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Meiji Holdings Co., Ltd.
Financial Results for the Q1 of FYE March 2026 (FY2025)
The Telephone Conference Q&A

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Presenter:

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CFO, Member of the Board and Senior Managing Executive Officer

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

Q-1-1-1

You said earlier that the Q1 results were in line with the plan, but the sales seemed weak overall including the food segment. I would like to ask if it is really in line with the plan, given that expenses will also be controlled. I was also surprised at the result of the pharmaceutical segment. You stated that the product mix was deteriorating, and I would like to confirm whether you are really on track with the plan.

A-1-1-1

Hishinuma: As for the sales of the food segment, we consider it to be difficult to reach the plan for H1 of this fiscal year in terms of sales of infant formula and SAVAS powder in nutrition business, and ice cream business in China. On the other hand, we are making good progress on an in-line basis in terms of profit as we are covering shortages by the dairy business, chocolate business, and domestic food solutions business, while working to reduce costs.

In the Q1 of the fiscal year under review, we experienced a backlash from the higher demand for pharmaceuticals in the domestic infectious diseases area due to last year's outbreak of infectious diseases, coupled with the limited shipments by our competitors.

Also overseas, for the Indian subsidiary responsible for CMO and CDMO business, the Q1 of last fiscal year was higher because the shipment for Nigeria business was resumed then. In addition, our subsidiary in Spain also started business for Central and South America last year, so I think we are seeing a large negative sales impact, especially in FY2025 Q1, as a reaction to the slight upturn in FY2024 Q1.

Therefore, in FY2025 Q2, there will not be such a decline, and we expect to catch up with the plan. However, it will be difficult to recover sales in H1. Still, we believe that we will be able to secure profit through cost controls and cost reductions overseas.

Q-1-1-2

In that sense, the top line for both food and pharmaceutical segments is still a bit worse than expected. However, you believe that profit can be achieved if costs are controlled. Is this correct?

A-1-1-2

Hishinuma: Yes.

Q-1-2-1

I wanted to confirm the situation in China. I thought the deficit was large even in FY2025 Q1, and I think you mentioned that the profitability improvement plan is being steadily implemented. But while there has been some improvement in the dairy business, I think it still remains challenging for the food solutions business, especially ice cream. You mentioned that the competitive environment here is still tough, and I would like to ask if this is really going to steadily improve.

A-1-2-1

Hishinuma: In China as a whole, the loss narrowed, albeit slightly, from the previous year. For the dairy business, the marginal profit rate has improved considerably through the last fiscal year, and this has contributed to the improvement. We expect if sales of *Meiji Oishii Gyunyu*, which was launched at the end of July, go as planned, we should be able to secure profit that exceeds our plan.

The tough part will be the ice cream business in China. Many companies are entering this Chinese market. In addition to fierce competition at the store level, the number of people who buy products online, which is similar to home delivery from supermarkets, has been increasing. As a result, not only ice cream but also other chilled desserts and competing products have increased, making sales very difficult.

As for the ice cream business in China, we are not certain if we will be able to achieve the sales

we initially planned, but we hope to somehow secure profit for China as a whole, covered by good performance in the dairy business and others, and cost control.

Q-1-2-2

At the FY2024 Q4 results briefing last May, you mentioned that if China were to have an unexpectedly difficult time, you would consider taking a more in-depth look at the profitability improvement plan. Will there be any relevant news about this in the next Q2?

A-1-2-2

Hishinuma: We have explained that we are aiming for break even in FY2026. This September at Q2, will be the halfway point of profitability improvement plan, and depending on the progress made up to that point, we may have to make a more aggressive decision. There is nothing concrete I can say at this time, but we are currently considering various options.

Q-2-1-1

I see page two of the presentation material, the change in sales volume and product mix is negative JPY5.1 billion. It seems that the negative growth here is a little larger than in Q4 of the previous fiscal year, but I wonder if there have been any significant changes in the competitive environment or changes in consumption trends between FY2024 Q4 and FY2025 Q1. What products were particularly difficult? Is it somewhere in the nutrition business like SAVAS?

A-2-1-1

Hishinuma: Right. What was especially difficult were infant formula and SAVAS powder in the nutrition business. As I mentioned at the Q4 of last fiscal year briefing in May, inbound demand for infant formula in Japan has been declining, and this has yet to recover. For the time being, we are trying to increase domestic demand, especially in stores by offering various reward points of sale. In H2 of this fiscal year, we are planning to respond by introducing new products, or rather, special products.

It is in the chocolate business area that we see a slight change in movement from the previous year's Q4. This June, we have revised the prices of about 30 chocolate products. Until last year, the negative impact on sales volume from price increase was considerably less than expected. And although this June was less than expected, the negative amount within the Company's expected range has been larger than in the past, which is a slight change.

We are currently analyzing the situation, and one of the reasons is that prices of rice and vegetables have gone up, and we think that consumers are becoming thriftier. For the second reason, June was extremely hot, but I think we'll have to wait and see what happens in July and beyond.

In July, it seems competitors were also raising prices. This will be also a factor affecting the sales trend, in addition to the heat. However, the net effect of the price increase and the decrease in sales volume is more than planned, so I think we can expect more profit than planned.

Q-2-1-2

So, you still have to continue to be vigilant with customers' trends of saving money.

A-2-1-2

Hishinuma: Yes, that's right.

Q-2-2

Going forward, I am aware you will be implementing price increases in other categories, such as the dairy business, from FY2025 Q2 onwards. Do you think that the positive net effect of price increases and the decrease in sales volume, as seen in this Q1, will continue to be achieved in Q2 and beyond?

A-2-2

Hishinuma: Yes, that's right. We will raise the prices of yogurt and drinking milk in August. This will also be the first price increase in over a year, so the range of price increase will be quite large, and we expect to get a good positive result on profits. Naturally, sales volume will also decline, but for the net effect, we expect we will be able to absorb the increase in raw material costs and become profitable.

Q-3-1-1

In Japan, I wonder if there has been a slight change in consumer spending behavior due to the price increase. I would like to ask about sales volume. In fact, until last year, your company's chocolate products, for example, saw growth in high value-added or high-unit-price products such as *Chocolate Kouka*, while demand for lower-priced products declined slightly. I don't think the product mix had worsened that much then. But in the present situation, do you see any change in consumer behavior or others such as a worsening product mix in your chocolate and yogurt products or a shift to lower-priced products?

A-3-1-1

Hishinuma: I think there is somewhat such tendency as you mentioned. We have increased the price of chocolates several times in the past. It is difficult to make a general statement because we have raised the price or reduced product amount depending on the product, and it is a combination of various factors. But the price of plain chocolate and nuts chocolate has increased this time, so there has been a significant decrease in the sales volume of these products.

On the other hand, chocolate snacks have grown. The price of chocolate snacks in stores is more affordable, so there is such a change in product mix. However, in terms of our profit margin, chocolate snacks do not necessarily have low profitability, so although the consumption behavior has changed, I don't think the impact on profit here is that great. Rather, if anything, I think the difference is that sales of higher-priced products have slowed down a bit, which is different from

what we've seen in the past.

As for the future, we will start price increase for dairy business products in August. As for the functional yogurt, the price increase per bottle is only a few yen, and in the past, the price increase and sales volume have not had much of an impact, so we are not worried about this.

We are a little concerned about the 400 grams of *Meiji Bulgaria Yogurt*. I think each company will raise their prices for their own brands in the same way. Since the price difference will remain the same, I don't think there will be much of a negative impact here with little flow to competitors. On the other hand, we think there will be a temporary flow to cheaper yogurt, such as private brands. This has been the case in the past, but it will take about three months for consumers to get used to the new prices and come back to us. We expect this to be the case, but since we have included this negative effect in our price increase strategy, we think it will fall within the expected range.

Q-3-1-2

Regarding chocolates in Japan, are you seeing the slowdown in the trend where sales volume of *Meiji Chocolate Kouka* is not falling even with the price increase? Also, I think the price of cocoa beans has come down, but can you take advantage of this lower raw material cost price? Could you give us some thoughts on when it could be taken?

A-3-1-2

Hishinuma: Regarding *Chocolate Kouka*, we didn't increase its price in June, but the overall sales volume of chocolates was falling, so I think the trend has changed a bit compared to before. Since there is a factor of weather, I don't perceive there has been a major change in trend for now. We will keep a close eye on it although summer is difficult to judge.

The market price of cocoa beans has fallen, but since we have already decided on the quantity and price for this fiscal year, the effect of this will probably not be felt for the current fiscal year, or

will only show up in H2, if at all. We purchase cacao butter and cacao liquor, which is intermediate materials. The price of cacao butter and cacao liquor will fall in tandem with the cocoa beans' market price. If this also declines, I think the effect will be seen in about three months.

However, our cost of goods sold is currently within the range of the cost increase projected at the beginning of the fiscal year, or rather, slightly below it. I think we can secure profit. We do not expect to simply lower the price when the cocoa beans market falls. We are not really considering simple price reductions, but rather, given the actions of other companies, we are thinking of using balanced promotional campaigns as a stimulus measure amid the tough consumer environment.

Q-3-2-1

You said that if *Meiji Oishii Gyunyu* sells in China, profit will be higher than planned, so I wonder if this is a launch that you did not anticipate at the beginning of the term. Please explain a little more about the factors that led you to believe that there was a commercial opportunity to launch, and the background behind the launch.

A-3-2-1

Hishinuma: *Meiji Oishii Gyunyu* in China was planned from the beginning of the term, but the timing of sales, sales volume, and price had not been firmly decided in the plan then. This time, we will sell it at CNY30 in China, so it is about JPY600. The price range here has been set a little higher, and if we sell as planned, we will be profitable.

The production of *Meiji Oishii Gyunyu* was a hurdle in China, as it was impossible to produce milk without meeting various conditions and settings, such as raw milk regulations and what we call the Natural Taste Manufacturing Process including time from milking to filling and filling equipment. However, as a result of various efforts, we were able to make it possible, and the product has been released this year.

I am aware there are many people who have come to Japan and tasted this refreshing *Meiji Oishii Gyunyu* here in Japan. We come up with creative initiatives for promotion. For example, we gathered Chinese influencers living in Japan and held a presentation about the launch in China.

It has only been on the market for about a week and as we do not launch across China at the same time as we do in Japan, we cannot yet judge whether or not this is going according to plan. But consumer response has been very positive, so I think we will have a clearer picture by August.

Q-3-2-2

You have been struggling with drinking milk in China, so why did you decide to introduce a product with an even higher unit price here? I think it means that you have overcome the hurdle of production, but do you think the odds are that there is demand?

A-3-2-2

Hishinuma: The most ordinary drinking milk you sell in China now costs about CNY20, and the high-protein drinking milk we released last year, which is fortified with protein, costs CNY25. This is a high-protein product, which means it is CNY5 more expensive, but it was in demand. We decided to launch *Meiji Oishii Gyunyu* brand among chilled milk in China. This is based on various surveys and our belief that there is a certain level of demand from the high-income bracket. I think we can certainly grasp the sales situation after Q2 is over or around.

Q-4-1-1

I would like to ask you some more details about antibacterial drugs in the pharmaceutical business. In fact, the reason for the unfavorable performance of the antibacterial drug this time is a reactive decline following the outbreak of infectious diseases last year, and another reason is that the limited shipments of the antibacterial drug by competitors has been lifted for FY2025 Q1. When we separate the two factors, we see approximately 17% decrease in sales this time for infectious disease, but I would like to know how much each contributed to the decreased sales as a result. I

am concerned that if this decline continues, the pharmaceutical business may be in trouble.

A-4-1-1

Hishinuma: When it comes to our antibacterial drugs, there are injectable products including *Sulbacillin* and *TAZOPIPE*, and tablets or granules as typified by *MEIACT*. First, there is the fact that for *MEIACT*, other companies which sell competing drugs lifted limited shipments for this Q1. Then there is the fact that infectious diseases are not prevalent including streptococcus, which is also a major factor in the downstream of *MEIACT* granules.

As for the injectational antibacterial drugs, our sell-in (shipments to wholesalers etc.) were below year on year due to the difference of shipment timing from last fiscal year, etc., but the sell-out (sales from wholesalers to the market) exceeded the previous year's level. So, I believe we will be able to make up for this for the full year.

On the other hand, as for *MEIACT* granules, I think it will be difficult for us to recover even in the full fiscal year, because of the competition from other companies mentioned earlier, and also because of the impact of the lower prevalence of infectious diseases.

Q-4-1-2

As for injectable antibacterial drugs, there is no need to be that concerned since the sell-out base is also showing positive results, but as for *MEIACT*, the negative impact might continue, so you should be prepared for a certain level of double-digit sales decline. Is my understanding correct?

By the way, in order to make up for the lost top line of antibacterial drugs, you mentioned that you are working on early shipment of influenza vaccines and that you are also doing your best to promote *KOSTAIVE*. I would like to know if you have any specific plans to accelerate these efforts.

A-4-1-2

Hishinuma: In terms of pharmaceutical segment as a whole, the sales of *REZUROCK* in the immune system area, which was launched last year, have been very strong. We'll keep focusing on its sales among others. In addition, since this fiscal year we have received benefits from the switch from external sales to internal sales of blood plasma products, and we also received positive impact from an unexpected increase in NHI price revisions, which was not included in the plan. By these, we will try to cover the negative effects of antibacterial drugs as much as possible.

We made early shipments of vaccines for influenza last year, which were very successful, and we plan to do the same for this fiscal year, exceeding the previous year's level. As a top share company, I believe that our mission is to increase the vaccination rate including *KOSTAIVE*, so we would like to introduce the vaccines to doctors from this point onward. We would like to work even harder than last year to raise awareness and publicize the need for vaccination.

Regarding *KOSTAIVE*, we plan to launch its two-dose vial as new formulation. It was difficult to handle the previous formulation last year, so we would like to do our best to introduce it to medical professionals.

Q4-2

I would like to ask about shareholder return. You implemented the secondary offering of shares last year, but did not proceed with the share buyback. You also decided not to do at the timing of FY2024 Q4, because of the difficulty in forecasting the future cost.

In light of the Q1 results this time, please give us an update on your stance on share buybacks.

A-4-2

Hishinuma: As indicated in our 2026 Medium-Term Business Plan, our approach to shareholders return is to maintain a minimum total return ratio of 50% each year, and to conduct opportunistic share buybacks in accordance with the demand for funds. For example, the inventory of cocoa

beans, which was reduced last year due to the recent trend of the rise of raw materials cost, is now being increased in a planned manner. Due to this, there is a slight decrease in cash inflows, so we are not currently considering taking any immediate action. However, this does not mean that we will not buy back our shares this fiscal year. As we have been saying for some time, there is no change in our thinking that we will do it depending on the situation.

Q-5-1-1

On page four of the slides. With regards to the measures you took for cost increase, you mentioned things were generally going according to plan. However, it seems that the price increase effect is having a significant impact vs FY2025 H1 plan. You also mentioned that the decrease in sales volume might come up a bit after Q2, but what is the progress here in regard to the planning point? Could you tell me what the effect of the price increase for Q1 has been in terms of actual results? I would also like to know your view on Q2 as well.

A-5-1-1

Hishinuma: As for cost rise of raw milk and cocoa beans, there was discussion internally but whether this was to be addressed by raising the price or reducing the product amount was not fully decided at the start of term. The mix of measures involving price increase and products amount changes has shifted, so the effect of the price increases appears to exceed the initial plan on this chart. We are considering absorbing the increase in raw materials costs through a three-pronged balance of price increases, product amount change, and negative effects of sales volume decline.

Q-5-1-2

So, the effect of price increase and product amount change of JPY9.6 billion was better than planned. Is my understanding correct?

A-5-1-2

Hishinuma: Yes. Even after subtracting the negative effects of sales volume decline by price

increase, the Q1 net effect of price increase and product amount change was more positive than planned.

Q-5-1-3

In Q2, the total of JPY4.6 billion is a significant decrease from JPY9.6 billion, but is that mainly due to concerns about sales volume?

A-5-1-3

Hishinuma: Yes, there is a bit of uncertainty as to what will happen to raw milk price increase in the dairy business. We expect that it will probably exceed the current projection if there is not as much negative impact on sales volume as we are concerned about.

Q-5-2-1

Could you tell us the impact on your company of the new consortium for generic pharmaceuticals?

A-5-2-1

Hishinuma: As you may have seen in the news release issued the other day, we are currently discussing with companies involved. The concept is based on increasing production efficiency by changing the division of production, for example, by having Company A make product A, and Company C make product B etc. And secondly, it is aimed at eliminating supply concerns. By increasing production efficiency, and improving the quality of each company, with our company playing a central role, it is aimed at ensuring a stable supply and increasing reliability.

As for sales, nothing concrete has been decided at this point in time. There are various options; each company's brand will remain the same, the company positioned as the controlling company will sell, the brands will be unified, or sales capabilities will be strengthened by increasing volume. We believe the first step is to achieve production, quality, and stable supply.

Q-5-2-2

What are the advantages for Meiji? When other generic companies will also participate in this concept, will they share the production profit?

A-5-2-2

Hishinuma: That's what I mean. We are thinking about how we can further contribute to improving quality and sales.

Q-5-2-3

Is there a possibility that you will eventually create a kind of controlling company and that the merit will be given by the percentage of investment in such a company?

A-5-2-3

Hishinuma: It is difficult to say exactly as this is a matter that will be discussed in the future. But, I believe that the impact and contribution to our performance will change depending on the matters decided in the future.

Q-6-1-1

First, I would like to ask about management priorities. As I understand the financial results for the food segment for FY2025 Q1, is it correct to say that the sales volume was a little weak as a result of firm price increases, but that it was in line as profit by controlling expenses? Also, for Q2 onward, I received the same message that although there is a sense of uncertainty about the top line, you will control expenses so that you can make profit.

If that is the case, then I feel that you have gone back to the old management style of a few years ago, where the current profit is more important than the top line. From medium- to long-term perspective, are you going to focus on increasing top-line sales and sales volume, or focus on short-term profit by cutting costs? Let me ask you again which of the two you are prioritizing as

your management intention.

A-6-1-1

Hishinuma: For this fiscal year, especially for H1, the raw materials cost increases have risen again since H2 of last previous year, so we are trying to beat this while also reducing costs by raising prices in the short term. As I have said in the past, we have to stick to the top line and increase sales volume for the future, or else we will see a shrinking equilibrium, so there is no change in that thinking.

In addition, we are still unable to take effective measures in H1 of this fiscal year for infant formula and the SAVAS powder in the nutrition business, which are the biggest issues for us right now. We are currently planning measures to increase top-line growth in H2, so until those measures take effect, I think we will have to prioritize cost reduction. We would like to raise the top line in H2 of this fiscal year and into the next fiscal year, and that is the overall idea.

Q-6-1-2

Am I correct in understanding that the management policy will change to be more top-line oriented from FY2025 H2? Also, I keep hearing your explanation that new products are quite key, but can we expect new products in early fall?

A-6-1-2

Hishinuma: It is difficult to say to what extent we will focus on the top line from H2 during this fiscal year. But we will resume sales of *Meiji Nama no Toki* for chocolate product in October and expand sales area, which was released in May for a limited time and in limited regions. As this was very well received, I believe this will be something favorable we can expect as a top line driver.

We are also planning to launch new products for functional yogurt in FY2025 H2. Also, as for the nutrition business, we do not intend to create a completely new brand, but we are planning to offer

products at affordable prices and in a form that is easy to buy. I believe we can proceed with these measures to raise the top line in H2.

Q-6-2

As far as the price increase is concerned, there may be some areas where costs will go down for chocolate, but in other areas, I think the cost will not go down if you include labor and distribution costs, etc., and may even go up a little over the next fiscal year. Now that consumers are thrifty, do you think you can raise prices in an additive manner? Is there any change to the past policy of raising prices when costs go up? Also, could you comment on your pricing strategy? Are you aiming for a bit more down-trading oriented, focusing on mainstream products?

A-6-2

Hishinuma: We believe that we have an advantage as a price leader. So regardless of raw materials, if labor or distribution costs rise, we will basically increase prices. However, it has become very difficult to simply raise prices, so we add product renewals and other measures with price increases. That is our basic approach, and it has not changed.

However, consumers are still being thrifty. Especially in this Q1, we are aware of such changes in the environment, so we still want to keep the unit price the same, but at a price that makes it easy to buy. For example, regarding infant formula, we have been selling mainly infant formula packages containing 60 cubes, but the unit price is quite high for this type, so we would like to offer packages with 30 cubes, for example. We are planning to do such things.

I do not believe that we will be offering low-priced products. After all, there is a baseline for doing relatively high unit prices with added value. Since the spending per shopping trip is not that different, the unit price may be the same, but I would like to try to reduce the price per package.

Q-7-1-1

I would like to ask you about the profitability improvement plan in China. I take it that you are saying that you are thinking about new structural reforms as you are halfway through the plan up to FY2026 at the timing of FY2025 Q2. I can't quite picture the depth of which you are planning. What kind of further structural reforms are you talking about while you are already implementing and working on profitability improvement plans from FY2024?

For example, I don't think you are even thinking about withdrawing from the business, since you are also launching the new, *Meiji Oishii Gyunyu*. However, as you aim for break even, to put it extremely simply, if you withdraw from the business itself, you will become break even. Could you please provide some additional information on that topic within the scope of what you can discuss at this time?

A-7-1-1

Hishinuma: The first step in the profitability improvement plan is to increase profitability, and the next step is to increase sales volume, and the second phase is now. The hurdle to increasing this sales volume is very high, so the idea is to work on reducing the fixed cost side if this phase does not go as expected.

However, I cannot say how deep it goes at this point. Of course, we have reduced the size of our sales structure since July and changed our production system, but if we are unable to secure the sales volume as expected, the next step is to address the fixed cost side.

Q-7-1-2

Since you have released high unit price product, you think there is still an opportunity. At the same time, there is still room for reducing fixed costs, so you are thinking that breakeven can still be targeted. Is this understanding correct?



A-7-1-2

Hishinuma: Yes, that's right. The Chinese economy is cooling down, but the drinking milk and chocolate we sell are everyday products, so we do not expect to see a big decline in consumption. China is still a large market, so I believe it is fundamental that we continue to keep costs in balance with sales to a certain extent. I hope you understand that we are currently discussing this internally from various perspectives.

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