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Meiji Holdings Co., Ltd.
Financial Results for the Q3 of FYE March 2025 (FY2024)
The Telephone Conference Q&A

February 10, 2025, 4:30 – 5:30 pm

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

For the dairy business, could you give us the monthly figures, especially for functional yogurt and for *Meiji Bulgaria Yogurt* by product for October, November, and December. In particular, is the strong performance of *R-1* and *Meiji Bulgaria Yogurt* due to the flu, or is it something more continuous?

A-1-1-1

Tanaka: As for *R-1*, sales increased dramatically in December compared to October and November, and the current situation in January is also very favorable.

Yogurt sales were at about the same level as the previous year in H1, but the impact of the end of sales of drink-type yogurt was eliminated in Q3, so the growth in sales of *Meiji Bulgaria Yogurt* plain type was directly reflected in the overall yogurt sales, resulting in an 8% increase.

Hishinuma: I will answer your question about the relationship between the good performance of functional yogurt and the flu. In Q3, *R-1* sales to the consumer market grew and recovered very strongly. There were three factors that contributed to this recovery. One is effective communication. This includes promotion activities emphasizing on physician encouragement and parent-child immunity enhancement. The second is creating effective displays in stores, and expanding the sales aspects using Disney characters as a hook. In this context, there have been reports of an epidemic of infectious diseases. For the first two measures, we have recovered to exceed the previous year's levels, and now that the third factor, influenza epidemic has been added to the mix. The effects of the third factor will naturally come to an end, but the effects of the first two measures are expected to continue to exceed the previous year's levels.

Q-1-1-2

For *R-1*, has it returned to about the same level as the previous year in terms of ability? And the impact of the epidemic has somewhat added to that. Should we think in that way?

A-1-1-2

Hishinuma: I think *R-1* sales are back to about the previous year's level, including the home delivery channel, so I think our ability to exceed the previous year's level in terms of consumer sales. We see this year's influenza epidemic has also added to the situation.

Q-1-2-1

I believe there has been an announcement on an increase in raw milk prices. Could you tell us what measures you are currently taking to deal with this as far as you can tell?

A-1-2-1

Hishinuma: The increase in the raw milk price for dairy products as of June 1, 2025, has been announced. This will have a major impact on our BtoB and the consumer market in the food solution business, and we are currently considering and preparing price increases for these businesses.

Q-1-2-2

There is no raw milk price increase for drinking milk yet, but are you considering raising the price of yogurt?

A-1-2-2

Hishinuma: In terms of the raw milk price by use, announced by Hokuren this time, the cost increase for *Meiji Bulgaria yogurt* and functional yogurt is not that large, given the revision range of the raw milk price for nonfat dry milk. On the other hand, there are other factors, such as the rising cost of logistics, so we are now considering in a comprehensive manner.

Q-1-3-1

Regarding the inventory write-down of *KOSTAIVE*, how should we look at the impact this will have on the next fiscal year's performance? I think it is in the form of a write-down because the vaccination rate did not increase that much this season. I would appreciate some hints on how to look at the vaccine business next fiscal year, including *KOSTAIVE*.

A-1-3-1

Hishinuma: For this fiscal year, five companies, including ours, initially prepared for the fact that there would be about 30 million doses in the entire market. While it is now being said that the actual number of doses will be around 6 million to 7 million, we have made a large inventory write-down, as I explained earlier.

For the next fiscal year, we are currently formulating a plan, taking into consideration the following factors: the vaccination situation in the current fiscal year, the fact that five companies will continue to compare in the next fiscal year, and the fact that our products will be switched from 16-dose to small-volume for greater convenience. We do not think that there will be a major negative impact in the current fiscal year.

In addition, for the vaccine business as a whole, we significantly increased its sales of influenza vaccine YoY because of the early shipment. In addition, since the other vaccines are also performing well, we believe that we will be able to achieve greater growth in the next fiscal year than in the current fiscal year.

Q-1-3-2

In considering the next fiscal year for vaccines, I think you will no longer have the valuation loss that you had this time. On the other hand, this revision of the operating profit by business segment has considerably lowered the R&D expenses and other costs that you had assumed at the beginning of the fiscal year. How should we look at this next quarter?

A-1-3-2

Hishinuma: It is still difficult to foresee the number of vaccinations in the next fiscal year. Although we will use a certain amount of R&D expenses, we would like to proceed with a plan that does not result in a major negative impact.

Q-1-3-3

Is it like inventory write-offs will be back to normal, and sales and profits will stably grow?

A-1-3-3

Hishinuma: Yes, that's right.

Q-2-1-1

I would like to know the profit outlook for the next fiscal year. Your company has set an operating profit target of JPY116.5 billion in the Medium-Term business Plan for the fiscal year ending March 2027, and it looks as if you have to aim for a profit of about JPY100 billion next year.
In that sense, is it possible to achieve profit growth in accordance with the Medium-Term Business Plan for both the food and pharmaceutical segments? And in order to achieve that growth, what kind of things should we pay attention to?

A-2-1-1

We are currently formulating the annual plan for the next fiscal year. We hope to move up evenly toward the Medium-Term Business Plan of JPY116.5 billion.
In this context, there are a few key points in terms of the plan to increase profits in the food and pharmaceutical segments. Regarding the food segment, one of the key points is the new product initiatives. I can't give you specifics today, but we have a new brand in the chocolate business, and a new product form in the dairy business, and expanding our *Oishii Milk Coffee*, which we launched in October. For yogurt as well, we are thinking of preparing some kind of new evidence. The rest is a measure to counter raw material price increases. I think it would be the increase in cocoa and raw milk prices. We are considering additional price increases for the chocolate and food solutions businesses during the period.
In addition, we have been implementing profitability improvement plan in China as a key point in the food segment. In H1, the dairy and ice cream businesses were extremely difficult in China. On the other hand, with regard to the dairy business, we have been reviewing unprofitable areas and

clients, and transaction terms, and the marginal profit ratio has been steadily increasing. So the key is how to increase sales. In the ice cream business, we had a very difficult time due to the weather and other factors, but we are preparing new products for the next fiscal year.
In the area of the pharmaceutical segment, we will continue to ensure a stable supply of antibacterial drugs, expand our existing vaccines while maintaining a competitive edge, and expand our sales of *REZUROCK*, *KOSTAIVE*, and other new products that we plan to introduce. And by growing our CMO and CDMO business overseas, we are now in the process of formulating a plan to steadily climb the stairs toward our Medium-Term Business Plan.

Q-2-1-2
In terms of next year's food segment, while you have a certain degree of direction in the fight against price increases, are you still determined to create a top line including new products? Also, in terms of progress toward the Medium-Term Business Plan for the pharmaceutical business, is it correct to say that progress toward the Medium-Term Business Plan is in-line, even though *KOSTAIVE* is currently in a difficult situation?

A-2-1-2
Hishinuma: For the food segment, we are planning price increases for the next fiscal year as well. I think the increase in raw materials costs will probably be greater in FY2025 than in FY2024. We will continue to revise our prices and also implement promotions. On top of that, we have several new products in the pipeline, so the idea is still to grow the top line.
In the pharmaceutical segment, we posted a large negative figure for the current fiscal year due to a major difference in the market environment for *KOSTAIVE*, but that negative figure will disappear in the next fiscal year. I believe that we can move toward the medium-term profit target in-line.

Q-2-2
I have a question about the chocolate business. I understand that you raised prices in October and that sales are relatively firm. What is your outlook for the chocolate market and business

environment?

A-2-2

Hishinuma: Regarding the market environment for chocolate, we implemented various measures such as price increases and product amount changes in October. We revised the price of *Chocolate Kouka*, our main product, by more than 20%, but the quantity of the product has been favorable. We will increase the price again this March. But for the next fiscal year, in light of the current market price of cacao beans, we will continue to consider whether additional measures will be necessary, such as a price increase or product amount change during the period.

Q-3-1-1

I would like to ask about the pharmaceutical segment. Your Q4 plan shows a decrease in profits overseas, about JPY2.6 billion, and an increase of JPY3.3 billion in profits in Japan, both of which are upwardly revised from the plan announced at the time of the Q2 results announcement last November. You mentioned that these businesses will offset the severe vaccines and veterinary drugs business, please tell me the feasibility of the plan in Q4. Since the vaccines and veterinary drugs business, which was lowered this time, is also planned to increase profits considerably in Q4 alone, could you comment on the feasibility?

A-3-1-1

Hishinuma: First of all, both in the Japan and overseas businesses, as well as in Q3, we believe that we can expect to continue to see very strong sales in Q4. In addition, for both businesses, we want to build up profits while reviewing costs, mainly R&D expenses.

As for vaccines, the write-off for *KOSTAIVE* was JPY8.5 billion this time, and we are assuming an additional write-off of about JPY2 billion at the end of March. However, flu vaccine returns are better than in previous years, and as for sales increases of other products, we will also make major revisions, mainly in R&D expenses. We believe that we will be able to move toward the figures we have indicated.

Q-3-1-2

On page 10 of the slides, the overseas pharmaceuticals business profits continued to increase until Q3, but is R&D expense the reason for the sharp decline in Q4?

A-3-1-2

Hishinuma: Yes, that's right. Overseas, although sales and group company performance remain unchanged from Q3 to Q4, I think it is safe to assume that this is due to the originally planned R&D expenditures.

Q-3-1-3

So this is the planned line, and although you have revised it upward, you have included some R&D expenditure figures, is that correct?

A-3-1-3

Hishinuma: Yes. The plan was to invest nearly JPY10 billion more in R&D expenses than the previous year for the pharmaceutical segment as a whole. The current projection is to reduce R&D expenses from that, but compared to the previous year, we will spend more on R&D expenses, which will be concentrated in Q4.

Q-3-2-1

I think there has been quite a bit of negative press and activities on the self-amplifying mRNA vaccine this year. Regarding the current environment for the self-amplifying mRNA vaccine, the five companies may indeed consider various shipments next year, but could you update us on the current situation?

The influenza vaccine shipment has been strong, but what do you think is the impact of vaccine evasion on the whole vaccine business? In terms of what shipments of self-amplifying mRNA vaccine will look like next year, could you give us your assessment of what the situation is like?

A-3-2-1

Hishinuma: I would like to explain the current status of the COVID-19 vaccine and its impact on the vaccine as a whole. First of all, regarding the COVID-19 vaccine, there was very negative information circulated this fiscal year, but this kind of negative information based on unscientific information has now slightly decreased. Such activities are also on the downswing.

In addition, we have been holding nationwide web lectures on COVID-19 vaccination, and the number of doctors who are willing to accept to give these lectures has been increasing, and each lecture is attended by about 10,000 people. Our product has high antibody retention, which is one of our strong points, and we would like to spread these points toward the current and next fiscal year.

In the next fiscal year, an application for small-volume is scheduled to be submitted, which make it more convenient. We also expect the overall market to increase in the number of vaccinations compared to the current fiscal year due to greater convenience, so our market share will increase as well.

There is information that the number of flu shots may be lower than the previous year as a whole. We were able to greatly exceed the previous year's level due to early shipments and other factors, but the vaccination rate for vaccines for children as a total has not increased, so we would like to promote educational activities and dissemination activities in this regard as well.

Q-3-2-2

I think the initial forecast looked at about 30 million vaccinations this year with five companies, but given the current business environment for COVID-19 vaccine, how far do you feel it is likely to go back next year in the current sense?

A-3-2-2

To be honest, it is difficult to give a definite figure. It is said that the number of vaccinations will be around 6 million to 7 million this fiscal year, but we expect that the number of vaccinations will be higher than that. We are now in the process of finalizing the plan for the next fiscal year, while keeping an eye on the overall number of vaccinations and the relationship with the competition.

Q-4-1

I would like to ask about cash flows from operating activities. The full-year plan on page 11 shows that in the current year, cash flows from operating activities will be less than the previous year, which I think is the planned line. However, looking through Q1-Q3, it looks as if the cash flows from operating activities is not very strong, so are there any special factors? With the current sense of balance between sales and profits, is there no problem with the planned line? If cash flow is being compressed due to some factor, I was concerned or aware of the issue of whether we need to change the way we look at and assume returns to shareholders in the next fiscal year and beyond. Could you please share your assessment of the cash flow progress?

A-4-1

Hishinuma: One of the major elements of the decrease in cash flow this fiscal year was the decrease in profit. In addition, various inventories increased, including *KOSTAIVE*. Then corporate tax payments increased. There is a combination of factors. As with profit and loss, cash flow has not deviated that much from the plan presented in the 2026 Medium-Term Business Plan, so I believe the view would change a bit at the end of Q4.

Q-4-2-1

I would like to ask about the pharmaceutical segment. If we go by the fact that *KOSTAIVE* started where it was originally seen at 30 million vaccinations, I still think that there is a certain sense of recovery, including a change from 16-dose to small-volume next year. But I can't help but think that it is a downward swing from what was envisioned in the 206 Medium-Term Business Plan. Are there any other positive factors?

You had originally planned to spend quite a bit on R&D, but it may be that you are going to hold back on that for the next fiscal year. However, I think that would be a negative factor for your medium- to long-term growth potential. Can you confirm again why the pharmaceutical segment has not swung downward from the Medium-Term Business Plan, or why it is possible to catch up?

A-4-2-1

Hishinuma: The COVID-19 vaccine was revised downward from the original plan. On the other hand, there are things such as antibacterial drugs in Japan, and overseas business that are much better than initially expected. In addition, we are now preparing for the introduction of new products, etc. So we hope to cover the planned profit from *KOSTAIVE* through such measures to ensure a profit for the Medium-Term Business Plan.

Q-4-2-2

In pharmaceuticals, you said that there was an inventory write-down of JPY8.5 billion for *KOSTAIVE*. In the Q&A earlier, you said that an additional JPY2 billion or so may occur at the end of March. Is it correct to say that you are looking at JPY8.5 billion for Q3, but JPY10.5 billion for the full year?

A-4-2-2

Hishinuma: It is JPY8.5 billion through Q3, and we are looking at a write-down of a little over JPY10 billion in the current fiscal year's forecast, but we still can reach the profit we are showing now.

Q-5-1-1

I have one question about the food segment. I would like to ask in terms of cost increase and price increase. You said that the cost increase for the next fiscal year will be larger than that for the current fiscal year. I think that the plan for this fiscal year for the change of COGS of the food segment is about JPY17.6 billion. What amount do you expect in the next fiscal year?

A-5-1-1

Hishinuma: We expect the increase in raw materials for this fiscal year to be roughly JPY20 billion per year. We assume that the scale will exceed this for the next fiscal year. As for the contents, I believe that cacao-related expenses will be the largest. In addition, there has been an increase in the cost of dairy ingredients, which is related to raw milk prices, as announced the other day. Moreover, logistics costs have also been rising. So overall costs are expected to rise significantly more than this year. We will continue to take measures, including price increases already announced for February and March, as well as price increases, review of raw materials and product volume, etc., depending on the situation during the next fiscal year.

Q-5-1-2

When you say that it will be larger than JPY20 billion, for example, do you mean to the extent that a few billion yen will be added to that, or is it going to be a little larger to almost JPY30 billion?

A-5-1-2

Hishinuma: We haven't yet calculated the figures accurately, so I can't say how much it will be, but I think it will be a fairly large increase in costs.

Q-5-1-3

I understand. Thank you very much. I think you mentioned that there will be additional price increases. Then, I am concerned that the volume will become quite severe with the repeated price increases. What are your thoughts on these points and what measures will you take to address them?

A-5-1-3

Hishinuma: Using cacao as an example, with the October price increase, *Chocolate Kouka* did not decline in volume even with the price increase. This is chocolate, but at the same time, in a way, consumers eat it as a habit of life. I think that these products will continue to be raised in line with the price increase of raw materials. On the other hand, for items such as chocolate snacks, we are seeing a drop in demand as a result of price increases. For these products, we will not only raise prices, but also review raw materials and product volume.

Q-5-1-4

Regarding the cost increase you said earlier for the next fiscal year, am I correct in understanding that the raw milk price for drinking milk was not included in the estimate?

A-5-1-4

Hishinuma: The raw milk price for drinking milk is not included in this estimate at this time. If raw milk price for drinking milk is increased during the term, we would like to respond by taking another action.

Q-6-1-1

I would like to ask about your approach to price increases. Looking back over the past three or five years, I understand that you have raised prices in response to the high cost of raw materials. But you were unable to absorb the drop in volume, and in the end, your profit level was damaged. I think it was such a response under cost inflation.

I understand the message that you are going to raise prices again in the future. Will you design the price increase so that it will incorporate some of the so-called volume reduction? Or do you think it will be difficult to revise prices to factor in volume declines, especially for dairy products? Is there any kind of change between the design of past price increases and the design of the price increases you will be working on?

A-6-1-1

Hishinuma: We have done consecutive price increases for the first time since the price of raw materials has skyrocketed in 2022. In the past, we have also created a strategy to raise prices, based on the assumption that a decrease in demand due to price increases would result in a positive profit margin, including such a decrease. This is something that will not change in the future. As I mentioned earlier with the example of chocolate, there are large and small price elasticities in

different categories, so I think we need to be careful in this area.
In particular, dairy products are eaten every day and are very price-sensitive. But we have confirmed that yogurt has recovered considerably in Q3 and that the new price will be accepted over time. We would like to consider the timing and price range, taking that time lag into account.
We have been doing the same idea in the past, and conversely, we have been making considerable efforts over the past year or two to shorten the time lag between when raw materials prices rise and when they are passed on to consumers, as we have been making a series of price increases. We hope to shorten the time lag between the increase in raw materials and the price increase.

Q-6-1-2
Since profits have been damaged in the past, does this mean the price elasticity estimates were not good enough? Is the message that in the response based on the June raw milk price increase, you are going to take a more serious look at such elasticity?

A-6-1-2
Hishinuma: For the past several years, there was a decrease in volume due to price increases, but apart from price increases, we have also intentionally reduced by narrowing down SKUs and reviewing production systems. This was done with cacao as well as in dairy products. Now that we have gone through the reduction of SKUs, I believe that the next step is to revise the prices of the remaining products to focus on.
The results of these efforts have been gradually emerging since Q3. We have seen a reduction in overhead costs for both cacao and dairy, so it is not that we have been underestimating so far, but we would like to continue to do so without changing our approach.

Q-6-2
The raw milk prices will go up again this time, but considering the farmers' take-home pay, there will probably still be pressure from them to raise raw milk prices further. I wonder if the raw milk price increase will be implemented again next year. Given this premise, has there been any change

in your company's approach to the dairy business? it was probably not originally envisioned that prices would go up this much. Do you have any plans to change your strategy in line with changes in the business environment?

A-6-2

Hishinuma: As you point out, we are currently negotiating a raw milk price, and I am sure it is very uncertain what will happen. However, we have always designed our products at fairly high prices, and I think we are able to sell our products at high prices to a certain extent compared to other companies. We will continue to differentiate our products by brand power and product power to add more value that matches the value of the raw milk price. We would like to continue to do so with the same approach as before.

Q-7-1-1

I have a question about the perspective of the next fiscal year's performance of the food segment. You mentioned that you would like to move up evenly, but the current Medium-Term Business Plan calls for an average annual growth rate of perhaps 6% for the food segment. In this fiscal year, the profit growth rate will remain at 3% due to up-front investments and increased costs. Therefore, I think that the profit growth rate will need to rather accelerate in the next fiscal year and beyond.

A-7-1-1

Hishinuma: For the current fiscal year, we have set a target of JPY66 billion for the food segment, and we are now formulating a plan to raise the amount evenly over 2025 and 2026 toward the JPY83 billion that is indicated in the Medium-Term Business Plan.

I don't mean the growth rate of profits in FY2024 compared to the previous year, but rather the growth rate will be about the same for the next two years.

Q-7-1-2

If so, I think you plan a fairly high growth rate. From what you have told us so far, although there was talk of new products, I have the impression that the situation is not so different from the current fiscal year, as you are still in a phase where costs are rising and must be absorbed through price increases. In terms of the difference between this fiscal year and the next, you have the soil in place to develop new products, which will allow you to increase volume while absorbing cost increases through price increases.

A-7-1-2

Hishinuma: In terms of price increases, we have been able to shorten the time lag between when costs rise and when prices are passed on to consumers. Therefore, for items that will go up in the future, I think that the six-month time lag will no longer occur to items that will be raised in the future. We expect the completion of price increases implemented last year or this year will be JPY10 billion. In addition, we will put the new products on top of it. For overseas, China business is heading toward breakeven in FY2026, so we are trying to improve the negative figure. We believe that these three factors will enable profit growth in the next fiscal year and the year after that.

Q-7-1-3

I think that in the 2026 Medium-Term Business Plan, you plan to reduce fixed costs in Japan by about JPY9.5 billion. You mentioned earlier about reducing fixed costs, have you already seen the effects of the reduction? Or do you plan to reduce fixed costs in the future, including closing factories, etc.?

A-7-1-3

Hishinuma: The fixed cost reduction I mentioned earlier was not so much the consolidation of production sites, but rather the reorganization of lines within the factories. The effects of these efforts are gradually starting to emerge from Q3, which is expected to continue in the next fiscal year. In addition, by proceeding with the personnel plan and so on, we will be able to reduce fixed costs as indicated in the Medium-Term Business Plan.

Q-7-1-4

Do you think that the effect of fixed cost reductions will also be a part of the increase in profit in the next fiscal year?

A-7-1-4

Hishinuma: Yes. We will continue to implement measures to reduce fixed costs. There are also various changes in the environment including increased costs, such as energy costs. We are currently working on figures while keeping a close eye on both sides.

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