

Meiji Holdings Co., Ltd.
Chocolate Business Briefings & Sakado Plant Tour
Q&A Summary

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Presenter:

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

Q-1-1

It seems like *Nama no Toki* costs more than other products. What level of profitability are you achieving? Also, amid a decline in cocoa beans market prices, what approach are you taking to pricing strategy?

A-1-1

We launched *Nama no Toki* this fiscal year. Due to promotional expenses, including TV commercials, the profitability is currently not high. We will first increase market recognition and improve productivity to improve profitability.

As for our pricing strategy, in addition to the impact of cocoa beans market prices, we are also seeing cost increases in areas such as logistics and personnel expenses. As such, we will aim to maintain current levels to the extent possible. One option would be to change ingredients from cocoa butter equivalent (CBE) to cocoa butter. We will evaluate trends among other companies and respond accordingly.

Q-1-2

Please tell us about the target profit level for the entire Chocolate business.

A-1-2

As global manufacturers are achieving an operating profit margin of roughly 15%, so 10-15% is a level we aim to achieve for the overall business.

Q-2-1

As you advance structural reforms, what approach are you taking to your overall Chocolate business portfolio?

A-2-1

We are aiming to use new technology to develop new markets and increase our overseas sales composition ratio. Currently, our lineup of chocolate offerings is based on a high rate of pure chocolate-only products. However, the chocolate snack market has grown by 20% over the past five years. *Kinoko no Yama* and *Takenoko no Sato* have a roughly 15% share, and we think there is room for future growth. We will also engage in investments and expand our selection of gummy products, which are expected to see future growth, to build a product portfolio that is not easily influenced by cocoa beans market prices. We will look to expand popular products in Japan into overseas markets.

Q-2-2

As you are aiming for an overseas sales ratio of 50%, how will you achieve an operating profit margin of 10% to 15%?

A-2-2

Regarding overseas business, we are planning on growth investments in the future. As such, we think the profit margin will remain low for several years. With *Hello Panda* seeing particularly strong demand in the U.S., production has not kept pace. As indicated in our recent press release, we plan to invest roughly 10.0 billion yen. Additionally, we are planning on future investments in Asia as well.

At the same time, we have yet to sufficiently narrow down products for Asia and China. Moving forward, we will look to identify a winning strategy as we advance structural reforms. While it may be challenging to increase the overseas operating profit margin in the short term, we will aim for future improvement.

Q-3-1

You indicate shifting from defense to offense, but what background led to that decision? Was this the result of internal environmental factors or external ones?

A-3-1

In addition to increasing stability in cocoa beans market prices, this was driven by a positive outlook for procurement from producer countries other than Ghana. Moving forward, we will be in a position to be aggressive in other ways rather than having to implement price increases due to higher raw material prices.

Also, *Nama no Toki* has been a hit in Japan and we think we can create new markets. While we must continue to pay attention to fluctuations in cocoa beans market prices caused by geopolitical risks, between our new products, growth investments, and outlook for a winning strategy, we judged that, in terms of both our internal and external environments, we are positioned to take an aggressive approach.

Q-3-2

Please explain why the chocolate snack market has been favorable.

A-3-2

Amid rising cocoa beans prices, every company enhanced their chocolate snack initiatives with the objective of controlling the volume of cocoa raw materials used as much as possible. Overseas, the number of chocolate snacks featuring a combination of chocolate and cookie are rare. Demand has increased yearly and the number of overseas visitors to Japan purchasing such products is rising. Our *Kinoko no Yama* and *Takenoko no Sato* are popular among people from Europe and Asia.

As a product category, chocolate snacks are unique to Japan. Overseas, there are many manufacturers dedicated to chocolate or dedicated to cookies, so we view this as a domain in which we can be competitive.

Q-4-1

You explained that structural reforms are designed to promote an aggressive approach, but how are changes to the management team impacting business?

A-4-1

The structural reforms enable speedy deliberation and decision-making regarding market-oriented proposals from business divisions. Also, based on the goal of increasing employee engagement, we have shifted to a management style that incorporates opinions from younger employees rather than strict top-down structure.

Q-4-2

You mentioned that the drop in cocoa beans prices opens up the potential for reverting from CBE to cocoa butter, but what approach will you take on this issue based on future projections for cocoa beans prices?

A-4-2

Cocoa beans market prices through the end of February dropped but are rising again due to increased geopolitical risks. Also, yen depreciation is accelerating. As costs other than raw materials are also rising, it will be difficult to return all products to previous ingredient blends. Customer response regarding taste and quality due to the change to CBE was limited. Rather than simply reverting products, we will evaluate what can be done to further improve quality or exceed customer expectations as we develop products and engage in promotions.

Q-4-3

Amid the high volatility of cocoa beans market prices, what will be the timing for making decisions on product strategy?

A-4-3

It takes between one year and 18 months for cocoa beans purchased towards the end of 2024, when cocoa prices were at their highest, to arrive in Japan. Once cocoa beans procured when prices dropped reach Japan, we will make decisions based on other cost trends and responses by other companies.

Q-5-1

Please explain how you will use the empty space at the Sakado Plant. Also, amid restructuring Dairy business production in Japan, what approach will you take to restructuring domestic plants used by the Chocolate business?

A-5-1

We will look to adopt new technology and install new facilities at the Sakado Plant to promote new market creation.

Currently, production in Japan is conducted by three directly-owned plants and Group companies. *Chocorooms (Kinoko no Yama)* for the American market are also produced at directly-owned plants in Japan. This product has been picked up by major retailers in America and sales are growing annually. At our group companies, we use the flexibility of their production lines to produce new test products. We view the current plant structure as appropriate for conducting production for overseas markets and creating new markets in Japan.

Q-5-2

Is there a possibility that you will construct a new plant in Japan?

A-5-2

At present we are not considering constructing a new plant in Japan. As for overseas, there is the possibility that we will enhance investments, including the option of constructing a new plant in response to an assessment of market potential.

Q-5-3

What specific image do you have for business expansion in non-food domains?

A-5-3

For example, we are looking to create a new industry by leveraging the technology for manufacturing cocoa-derived bioplastics. While we are still evaluating feasibility, if we can establish local production in cocoa-producing nations by providing bioplastic technology, then this would lead to the establishment of a new industry and new job creation. We would expect to gain royalty revenue from technology provision and benefits related to cocoa procurement.

Q-6-1

Currently, how far along is the switch to CBE? Also, would investments be required to revert from CBE back to cocoa butter?

A-6-1

We switched to CBE for roughly 30 products, including nuts chocolate, chocolate snacks, and certain pure chocolate-only products. On the other hand, we made no changes to the ingredients used in *Chocolate Kouka*, *Milk Chocolate*, and *THE Cacao*.

When it comes to switching fats, production schedule adjustments are more critical than costs. In addition to the cleaning of tanks, this would also involve changing wrappers in response to the change in ingredients. As such, it is necessary to manage volume to avoid generating losses.

Q-6-2

Since customer response to the switch to CBE was limited, please indicate why there is a possibility of reverting back to cocoa butter.

A-6-2

There are three reasons. The first is from the perspective of branding. The second is related to overseas exports. There are countries to which we cannot export CBE as chocolate.

Reverting to cocoa butter increases the ease of compliance with the regulations of various countries. The third is price. If cocoa beans market prices continue to drop, there is the possibility of an inversion with market prices for vegetable oils and fats. We will evaluate these factors when making a decision.

Q-6-3

Do you plan to increase the procurement ratio for cocoa beans from Ecuador?

A-6-3

Global cocoa bean production volume is roughly five million tons. Cocoa bean imports to Japan are 50,000 tons, roughly 1% of overall global volume. Of that amount, nearly 75% is produced in Ghana. Roughly 5,000 tons, 10% of total imports, are cocoa beans from Ecuador but we have heard that production volume will increase as we head towards 2030. Currently, we use beans from Ghana as the product base and use Latin American beans for flavor. We will examine production trends in each region to identify the optimal strategy.

Q-6-4

By how much will local production capacity increase following investments in America? Also, will *Hello Panda* be the focus of increased production?

A-6-4

We first will increase production for *Hello Panda*. The investments we are currently planning on will increase production capacity by 50% compared to FY2024. Net sales of *Hello Panda* in America were roughly 80 million dollars (roughly 12.0 billion yen) in FY2024. We will aim to increase FY2024 sales by two-fold in FY2030 and three-fold in FY2035.

After solidifying *Hello Panda* as a profit pillar, we will then develop our next pillars. One of those will be *Chocorooms*. We will examine demand trends and consider local production as one option.

Q-7-1

Looking at businesses in Japan and overseas, which business do you project will provide strong profit contributions over the next three to five years?

A-7-1

Overseas, we are in the investment phase so it will be difficult to increase operating profit in the immediate future. For this reason, it will be critical that we secure profits from business in Japan over the next several years. We think that profits will improve for business overall if cocoa beans market prices stabilize at roughly 2,000 to 2,500 pounds. Additionally, we will expand sales of highly profitable product groups such as chocolate snacks, bite-sized chocolate, *Meltykiss*, and gummy products.

Overseas, we are conducting forward-looking investments in America, increase demand in China, and develop business in Asia, the Middle East, EU, and UK. We will first work on increasing market recognition of Meiji as the brand for chocolate snacks.

Q-7-2

What will you position as the core of your efforts on global markets?

A-7-2

Major overseas manufacturers are not engaged in the market for chocolate snacks, which feature a chocolate and cookie combination, making this a category with a path to victory for Meiji. For example, through home surveys conducted in America we were able to confirm that *Hello Panda* is permeating the market. With a food culture that favors light lunches, there are many cases of *Hello Panda* packets being included with children's lunches. We view this as a domain that cannot be capitalized on using pure-chocolate products. We will cultivate and expand *Hello Panda* as a global brand.

Q-8

Wouldn't a drop in cocoa beans market prices drive pressure to lower prices or trigger competition with private brands?

A-8

Sales volume for *Chocolate Kouka*, which was subject to the largest price increase, has yet to return to previous levels. However, evidence continues to drive fundamentally strong demand among consumers. Also, price increases have permeated the market and there is growing demand for chocolate and gummy products as a breakfast alternative or nutritional supplement. As such, we believe we have a certain level of competitiveness at current prices. There also remains room for growth from inbound demand. Rather than competing directly with private brands, we will convey the value of the Meiji brand and strive for differentiation.

Q-9-1

How much latent demand do you think there is for *Hello Panda* in America?

A-9-1

Most inquiries are from major retailers looking to increase volume and other franchises, with demand currently outpacing production capacity. Once we expand to major distributors, we can expect sales to extend to small and medium-sized retailers. As such, demand is projected to increase moving forward.

Q-9-2

You indicated that you expect to use cocoa beans procured at high price levels for the next six to 12 months. What impact do you think this will have on gains or losses?

A-9-2

The upcoming six to 12 months will see the greatest strain in terms of costs. From there, we project to begin utilizing cocoa beans procured at more stable prices.

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