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Meiji Holdings Co., Ltd.
Recording of Impairment Loss related to China Business and Future Management Policy
Online Briefing Q&A

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Presenters:

Katsunari Matsuda	CEO, President and Representative Director
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*This material has been edited to make it easier to understand some of the questions and answers.

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Q-1-1-1

Let me ask you one question regarding your China business. While all of the businesses have been significantly impaired this time, I am wondering if there has been much change from the past in any of the businesses as we look at future initiatives. I would like to know what kind of drastic measures will be taken, and what your approach is to a more in-depth review, including the possibility of withdrawing from certain businesses.

A-1-1-1

Yao: The chocolate business is growing rapidly. So the main reason for the impairment loss this time is *Hello Panda*, produced at the newly established plant in Guangzhou. This product is already doing very well in the US, but it is struggling a bit in China.

Also, we have taken an impairment loss on the newly built lines at the Shanghai plant, which will significantly reduce the fixed cost burden in the future.

Therefore, for the chocolate business, we can expect profit growth in the future as well, as the business will return to the previous level of fixed cost burden, where an increase in sales leads directly to an increase in contribution margin, which in turn leads to an increase in profit.

With regard to the dairy business, we decided to earn contribution margin commensurate with fixed costs, which we called the profitability improvement plan, or Plan A. We implemented this plan. We are able to increase the contribution margin rate on our side, and we have done that much. However, market conditions had a substantial influence, and there was a factor that led the customer to decide to purchase based on the balance of price and value. Naturally, there was competition, and to be honest, this did not go as planned.

In order to balance out what is not earned in contribution margin by reducing fixed costs, we implemented this impairment loss as one major way.

The ice cream business was initially doing quite well and supporting the profits of the China business. We had a plan to double the size of the business at once by building a new plant in Shanghai, but the Chinese market has cooled off considerably. Then, as for the competition,

the truth is that ice cream was oversupplied all at once because all the competitors were adding capacity in the same way. This means that prices continued to stagnate, and we do not expect immediate market recovery in this regard.
Therefore, we decided to temporarily suspend operations in Shanghai, thereby offsetting the costs through fixed expenses.
The products produced at the Guangzhou plant were originally profitable in China, and we expect to be able to secure sufficient profits at that level by consolidating our operations into single plant.

The B2B business is performing very well. It is true that sales of milk for coffee chain stores have been caught up in some price competition, but sales of cream is growing very strongly. While the volume in the dairy business has been sluggish, and the fixed cost burden is borne by the same plant, so the fixed cost burden is slightly higher due to the growth of the B2B business. Although the financial results have deteriorated slightly, we recognize that the business itself is growing significantly and holds great promise for the future.

However, as you say, we are still JPY800 million away from breaking even, so if the plan for growth in contribution margin is Plan A, then the plan that led to this impairment loss is Plan B. As for the additional JPY800 million, I cannot give you the details of this plan right now, but we are running it as Plan C that are within our control.

Q-1-1-2
I understand that, as for chocolate, the burden of fixed costs in Guangzhou may be reduced, and we can also expect some benefits from lower cocoa beans prices.
On the other hand, I'm still concerned about the dairy and ice cream businesses. As for dairy, you are also considering a Plan C as you mentioned. I would like to ask what the timeline is for Plan C of the dairy, and whether you are in a situation where you need to do some more leveraging measures for ice cream.

A-1-1-2

Yao: I would like to refrain from explaining the details of dairy's Plan C because I can't go into details here right now.

However, rather than focusing on measures related to contribution margin, we are currently considering measures related to fixed costs that are within our control.

Regarding the ice cream, you're right that it's basically just a matter of reducing fixed costs and returning to the original state of something that was already made. In this regard, we are taking measures to achieve break-even in FY2026 as promised. I would like to explain at another time whether we should pursue further growth, or whether we should be content with the current level of profitability at a certain scale.
It may lead to the question as to whether it makes sense to continue the business in a small and compact manner. I'd like to address that separately and explain my thoughts on the matter at that time.

Q-2-1-1

On page four of the presentation slide, out of the JPY4.8 billion increase in profit from the current fiscal year to the next fiscal year, the effect of impairment loss is JPY1.7 billion, and the remaining JPY3.0 billion of profit increase is expected during this one-year period. Could you explain this a little further?
Also, I understand the direction of consolidating management resources in the chocolate business overseas, but do you see this overseas business as a driver of profit growth again in the next medium-term business plan? Or, are you not seeing that much profit growth, as the chocolate business is in the investment phase and the dairy business is under consideration, including additional restructuring?

A-2-1-1

Matsuda: Food business is doing well overseas, such as in Thailand, and the US for chocolate. However, as Yao also explained earlier, we have a China business that we must largely reflect on. Nevertheless, we do not intend to stop taking on new challenges. We will generate cash domestically and use it for domestic growth, of course, but we also intend to invest in overseas markets for major growth. At the center of this, I would like to fight on a global scale, this time centered on the chocolate business.

The same is true for Pharmaceuticals segment, where overseas challenges have progressed to a greater extent than with Food, and we are succeeding. Furthermore, we would like to actively pursue challenges related to vaccines and others, including *Nacubactam*, which is expected to be approved this year.

Therefore, as a group, we are committed to taking on new challenges overseas, using our past failures as lessons and approaching these challenges with renewed determination.

Q-2-1-2

Could you explain the breakdown of JPY3.0 billion profit increase? Is the contribution from fixed cost reductions the main driver?

A-2-1-2

Yao: We are not merely shutting down the plant facilities in Shanghai. We are also working to reduce fixed costs including labor costs. As for nutrition, although it’s only a small part of our business, we’ve also withdrawn from the *SAVAS* business we’ve been handling, so we’ll no longer incur any expenses.

As for dairy and B2B, we can see a trend toward some increases in contribution margin. In addition, regarding confectioneries, although there are some positive effects from impairment loss, the trend in sales has continued from the past, so we counted the trend as an increase in contribution margin to arrive at the figure of JPY3.0 billion as improvement.

Therefore, we are not forcibly creating new sales to absorb fixed costs on the contribution margin side, but rather, we are eliminating fixed costs and maintaining the current trend of sales. I hope you understand that this amounts to a JPY3.0 billion improvement.

Q-2-2

I understand that the dairy business will continue for the time being, but in what areas will your company continue to make use of its strengths in this business? I think that *Meiji Oishii Gyunyu* is also facing a bit of a difficult situation, so please tell us whether you are trying to earn stable profits from B2B or whether you see some strengths that can be utilized overseas or in China.

A-2-2

Yao: I know this is a very difficult question to answer. We have already introduced *Meiji Oishii Gyunyu* and *R-1*. I think you are also right that the current situation is the result of putting everything we have in Japan.

However, our first priority is to improve profitability and achieve break-even. The same is true for ice cream as I mentioned earlier, but as for the question of how we will achieve break-even and what we will consider as a growth driver from there, we will first set break-even, and after achieving it, we will carefully assess the future growth potential of this business and make a decision on a case-by-case basis as appropriate.

Q-3-1-1

From a stock market perspective, it looks like you have not decisively implemented structural reforms at all.

Normally, one would clarify what needs to be eliminated, define where responsibility lies, and outline the desired future state all at once. Given that there has been a loss of JPY42.0 billion, I expect we will see structural reforms aimed at addressing this loss.

What concerns me is that while you were aiming to break even next fiscal year, there remains a deficit of JPY800 million. Ultimately, I think you'll need to consider how to achieve your ideal structure, for example, focusing on global operations for chocolate while handling non-global operations in China, but when will the next plan be unveiled?

When it comes to agile management, I have a vague feeling that things might just drag on and on, and nothing will come of it until you break even. There is a concern that the remaining assets of JPY36.5 billion will be further exposed to risk again, so let me confirm, when and under what plan we can expect to see the final vision take shape.

A-3-1-1
Yao: We have no intention of abandoning our goal of break-even in FY2026. This negative JPY800 million will also be eliminated in FY2026. However, I do not know if there is a possibility that the full-year figure will be negative JPY800 million due to a time lag, but basically, we will achieve the break-even figure for FY2026 with speed. I hope you understand that we are now running such a plan.

Hishinuma: There are some plans that we cannot yet tell you about, and we now believe that we will be able to reach break-even if we include them.

Also, you mentioned earlier that there is still a book value of about JPY36.0 billion, but for this assessment, we are using the net realizable value, as determined by a third-party appraisal, for future cash flows, buildings, and other such assets. For now, we believe we are able to take all the risk off at this point, so we are not considering any new investments, especially for dairy and ice cream. We do not anticipate any major negative impact.

Q-3-1-2

On page four of the slide, it says that this will leave a negative figure of JPY800 million. Since you are implementing measures aimed at breaking even, this doesn't mean you have given up on breaking even. Is it correct to understand that you will continue to strive for that goal?

A-3-1-2

Yao: Since we cannot explain specific measures today, please understand that we are leaving the JPY800 million in place for our projection as of today.

Q-3-1-3

Is my understanding correct that at the end of the next fiscal year, when the results of whether this break-even can be achieved or not will be available, you will once again reconsider what will be left for the China business in light of, for example, ROIC and growth?

A-3-1-3

Yao: I think that's how it will turn out. As for focusing on this area, there's a possibility that we might decide to wait and see how things develop for a year or two. However, aiming to break even, I expect we'll have to take draconian steps, so we'll be able to clearly outline the direction for each individual business to some extent.

Q-4-1-1

Let me ask you about the speed of decision-making.

This time, you came to this decision in the China business, and I believe that Mr. Matsuda was involved in this China business development as the person in charge of execution. Once again, at what point should the decision have originally been made to review the management strategy for the China business, and why was this delayed? I am sure you will make improvements in this area in the future, but how can you create a mechanism to speed up the decision-making process?

A-4-1-1

Matsuda: I feel responsible and deeply regret the current result as the person directly responsible for the management of the Company at that time as well as now.

We have never been made investments in the JPY10.0 billion range so easily, even in the past. Therefore, this was a major investment decision for us.

Regarding the fact that it was not going well there, in the past, the best or better approach was to somehow change the methods or the way we thought about the product, in order to increase its utilization or sales even more.

However, as far as China is concerned, that’s beside the point. The very premise, whether those efforts would pay off or not, was fundamentally flawed. Looking back, I regret that I should have done more to develop our business in line with the local way of thinking and needs, or our product strategy, etc.

This is actually same for asset-lighting in Japan. We thought that if we invested and managed to work harder, we would be able to sell more. Since we’d gone to the trouble of investing, we decided to do our best to make sure it wasn’t a waste.

From the perspective of long-time Meiji employees like myself, we believe we acted and made decisions quite quickly regarding asset-lighting our domestic operations, but we still receive feedback from outside the Company that, from an external viewpoint, our response was still too slow. I think our sense was a little off in that sense.

As I have already explained, Meiji has a mechanism in place to review past accidents that occurred at production sites. Likewise, I intend to proceed with future business initiatives with a strong sense of purpose. I will thoroughly reflect on why our China business development failed, both in its planning phase and during implementation, and why it became too late to address the issues. Moving forward, I will not implement any future business initiatives that do not pass through the filter of this reflection.

Q-4-1-2

What does it mean to “pass through the filter”? Also, while it’s easy to say that decisions should be made quickly, in some cases, that can lead to missed opportunities. I think it’s very important to be able to judge when that’s the case.

I have heard a keyword in the comments made earlier, such as “outside voices,” but is this a decision that is made by outside directors or others? Is there some new organization or way of thinking that Mr. Matsuda or the executive branch will come up with to determine this point?

A-4-1-2

Matsuda: The filter means that we won’t take action on anything that doesn’t pass through that way of thinking, whether it involves various departments or individuals. Therefore, we intend to apply the lessons learned from this failure, for example, when making future decisions in a company.

For your second question, as for outside the Company, we have discussed with JAC, and I have already sensed the difference in sensitivities outside the Company and Meiji even now. Of course, we receive guidance from outside directors for management oversight. I believe that I, or Yao, or the next person in charge of the business, must improve our sensitivity to the business even more.

Therefore, rather than relying on Meiji’s conventional wisdom, I believe we should constantly cultivate a sense of urgency from an external perspective, as well as the criteria and values used to evaluate our business. We intend to put these principles into practice.

Q-4-2-1

This time, we were told about the long-term concept, etc. Is it your understanding that the new medium-term business plan will start in FY2026? Or Will FY2026 be the final year and the new medium-term business plan will start from FY2027 as per the original plan. Is this the sort of speed you were thinking of?

A-4-2-1

Matsuda: It is the 2026 Medium-Term Business plan, so FY2026 is the final year of this plan, and the next medium-term plan will start in FY2027. We plan to identify and address all outstanding issues in China and others by the end of FY2026 with a sense of urgency so that we can make a strong, powerful start to the new medium-term business plan in FY2027.

Q-4-2-2

The portfolio review and the discussion about ROE are all part of the strategy to start with the new medium-term business plan, right?

A-4-2-2

Matsuda: Regarding the portfolio review, we will do what we can in FY2026. I would like you to take it as a sign that the Meiji Group will start the new FY2026 with a new set of values, or a new way of thinking.

Q-5

I am looking at page 14. It says that you will advance structural reforms actively in FY2026. If so, will this mean that the cost of structural reforms will be higher in FY2026, which is expected to put pressure on profits?

A-5

Hishinuma: We expect to incur a reasonable loss in the next fiscal year as we continue with structural reforms to review our domestic portfolio. We cannot disclose specific amounts at this time. I will talk about it again when we close the financial results.

In any case, as is the case with China this time, there will be no impact in terms of cash flow, so I hope that you will consider that we will do our part for the next fiscal year within the scope of our current financial base.

Q-6

If costs are expected to rise next fiscal year due to structural reforms, how should we interpret the policy to strengthen shareholder returns?

A-6

Hishinuma: Neither the content of today's announcement nor future structural reforms are related to cash, so we would like to take advantage of our financial leverage to strategically balance investment in growth and returns to shareholders.

In this current medium-term business plan, the annual total payout ratio is more than 50%, and we are now considering a higher level for the next medium-term business plan.

Q-7-1-1

Regarding ROE target, I would like to know again how you see the time frame for an early recovery to the 10% level.

A-7-1-1

Hishinuma: As for the early recovery to 10% ROE, we would like to recover it within the period of the next medium-term business plan. We are currently finalizing the details, but I believe we'll be able to make it work by FY2028 or 2029.

Q-7-1-2

I think the current level is about 7% as the Company's capability, so in any case, the profit figure should also jump up in the next medium-term business plan. Of course, regarding the question of whether you have the strong determination to thoroughly strengthen the area of shareholder returns, as you mentioned, what are your thoughts on that?

A-7-1-2

Hishinuma: We think it will probably be around 8% next fiscal year.

We would like to do this both in the numerator, the profit part, and, of course, in the denominator. As for profits, we will work on improving the profitability of existing domestic businesses, and now that the new domestic plants will start its operations in FY2027, we expect to see consolidation benefits of about JPY5.0 billion to JPY6.0 billion. Partially related to this, we will first increase profits by improving yogurt profits and turning the milk business profitable.

On the other hand, the current equity ratio is in the mid-60% range, but we believe that a ratio of 50% to 55% should be appropriate for the future. For denominator, we plan to increase returns to shareholders and boost leverage. While boosting leverage would enable us to invest in growth initiatives, our goal for the next medium-term business plan is to return ROE to double-digits as soon as possible, by addressing both the numerator and denominator.

Q-8-1-1

I am looking at the list of this investment, impairment loss, and residual book value on page 16. Looking again at your company's production system, we can see that you have a complex production base, including confectioneries and ice cream at the Shanghai plant. This time, ice cream at the Shanghai plant has been suspended, while confectioneries are still in operation. If there are both strong and weak areas within this production facility, what kind of future developments can we expect?

A-8-1-1

Yao: Initially, the Shanghai plant was designed and put into operation with the intention of taking advantage of the combined plant by sharing personnel, since the peaks of confectioneries and ice cream are shifted.

However, since the ice cream market had already cooled off too much, we couldn't generate enough sales to cover the costs of two plants, so we first shut down the Shanghai ice cream plant, which was causing losses. In addition to applying impairment charges to reduce depreciation expenses, we also decided to idle the equipment. As a result, we now incur virtually no operating costs, including labor expenses, and this is how we have improved our profit and loss situation.

The question is what to do after this. I am very sorry to give the same answer to this question, but first of all, we will consider Plan C. Once the break-even picture in China is clear, will we focus on this business and grow it in the future, or, conversely, will we position this business as no longer expecting business growth in China? We will be able to give you a clear answer when we have a clearer picture of the situation. We apologize that we are currently unable to provide detailed answers for the Shanghai ice cream plant, now that its operations have been suspended.

Q-8-1-2

While it's somewhat surprising that the impairment loss for chocolate is the largest, regarding the *Hello Panda* line in this table, could you break down this JPY8.8 billion impairment loss to show the split between Guangzhou and Shanghai plants?

A-8-1-2

Yao: Basically, Shanghai confectionery is doing well. We have a variety of hit products, including *Meltykiss*, and *ALMOND chocolate* are selling very well at Sam's Club.

Hello Panda has been a big hit in the US, so we thought it would be a good idea to bring it to China as well. However, the line at the new *Hello Panda* plant in Guangzhou is not operating as expected. This has been a drag on the confectionery business as a whole, so we have decided to take a substantial impairment loss on the *Hello Panda* line in Guangzhou.

Conversely, we will restart the Shanghai line with a much lighter fixed cost burden, so the profit from the strong confectionery business in Shanghai will remain intact. We have determined that if we make some modifications to Guangzhou, we can build a structure that will allow us to increase sales and earn profits. This is why we have decided to make a drastic impairment loss.

Q-8-1-3

Of Guangzhou's JPY13.6 billion, the majority, JPY8.8 billion, is in confectionery?

A-8-1-3

Hishinuma: The impairment loss for dairy, including B2B, was recorded in FY2023, so the amount of the impairment loss this time is very small. The impairment loss of JPY7.4 billion implemented last time was primarily from the dairy business. The rest of JPY6.1 billion, though not all of it, is mainly related to the chocolate business.

The impairment loss for the Shanghai Food plant is mainly related to ice cream. The ice cream is JPY7.9 billion, and Xuegao is JPY900 million, so you can think of JPY7.0 billion of the JPY11.3 billion as ice cream, and the rest as confectionery.

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