

Meiji Holdings Co., Ltd.

Financial Results for the Q2 of FYE March 2025 (FY2024)

The Online Briefing Q&A

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Presenters:

Kazuo Kawamura	CEO, President and Representative Director
Daikichiro Kobayashi	COO (Pharmaceutical Segment), Member of the Board and Executive Officer
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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

I have a question about the pharmaceutical segment.

With the current spread of rumors surrounding the COVID-19 vaccine, *KOSTAIVE*, I believe you mentioned that the originally planned sales volume for H2 has been revised downward. I still feel that the rumors may be spreading further.

In this context, I would like to ask how you view the risk of potentially not meeting the plan in this fiscal year. Also, I believe you mentioned that vaccines in the pharmaceutical segment were expected to be a growth driver within the current Medium-Term Business Plan. Has there been any change in your outlook on this?

A-1-1-1

Kobayashi: Last year, it was estimated that around 20 million people received vaccinations during the autumn and winter seasons. In response, five companies, including us, have produced a total of 32 million doses this fiscal year.

However, given the current vaccination environment, including *KOSTAIVE*, the situation is tough for all five companies, with the possibility that demand may drop to around 10 million doses. Among these, the most impacted is our new self-amplifying mRNA vaccine.

We have factored in these risks in formulating the H2 plan.

However, thanks to support from the three medical societies, as well as our efforts since October to strengthen information dissemination, such as webinars for physicians involved in vaccinations, we are working to improve the situation. So far, we have engaged in online discussions with approximately 10,000 physicians, receiving very positive feedback. Although the number of vaccinations remains far below our plan, it is gradually increasing.

This fiscal year, we are facing unexpected headwinds from the start, so it's difficult to specify exactly how much we may fall short at this point. However, next fiscal year, we plan to launch a two-dose vial, and based on this year's experience, we aim to proactively prepare the vaccination environment and establish a stable sales base.

Above all, this effort is a collaborative project with the government to establish a platform for

domestically produced vaccines. Vaccines manufactured in Japan are expected to ship this December, and we are constructing a new facility at our Ashigara plant, which will enable a system covering everything from research and development to formulation. In the meantime, we will work on formulation improvements and advance research and development for vaccines addressing other diseases. We intend to focus on this as an important part of our portfolio for growth strategy in new modalities.

Q-1-1-2

In terms of figures, I believe your initial goal within the current Medium-Term Business Plan was to reach a profit level of JPY40 billion in the pharmaceutical segment. Given the current situation, do you still feel confident in achieving that target, or could you share your thoughts on this?

A-1-1-2

Kobayashi: It is currently uncertain how much of a shortfall we may see with *KOSTAIVE*, but even if there is a shortfall, we still believe that achieving the JPY40 billion target in the 2026 Medium-Term Business Plan is feasible.

We have a broader portfolio, of which *KOSTAIVE* is only one component. We are also seeing a growth of overseas and new drugs. For example, *REZUROCK* is currently showing growth three times our initial plan, and *Quintovac*, as well as *Equfina TABLETS*, which are being sold by Eisai Co., Ltd., are also exceeding expectations. By leveraging these drugs not only antibacterial drugs, we are committed to reaching the JPY40 billion target.

Q-2-1-1

I would like to ask about the status of the chocolate price increase since October. I'd like to know how the current sales volume has been trending. I believe competitors are also raising their prices starting in November, so there may be differences between October and November. Could you tell us about the sales volume environment in that context?

A-2-1-1

Matsuda: Regarding the chocolate business, we have raised prices five times over the past three years. We have raised prices more times than we have historically experienced. However, when looking at the content, we see that differentiated products such as *Chocolate Kouka* have enough product strength to withstand price increases.

On the other hand, for example, our solid chocolate products, the selling price of our products is now about JPY170. Competitors' selling prices are around JPY140 to JPY150, creating a significant challenge due to this price gap. We are a leading company, so we take responsibility for implementing these price increases. Moreover, we have maintained the selling price as originally planned with our firm selling price setting.

Competitors' price increases have generally lagged ours by six months until now. During this period, we lost quite a bit of market share over the past six months that we believe are differentiated, but where consumers did not perceive much difference. Then, as competitors' price increases caught up with us, our market share repeatedly recovered. This cycle has continued in this way. As a result of these five price increases, we believe that the products for which we have effectively communicated solid value at a stable price are performing well.

As for solid chocolate, we have mostly maintained the previous year's level in terms of volume for FY2023. Furthermore, *Chocolate Kouka* is performing well, reaching 109% in terms of volume even in H1, indicating steady progress. In this context, chocolate as a whole reached about 104% to 105% in terms of sales of the previous year's level in October when the price increase was implemented.

Furthermore, competitors are implementing price increases from November and other competitors have also announced price increases for February or March of next year, so we don't think there will be any impact on market share this time. While we initially thought the 20% price increase in October would be quite challenging, the trend of price increases over the past few years and the recognition of the inherent value of our products have prevented any significant drop below the previous year's levels. Sales are currently tracking above plan, and we expect this positive trend to continue.

Q-2-1-2

I believe that the chocolate business is expected to see a 5.5% increase in sales in H2. How much do you expect the sales to exceed the plan?

A-2-1-2

Matsuda: Since we implemented a 20% price increase if we calculate the current plan in terms of sales volume in H2, it will be down by 10% to 20%, but I believe it will be more than that.

Q-2-1-3

Understood. Would it be correct to assume that the momentum changed due to a competitor's price increase following yours from October to November?

A-2-1-3

Matsuda: In the past, competitors would follow our price increases six months later, but now they're doing it within a month. That makes a significant difference.

Q-2-1-4

So, while there might be a slight reduction in volume, it sounds like the plan is to achieve higher-than-anticipated results, right?

A-2-1-4

Matsuda: Yes, that's correct. For *Chocolate Kouka*, I don't expect any reduction in volume, and for solid chocolate, there should be minimal reduction as well. I think some products that are purchased by children might see a slight decrease in sales volume. However, overall, I believe we'll exceed the plan's numbers. Looking at the figures from October through mid-November, things are progressing smoothly.

Q-2-1-5

So, it's fair to say that this pricing strategy has been very successful, right?

A-2-1-5

Matsuda: Yes, that is our current thinking.

Q-2-2

I assume that the cost environment will remain very challenging next year for both the dairy and confectionery industries. In terms of new pricing strategies, what kinds of considerations are you currently making within your company?

A-2-2

Matsuda: First, regarding the dairy products, the raw milk price for the next fiscal year has not yet been determined, but I don't expect imported dairy ingredients to increase to a level that would have a significant impact.

Regarding the chocolate products, we recently implemented a 20% price increase, but that's not enough to cover the rising costs.

Previously, we would wait six months after a cost increase of raw materials before adjusting prices, but the current situation is putting too much pressure on profits, so we are now working to shorten this timeframe. Naturally, we will continue to respond to cost increases by raising prices accordingly.

Q-3-1-1

I would like to ask about the Medium-Term Business Plan. This is the first fiscal year, I believe that dealing with rising costs in the food segment has been a major theme. Also, overall, the economic downturn in China has been quite challenging. Could you share what areas you currently recognize as issues within the Medium-Term Business Plan?

What is working well, and what isn't? Also, if you have any plans to reinforce certain areas in H2 and beyond, please share your thoughts.

A-3-1-1

Kawamura: The Medium-Term Business Plan started this year, and it has been about six months since its launch. I feel that broadly speaking, the conditions we anticipated in the plan are starting to take shape.

The overseas market, especially in China, has been very challenging, including a shift towards more rational consumption. We hadn't fully incorporated these conditions into the Medium-Term Business Plan. However, excluding this factor, we believe progress is on track in line with the anticipated environment. In particular, I feel that the growth in the pharmaceutical segment has become quite solid.

While there are issues with *KOSTAIVE*, as mentioned in the earlier question, that is just one category within our vaccine portfolio. Overall, I don't think it will have a significant impact, especially given the strong stability in the antibacterial drug market. Additionally, the environment of increasing NHI drug prices continues to support us.

Our antibacterial drugs represent a significant portion of our sales in our business in Japan.

Next are the vaccines produced by KM Biologics, our subsidiary. Currently, there's a lot of focus on *KOSTAIVE*, but aside from that, we also have a five-in-one pediatric vaccine, *Quintovac*, which has recently been launched. The unit price is very much higher than a four-in-one vaccine.

In this sense, our pharmaceutical segment is built on three main pillars: the Japan-based business focused on antibacterial drugs, the vaccine business, and the overseas business. All three pillars are performing very well, and we expect to achieve record profits again this year.

Regarding the food segment, we have gone through considerable trial and error in responding to substantial cost increases. We managed to catch up with FY2022 cost increases in FY2023, and we were hoping to operate in a somewhat better environment from FY2024. However, we are now facing a significant cost increase in cocoa.

There is a trend supported by government policy that encourages proper negotiations with distributors for necessary price increases. In line with what might be seen as a new form of Japanese capitalism, there is a growing acceptance in society for cost increases, helping to put this approach on track.

However, we must carefully monitor how consumers perceive and absorb these price increases, which is, of course, essential. That said, compared to the deflationary period, this is clearly a significant change.

Therefore, in the food segment as well, it's essential to ensure that these price increases are effectively implemented. In addition, enhancing product value so that consumers continue to purchase the products even with higher prices is key. I believe this will be an extremely important theme for the food segment within the current Medium-Term Business Plan.

We are advancing various initiatives in this fiscal year to further enhance added value. We are hopeful that these initiatives will gain momentum from the midpoint of H2 onward.

Although consolidated operating profit is a slight decrease in H1, the plan for H2 aims to catch up and achieve profit growth for the full year. If we are able to increase profits in this fiscal year, it will provide a solid foundation for continuing toward the Medium-Term Business Plan targets in the coming fiscal years. Therefore, we understand that things are progressing smoothly at this point.

Q-3-1-2

Since the formulation of the 2026 Medium-Term Business Plan, there have been various changes and challenges, such as the self-amplifying mRNA vaccine and rising the raw material costs of cocoa. From what you mentioned, I understand that these are not necessarily presenting significant challenges.

Just one point, the economic situation in China has turned out to be much more challenging than expected. Regarding the overseas business as a whole, including China, is there anything you are planning to drive forward or any additional measures you intend to take?

A-3-1-2

Kawamura: Regarding overseas operations, the pharmaceutical segment is performing extremely well in the overseas business. The demand for generic drugs, driven by population growth, is particularly strong in the countries where we are operating, and this is leading to increased sales and profits.

As for the food segment, the current situation is that only China is experiencing difficulties. In contrast, the U.S., as exemplified by the earlier explanation on *Hello Panda*, is seeing strong demand. Moreover, as we develop a new category, chocolate snacks, which doesn't currently exist in the US market, I believe it holds great potential as a significant market in the future.

Next, looking at ASEAN and Asia more broadly, we have been strengthening our production facilities in Singapore and working on initiatives to create new markets.

In that sense, after a long period of development, I feel that our production bases and product strategies, which have been cultivated over a long time, are finally starting to come together. Therefore, the growth in the U.S. and ASEAN is expected to align with the direction of the Medium-Term Business Plan, and we believe we can continue to work on these areas moving forward.

China was an area where we made significant investments and were expecting market growth. However, the entire Chinese economy has now entered a deflationary phase. In that sense, I think the previous approach will be difficult to maintain. However, it's important to note that we did not enter the Chinese market with the intention of capturing a large portion of the market.

We have focused on how to convert the consumer segment, especially the affluent segment, into our customers. In that sense, I believe that this market will continue to exist within China, remaining stable even as the broader economic situation evolves.

In this regard, I believe we need to fundamentally reassess our product strategy. Since China is a very large market, the key is how we can continue to be recognized as a company that offers high-quality products within that market.

We haven't yet reached a point where we can clearly see the path forward, we are urgently working to shift from the crashed open market to a market where we can achieve a reasonable contribution margin rate. Our target is to focus on reaching break-even in the coming fiscal year and beyond.

I believe various measures will still be needed moving forward to address this. In the last fiscal year, we experienced a significant impairment loss, as a result, the burden of fixed costs is gradually shifting to a much lighter load in this business in the first fiscal year of the Medium-Term Business Plan.

The situation is still uncertain and requires caution. However, we will work on this Medium-Term

Business Plan to make steady move toward our break-even goal and to ensure that our business in China does not become a drag.

Q-4-1-1

I have a question regarding the food segment. Looking ahead to H2 and the next fiscal year, I believe you mentioned that now that the current price increases are beginning to settle, developing new products will be crucial for moving to the next stage.

From that perspective, I would like to ask about the current progress in new product development. I understand there have been organizational changes, if there are any interesting or promising developments that you can discuss at this stage, I would appreciate any insights you can provide.

A-4-1-1

Matsuda: Over the past few years, we haven't launched many new products, but this year, we are gradually introducing new products.

To increase the probability of these new products taking root in the market, we have been working over the past few years. I believe we are starting to see the results of those efforts.

Originally, our entire product line has been developed based on health and nutrition as the core concepts, and we are working to create new value and taste. Organizationally, we have shifted back to focusing on each vertical category, where we are concentrating on developing products based on evidence, including research and development.

For example, the biggest initiatives include *R-1 the GOLD* and this fall, we are launching the *R-1 the GOLD* soft-type yogurt. Additionally, *HOME MADE STORY* from *Bulgaria* brand and a version with more fruit chunks from *Bulgaria* brand. In the chocolate business, we are expanding the brand horizontally, creating products that not only have solid evidence but also add fun and excitement. I believe these new products will offer something enjoyable for consumers.

In the nutrition business, our products are currently receiving very positive feedback. For example, we have introduced a ready-to-drink, *SAVAS Milk Protein*, containing 30 grams of protein. We plan to continue launching these products with strong momentum based on our original philosophy of

using Meiji's proprietary technology to provide unique value.

In recent years, we have mainly focused on absorbing cost increases, so we haven't been able to introduce many new products. However, we are now ready to make solid strides forward, and we plan to actively pursue new product development from here on.

Q-4-1-2

Is this initiative progressing smoothly? Or, given the continuing cost pressures, do you feel it's still behind the initial timeline?

A-4-1-2

Matsuda: I believe it's progressing smoothly. We've already released specific products, and next spring, we are preparing to launch promising products in various categories.

Q-5-1

I would like to ask you about the dairy business in Japan.

Looking at the profit and loss factors on page 28 of the materials, I see that the forecast for cost reduction has been lowered by about JPY3 billion from the initial plan. Could you explain whether cost reductions related to sales, or whether there were additional cost savings, such as a review of the production system?

A-5-1

Matsuda: Regarding expenses, it's not just for the dairy business, but overall, we have not reduced costs by cutting promotional expenses or similar approaches. For the dairy business, the cost reduction comes from actions such as scrapping production lines that are no longer needed based on the current sales volume or integrating production lines to reduce expenses at various plants. This is the result of those measures.

Tanaka [IR Dept.]: Let me add a brief supplement. For H1, there was a reduction in manufacturing overhead costs due to changes in the production system, which resulted in a significant decrease in expenses. However, for the H2 plan, please note that we have also reviewed some of the advertising expenses.

Q-5-2-1

As for the chocolate business, you mentioned that the price increase has started off quite well. However, in the dairy business, traditionally, price increases for core products were implemented when raw milk prices rose. With recent changes in the cost environment such as logistics and labor costs, how feasible is it to implement additional price increases without a rise in raw milk prices?

A-5-2-1

Matsuda: In the past, we did not implement price increases when raw milk prices were not rising. However, it is a fact that in recent years we have reached a point where we must absorb increases in labor costs, packaging materials, and other expenses.

But, in the current market environment, there has been a change in retail trends. I believe the background is that consumer purchasing sentiment in recent months has weakened. The effect of this, retail outlets have started increasing quantities, particularly with private labels. Additionally, some convenience stores have started offering products with a good price-to-value.

We are carefully monitoring consumer trends and retail movements. Based on that, if necessary, we will implement price increases or similar actions due to increases in costs other than raw materials, even if raw material costs don't rise. This is currently under discussion. While no conclusion has been reached yet, we are considering moving in that direction.

Q-5-2-2

You mentioned that consumer sentiment has weakened over the past few months. Is there any variation in this trend across different categories? You told us that the price increase in the chocolate business is going very well. However, compared to the chocolate business, do you think

that the dairy business faces stronger price pressure from retail outlets?

A-5-2-2

Matsuda: I don't think there's a significant difference between the dairy and chocolate business. For example, within the chocolate business, gummy products have weakened recently. When a product that used to be priced around JPY98 rises to JPY128, JPY148, or even JPY198, items that were previously purchased as a quick snack or as an impulse buy have become much weaker. On the other hand, products with a clear, strong concept, such as those intended to be consumed daily or where the purchase decision is already made like *Chocolate Kouka*, for example, are performing much better. I believe the difference in purchasing purposes affects consumer sentiment.

Q-6-1-1

I would like to ask about the chocolate business. I was looking at slide 27, the analysis of the increase and decrease in operating profit by business segment for H2.

In the chocolate business, I see that the sales increase is positive JPY8.4 billion, and the cost fluctuation is negative JPY6.8 billion. Although I think the H2 plan has been revised, it appears that the price increase is absorbing the cost increase. However, from Mr. Matsuda's earlier comments, it seems that the cost increase in cocoa might not be fully absorbed. I assume this means that cost fluctuations will continue to rise next fiscal year.

I would like to know that it looks like things are going well this fiscal year, but why another price increase is necessary?

A-6-1-1

Matsuda: This is not just about the chocolate business, over the past three years, we waited to implement the price increases by six months after the cost increases of many raw materials. But for this half-year, the price increase effect has been larger than the cost increase for raw materials. However, considering the past few years, it's still not enough.

Additionally, the current cocoa beans market price has stabilized at around GBP6,000. However,

including other raw materials, we expect prices to rise again next year. Therefore, we believe we will need to implement another price increase to account for this.

So, I believe that the price increase in H1 has finally reached a level where the raw material cost increases that started around 2020 can be absorbed.

Q-6-1-2

So, this is the overall image of the food segment, right?

By the way, just for the chocolate business, for H2 of this fiscal year, there's a cost increase of JPY6.8 billion. So, for next year, it's not like this will be doubled, right?

A-6-1-2

Matsuda: It won't be that much. If the price increases by JPY6.8 billion in H2 of this fiscal year, the same volume of products will increase by JPY6.8 billion in H1 of the next fiscal year. So I don't think it will go up another JPY6.8 billion from there during the next fiscal year.

Q-6-1-3

So, it looks like the announced price increase can absorb this, or is it not exactly that way?

A-6-1-3

Matsuda: Initially, there was an increase in raw material costs, the price increases in response were implemented six months later. So please think of it as making up for that past lack.

Q-6-1-4

So, regarding this cost increase for cocoa, it's not just about the recent sharp rise in cocoa beans prices but also considering the previous cost increases. Are you indicating that you will implement another price increase to absorb these costs?

A-6-1-4

Matsuda: Yes, that's correct.

Q-6-2

For the chocolate market, it seems to be quite strong. Your company has implemented price increases and other companies have also raised prices, and I still get the impression that the market is very strong.

I would like to ask how you analyze the strong performance of this market. For example, I believe you have included the material about inbound consumption this time. Do you think the inbound effect has significantly benefited the chocolate market?

A-6-2

Matsuda: The share of inbound sales accounts for less than 5% of our chocolate business. However, we consider it an important market. Depending on the characteristics of different retail outlets and countries or regions of the people who come to Japan for sightseeing, the products that sell well can vary significantly. So, before they come to Japan, we provide them with information, and once they arrive, we offer it again. Additionally, through our QR codes printed on the packages of our chocolate products, we make sure that all the information is available in their respective languages. We are taking such detailed steps to ensure we try to capture the inbound demand.

Furthermore, we believe that the biggest reason for the strength of the chocolate market is due to products like *Chocolate Kouka*, which have become truly essential food items.

However, the products that children typically consume are still weak. Especially as prices increase, there is a tendency to spill over into biscuits. When considering the entire confectionery market, there is also a tendency for outflow to rice crackers and other products.

So, it is clear that there are strong and weak points among our chocolates, and I think they are also clear in the market.

Q-7-1

I'm looking at the material on page 28. Regarding the increase and decrease in operating profit for the food segment, I have a question about the food solutions business. There are challenges with ice cream in China due to the impact of flooding in Guangzhou. However, it seems that the increase in sales in Japan is strong. On the other hand, there was information on B2B in Japan, but what are the factors driving the strength of B2B in Japan in the food solutions business? Also, for example, if factors such as price increases, expansion of sales channels, or increased demand are contributing, could you provide an update on those conditions?

A-7-1

Matsuda: First, as for overseas, we are currently in a difficult situation in China's B2B business because we have lost some market share to other companies, although there is nothing wrong with our products.

In Japan, things are progressing smoothly. In terms of sales, we're seeing around 120%, and even in terms of volume, it's grown to about 110%. This is due to a shift toward more processed products. A few years ago, Meiji's B2B business in dairy primarily sold ingredients such as cream, butter, and skim milk powder. Similarly, with the B2B business in chocolate, we were also selling just the raw material. Currently, we are launching products like *Lumieije*, with 18% vegetable fat content, and *CACAOLOR* with value-added. Our business partners are facing challenges with a lack of personnel. So, we also launched a product that combines chocolate and imported dairy compound ingredients, which were mixed in advance. As for *Lumieije*, it is a problem-solving product that allows you to whip into cream in about 2 minutes, even though it contains only 18% vegetable fat. Normally it takes about 3 minutes and 30 seconds to whip into cream at 25% vegetable fat.

Regarding B2B chocolate, we are also launching products like ganache that can be stored at room temperature and high-flavor chocolate products. By launching such products, we are offering unique items that other companies don't have, adding unique value through Meiji's proprietary technology. This background has contributed to the smooth progress. We aim to strengthen this momentum even further, and that's the direction we're heading in.

Q-8-1

Regarding the pharmaceutical segment, in the discussion about *KOSTA/VE*, it was mentioned that there is a concern it could lead to vaccine hesitancy and that efforts are being made to improve the situation. However, does this have any impact on the outlook for the influenza vaccine?

A-8-1

Kobayashi: There is indeed an impact from vaccine hesitancy. In H1, we achieved early shipments, and we are currently maintaining about a 40% share of the influenza vaccine market. However, even so, shipments to hospitals and other facilities are about 20% lower compared to last year, and we are currently speculating that this is having some impact. On the other hand, the influenza outbreak is rapidly spreading at the moment, so we would like to monitor the situation until the end of December to fully understand the impact.

There are various vaccines available, including the cervical cancer vaccine, herpes zoster vaccine, and RSV vaccine. However, we are receiving information that the overall vaccination rate is low. Therefore, we are working together with other vaccine manufacturers to provide information and efforts to improve vaccination opportunities and increase vaccination rates.

Q-9-1

Regarding the food business in China, you explained the situation with ice cream using several slides. However, how is the dairy business performing? I believe this is the core of the profitability improvement plan, so could you explain whether it is progressing as planned?

A-9-1

Matsuda: Regarding the dairy business in China. First, in terms of the plan, we have been able to meet the targets for the previous year. We are currently working to ensure a solid contribution margin by restructuring the business.

This includes discontinuing unprofitable products, as well as reviewing unprofitable channels and routes. Additionally, we are scaling back areas that were unnecessarily expanded. We are focused

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on eliminating waste as part of our plan. This plan is progressing as expected, and the contribution margin rate is also on track.

The next step is to secure substantial sales through well-differentiated products, ensuring that we generate solid contribution margins. We believe the key is to diligently and steadily execute this plan.

Originally, we were doing business in China with the mindset that we were a JPY1 trillion company, and our business had failed. Therefore, even if it's a niche market, I believe it would be good to gradually release products that can offer Meiji's unique technology and value to that market.

Even now, we have launched products such as *Hokkaido Flavor Yogurt*, yogurt made with lactobacilli in Hokkaido, this August. While continuing to offer such products, we aim to generate solid contribution margins and make changes to the business domains to drive further progress.

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