows: sales of functional yogurt were low, Japan's sales of infant formula were slightly negative, and the cost of the chocolate business increased due to the weaker yen and soaring prices of cocoa beans, and a decrease in profit from the China business.

Of these, the decline in sales of the infant formula was slightly sluggish from April to June because inbound demand was preempted in March this year. Inbound demand has been recovering since July, so we expect sales to recover in H1 of the year.

As for the chocolate business, we have already announced a second price increase in this October, although the cost increase is a little ahead of schedule. After the price increase in June, there was almost no volume decrease in this area, so we believe that sales of chocolate will be able to cover a large portion of this Q2.

The issues are functional yogurt and the China business. As for functional yogurt products, *R-1* for the consumer market is maintaining the previous year's sales, but the issue is what to do about products other than *R-1* and home delivery. Even if these negative factors continue as they are, yogurt and drinking milk are performing well, so we hope to make up for these weak points.

In China, as I explained earlier, we expect ice cream sales to be quite difficult, but we believe that we will be able to increase sales of chocolate and BtoB businesses from Q2, and that we will be able to secure a profit in Q2 that is in line with the previous year's figure. Based on the above, we think that we will be able to secure the JPY30 billion profit in the food segment that we announced at the beginning of the fiscal year.

Q-2-2-1

So, my understanding is that you think you can return to double-digit profit growth in Q2, is that correct? Still, since regression is difficult to achieve in Q2, am I correct in understanding that you would like to increase the volume well into H2 of the year and recover the sales that was missed in this Q1?

A-2-1-2

Hishinuma: Since the H1 plan of JPY30 billion remains unchanged, we are assuming that we can aim for a 14% increase in profits in Q2 compared to the previous year.

Q-2-2-1

When I look at your company's sales compared to the plan, I see that sales are not enough at all. For example, the change in sales volume and product mix on page 2 is down about JPY1.4 billion. On the other hand, in the full-year plan, the change in sales volume and product mix is expected

to add about JPY4.9 billion in profit.
It seems to me that you will have to rapidly increase the sales volume in H2 of the year, as the price increase will increase from here on. Is this really in line with your plan? Please let me confirm this.

A-2-2-1
Hishinuma: The price increase has a negative impact on the volume. However, the actual sales volume in chocolate has not declined that much since the price increase in June.
In addition, as for dairy products, we raised the price last year, and as the price has gone through a cycle, we believe that the price in stores has already penetrated the market. We would like to make efforts in various promotions and other ways to increase the sales volume.

Q-2-2-2
I understand that the sales volume of dairy products dropped sharply last year, but the push-down effect will be lighter from now on. Therefore, the sales volume will recover and the plan for H2 of the year will be achieved. Is my understanding correct?

A-2-2-2
Hishinuma: Yes.

Q-2-3-1
I was wondering if you could tell me a little more about the *Kostaive* situation. I think you mentioned that this *Kostaive* is very important to achieve the plan. On the other hand, I don't think the assumption of *Kostaive*, such as whether the product will be really launched in time for the fall/winter 2024 season, has been shared with the stock market.
I would like to know what assumptions you have in mind for *Kostaive* right now, and the key points for achieving the plan in terms of *Kostaive*. If your company does not do as you expect, can you also tell me if there is a downside risk to the profit of the pharmaceutical segment?

A-2-3-1

Hishinuma: As for *Kostaive*, we expect to receive approval as early as H1 of the year, so we expect to be able to ship in H2.

I can't explain the sales and profits of *Kostaive* because we don't disclose them, but what I think one of your interests is whether there are really people who are going to be vaccinated. For example, the flu vaccine is injected 30 million times in a year. We assume that the COVID-19 vaccine will be subsidized in some way for essential workers such as medical personnel, and staff at aged care facilities, and of course, for the elderly. We therefore assume that there will be a certain number of vaccinations, but the volume of vaccinations incorporated into the plan is planned to be much smaller than for the influenza vaccination. We believe that we will be able to achieve the plan if *Kostaive* is launched.

However, if we can't bring this to market as planned, it's undeniable that the profit of the pharmaceutical segment could be impacted. That said, there are still many uncertainties, such as pricing and vaccination rates, so we are continuing to work towards our plan.

Q-2-3-2

I understand. When will some assumption like that be shared?

A-2-3-2

Hishinuma: We still don't know when it will be launched, the vaccination status of the elderly, and what kind of subsidies will be provided by the national government or local governments. Once these things become clear, we will be able to see how it will affect our plan.

Q-3-1-1

I was hoping you could tell me where the cost increase in the food segment.

First of all, I would like to know whether the cost of raw materials in Q1 was within your company's plan. And whether the soaring market price of cocoa beans is likely to have an impact on H2 of the year, and if so, how do you feel about this?

A-3-1-1

Hishinuma: Regarding the cost increase in raw materials, in our original fiscal year plan, we are planning a cost increase of about JPY4.6 billion. In Q1, the cost increase in raw materials was JPY3.0 billion, so the cost increase is greater than planned.

The main reason for this is the market price of cocoa beans, but there is also the effect of the weaker yen. The current exchange rate is back to our initial plan of JPY145 per US dollar. However, until July the rate was JPY155 to JPY160 per US dollar. So, two factors have had a significant impact on cost increases: higher raw material prices due to foreign exchange and soaring market prices for cocoa beans.

Q-3-1-2

What do you think the cost increase is likely to be with the annual plan of 8.8 billion yen? How much do you think the actual costs might exceed that estimate to the annual plan of JPY8.8 billion?

A-3-1-2

Hishinuma: There is an upward trend, but I cannot give you a detailed figure because of the uncertainty about the movement of the exchange rate. For example, it is conceivable that the exchange rate could remain in the JPY140 range. In any case, we expect an upward swing from the initial plan, and we assume that it would be in the range of double digit billion yen.

However, we would like to take the basic approach is to take necessary action in response to cost increase situations.

Q-3-1-3

If the exchange rate remains in the JPY140 range next fiscal year, what is your image of how might that affect the trend in cost increases?

A-3-1-3

Hishinuma: We have already secured some overseas raw materials, so even if the exchange rate continues at the JPY140 level, the actual profit benefit from this will probably start in the latter half of Q3.

Furthermore, since the original plan for the current fiscal year was crafted based on JPY145, we do not think the current rate will significantly make the cost increase milder. We still believe that the yen is relatively weak at the JPY140 level.

As I mentioned before, while exchange rates are a factor, I believe that the market price of cocoa beans has a significant impact on cost increases. It’s difficult to recover cocoa beans productions, so we expect this impact to continue next year.

Q-3-2

I would like to know about the price increase for chocolate. I understand that your company has announced a large price increase starting in October. You mentioned that the current sales volume has not dropped too much after the price increase in June, but I would like to know how you see the sales volume impact from October.

A-3-2

Hishinuma: Not only chocolate, I think the average price revision rate for our products over the past few years has been around 5% to 8%. The price increase in October will depend on the product, but the biggest one within our mainstay products is a price increase of about 20%.

At this time, the reason for the rise in cacao bean prices is based on the fact that cocoa bean production is declining and raw materials cannot be secured. In this context, it is difficult for other companies to launch new products, but we are planning to launch new products.

Furthermore, private brand products are also in less supply in stores due to the current difficulty in securing raw materials. So, we believe that there is less tendency to go for the cheapest products than in the past as a result of price increases.

This is a major price increase, and we expect a temporary decrease in sales volume, but we believe we will be able to recover even including that.

However, we must be prepared for the risk that the chocolate shelves of supermarkets will be replaced by cookies and rice crackers. We would like to develop effective sales activities to secure shelves from now on, and we would like to stop the decrease in the sales volume, together with lining up our chocolate products on the chocolate shelves.

Q-4-1-1

For the products of the food segment, could you clarify which products have had positive results in terms of sales volume? If possible, how were the sales of *R-1* and *LG21* within functional yogurt?

A-4-1-1

Hishinuma: In the food segment in Japan, BtoB and protein drinks recorded positive growth in sales volume. In the functional yogurt, the sales of *R-1* for the consumer market were on par with the previous year, but the sales of *LG21* and *PA-3* were below the previous year's level.

Q-4-1-2

Can you give us a sense of the scale or amount of Q1 sales by brand such as *LG21* or *R-1*?

A-4-1-2

Tanaka: In terms of the sales amount, *LG21* decreased by more than 10% for Q1. *PA-3* was also down about 19%. The sales of *R-1* for the commercial market are on par with the previous year, but *R-1* for home delivery was poor, resulting in an overall decrease of about 2%.

Q-4-2-1

I have a question about pharmaceutical segment. You said that approval for *Kostaive* would come as early as H1 of the fiscal year, but how long does it take to bring it to market after approval is granted? You previously said 16 times per vial, and I would like to confirm this has not changed.

A-4-2-1

Hishinuma: We do not have a detailed timeline from approval to launch of *Kostaive*, but we are

now working on approval for H1 of the year at the earliest, and October at the latest.
Also, there is no change to the 16 times per vial, and I believe this will be not a problem for mass inoculations.

Q-4-2-2

Once the approval is given in October, is it my understanding that your company will start production, sales, and development from there?

A-4-2-2

Hishinuma: I can't give you a detailed schedule, but we intend to launch the product as soon as possible.

Q-4-3-1

The situation on pages 21, when looking at Japan, overseas, and vaccines, looks good for Japan and overseas. I wonder if there is not a continuity since R&D will appear after Q2.

A-4-3-1

Hishinuma: In Q1, Japan and overseas sales were progressing well in the pharmaceutical segment. This was due to strong sales of antibacterial drugs and the good performance of group companies in Japan. Our initial plan is a bit conservative here, and I believe that there is a possibility that this strong performance will continue.
Overseas, India and Spain are also performing well. The strong performance continues, including the benefits of the weaker yen, I am not sure how long it will continue, but I believe that this trend will continue.

Q-4-3-2

R&D expenses in Q1 did not increase compared to the full-year plan, but other areas have been increasing in sales and profit. If they continue to some extent, that will be a factor in the upward swing, is my understanding correct?

A-4-3-2

Hishinuma: I wish that were the case. As for costs, we will spend as planned. We are planning to spend quite a bit in Q2, so I wonder if that will change the way you see things a bit.

Q-4-3-3

Is there any possibility that the R&D expenses that is planned to be spent significantly in Q2 could be shifted to H2 or later? I think it was pushed back a bit last year as well. I would like to know if the R&D expenses are really going to be in Q2 or if a possibility not to be spent so much remains.

A-4-3-3

Hishinuma: At this stage, we are assuming that the expenses will be spent in Q2, but in the case of the pharmaceutical segment, the timing may inevitably change depending on the progress of the clinical trials. As such, there is no guarantee that it will not be delayed in that case, but for now, we will make the expenditure as planned.

Q-4-3-4

Is it my understanding that this is because the clinical trial is proceeding as planned?

A-4-3-4

Hishinuma: Yes.

Q-5-1-1

I would like to know the strategy of the chocolate business. Considering the market situation in H2 of the current fiscal year, is it correct to say that your company is daring to take an aggressive management approach while your competitors are a bit more cautious?

Also, if there is such a shortage of cocoa beans, what are your thoughts on the risk, including things like raw materials running out? Is there any approach being considered to review the raw materials in this area favorably, such as changing the composition ratio of cocoa butter to CBE, for example, or offering a slightly cheaper product? Please tell us about this area first.

A-5-1-1

Hishinuma: Regarding the chocolate business, I think we probably have the largest stock of raw materials in Japan right now. We usually have procurement contracts at this time of the year. Although this is a bit uncertain, we believe we have an advantage over our competitors.

As you have just pointed out, we are considering changes to the formula, etc., along with price increases, this fall. We are planning to combine such methods without compromising quality.

Q-5-1-2

It sounds like you are trying to get a share of the market at once, is that correct?

A-5-1-2

Hishinuma: We are not doing this with the idea of increasing market share in the current market and competitive environment. We believe that If sales volume exceeds expectations at the price after we conducted price increases, it could result in increased market share.

Q-5-2-1

I would like to get an easy picture of the sales volume. Can you give us an idea of the sales volume for the main products listed on page 17?

A-5-2-1

Tanaka: I will answer only the main points. *Meiji Bulgaria Yogurt Plain 400g* was up by 3% in sales volume.

As for functional yogurt, *R-1* was down by 4%. Mainly, this is negatively affected by home delivery.

As for chocolate, *Chocolate Kouka* has increased by about 16% in terms of sales volume. The sales volume of solid chocolate was up about 9%, and *Kinoko no Yama* and *Takenoko no Sato* was up by about 15%, so overall Q1 sales volume for mainstay chocolate products were strong. However, overall sales are affected by the discontinued products, so the sales volume does not appear to be very strong.

Q-5-2-2

I understand that the chocolate total was plus 9% in the sales YoY. Is the sales volume growth at the same rate as the sales amount?

A-5-2-2

Tanaka: In terms of the sales volume, it is roughly plus 7%.

Q-5-2-3

What is sports nutrition like?

A-5-2-3

Tanaka: The sales volume of powder is almost flat, and in terms of sales amount, we are looking at a 4% to 5% increase. The sales volume of ready-to-drink products is growing at about 4%, and in terms of sales amount, it is growing at about 10%.

Q-5-2-4

At the beginning of the fiscal year, I thought the management priorities would be the recovery in sales volume. However, in this cost environment, once again, what is your management priority for this year, recovery in sales volume or maintenance of profits?

A-5-2-4

Hishinuma: In the food segment, there are still fluctuations in exchange rates, but the raw material costs excluding cocoa beans have settled down. Our priority is to recover sales volume, which will ultimately lead to increased profits.

Q-5-2-5

In this fiscal year, you want to make sure that the sales volume rather than profit, and is your thought that you will lead to profit in the next fiscal year?

A-5-2-5

Hishinuma: That's right. We think that we want to firmly secure the profit we announced at the beginning of the fiscal year throughout the entire year.

Q-6-1-1

Since the plan for H1 of the fiscal year has been left unchanged, I believe that the plan in Q2 will be to decrease profit by JPY9.4 billion.

So, as you can see on page 7 of the supplementary explanatory data, there is a significant increase of about JPY7 billion in SG&A expenses for the pharmaceutical segment. How much increase do you actually expect?

If you follow the plan, can you tell me if I understand correctly that you really plan to increase of about JPY7 billion in Q2?

A-6-1-1

Hishinuma: We are thinking of such a prospect. We expect to use the cost as originally planned.

Q-6-1-2

Is R&D expenses the main focus?

A-6-1-2

Hishinuma: Yes.

Q-6-2-1

Overseas pharmaceuticals were very profitable in Q1. In Q2, Spain and other overseas subsidiaries are basically doing quite well, and there doesn't seem to be much bad news about in particular.
Is there any difference in trend from Q2 onward from Q1? Or, do you have any guidance on whether we can expect to see a similar trend in Q2 and beyond?

A-6-2-1

Hishinuma: Overseas is doing well, with India and Spain contributing to the positive results, including the impact of foreign exchange rates. I am a little concerned that the current numbers for Q2 might be taken as conservative, although I think there is some upside.

Q-6-2-2

Is there anything you can tell us of what areas are growing substantially, and what are the drivers?

A-6-2-2

Tanaka: Overseas, in India, both sales and profit have benefited from the weaker yen. In addition, the sales for South Africa are being strengthened, the sales of generic drugs are going well, and CMOs and CDMOs are also going very well. All of these factors were working in a positive way.
In Spain, the sales of antibacterial drugs have been very strong, so there is an upward trend.

Q-6-2-3

I see. This is not a temporary situation. We should understand that the environment in Q2 and beyond will be steadily trending on an organic basis, except for the exchange rate. Is that correct?

A-6-2-3

Tanaka: Orders have been favorable so far, so I think there is a possibility of an upward swing.

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