

FY2020 1H Earnings Conference: Major Q&A

-Date/time : Nov. 10, 2020 (Thu.) 10:00am -11:00am

-Attendees:

President and CEO (Chief Executive Officer)

Hiroshi Shimizu

CFO (Chief Financial Officer)

Tomoki Matsumoto

President of FUJI OIL Co., Ltd.

Tatsuji Omori

CSO (Chief Strategy Officer)

Yasuhiro Maruhashi

<Impact of COVID-19>.

Q. Views on the revised second half forecast

A. Our initial forecast was based on the assumption of transparent quarterly disclosure and did not factor in the impact of COVID-19 in 2H. In light of the current forecast, the impact of COVID-19 was factored into the 2H forecast, but no structural issues have arisen in the business.

About Industrial Chocolate Business

Q. Is there any change in Blommer's market position? What are the company's specific challenges and solutions?

A. Blommer's customer-focused sales approach has been well received, and this has helped the company to acquire new contracts and expand its market share. We have no concerns about the competitive environment or our position in the market.

The following three issues and measures were identified to improve profitability

(1) Inventory Reduction and Futures Risk Reduction

Through the establishment of a purchasing scheme with ITOCHU Corporation, the reduction of working capital (inventory) is almost complete and most of the impact of futures volatility risk is under control.

(2) Improvement in production efficiency

Although the improvement of production efficiency is taking more time than initially expected, we are implementing measures based on specific KPIs and making steady improvements.

In FY2020, profitability has not yet been realized due to a decline in volume, but the effect of improvement is expected to emerge as volumes recover in the future.

In addition, as the primary focus of the company, Blommer and Harald will be prioritized for capital investment.

3) Expand the compound chocolate market

The market for health-conscious chocolates and compound chocolates is showing signs of growth due to accelerating interest in sustainability and health-consciousness, as well as deteriorating business confidence. Blommer is expanding sales of sugar-free chocolate and new compound-type products, which are expected to contribute to earnings in the future.

Q. What are the factors behind Blommer's apparent decline in profitability despite the recovery in 2H volume?

A. We expect profitability to decline due to the following factors

In the COVID-19 situation, the product mix has changed, with Blommer seeing an increase in sales of cocoa

products, rather than chocolate products, due to an increase in the ratio of in-house production by customers.

Lower margins in the cocoa business due to the decline in the cocoa market

Worsening of production efficiency due to remote work and temporary stoppage of production for disinfection on the premises due to the spread of COVID-19 infection

However, we do not plan to change our focus on profit growth as we announced at the time of the acquisition, as we expect growth in high-margin products and compounded chocolates, as well as the effects of production efficiency improvements, as mentioned in our response to the question above.

Q.What are the changes in Harald's business conditions and the competitive environment

A. The impact on profitability from the depreciation of the real is significant as raw material purchases are denominated in US dollars. However, Harald has started to sell small packaged retail products for e-commerce and supermarkets, and has been selling well in pizza chocolate fillings based on its oils and fats technology. In addition, Harald will continue to increase its market share through strategic price changes to keep an eye on competition. To this end, the company was considering building a second plant.

Q. How has your global chocolate strategy differed from what you originally envisioned?

Also, with regard to your plan to invest cash in Plant-Based Food by improving the profitability of the Industrial Chocolate Business, do you anticipate that more time will be required to improve Blommer and Harald? What are your thoughts on the next mid-term plan?

A. It took more time than we initially expected, but we have clarified the differences between the industrial chocolate business in Japan, the U.S. and Brazil, and we have cleared up issues such as productivity and human resources. Despite the delay due to COVID-19, we will dispatch four more specialists from Japan to the U.S. in the second half of the year to resolve the issues.

The core of our company is our technological capabilities, and our profit structure will change as high value-added products that require technological capabilities, such as sugar-free chocolates, become mainstream.

The reform of the Industrial Chocolate Business will not be fully realized in fiscal 2020 due to the impact of COVID-19. In the next fiscal year, we will consolidate our footing, confirm the improvement in the performance of our Industrial Chocolate Business, and then gradually allocate resources to Plant-Based Food. In the midst of the uncertainty caused by the pandemic, our next business plan will not be a conventional medium-term plan, but a shorter and more accurate plan.

<Others>

Q. What is the outlook for Japan business in the second half?

A. In the forecast for 2H FY2020, the impact of COVID-19 on the souvenir and restaurant markets will continue, and we expect a rebound from the stay-at-home consumption in Q4 FY2020.

However, demand in the souvenir market is recovering due to the "Go To Campaign", the company's domestic travel promotion policy.

We expect the profitability of the Emulsification and Fermentation business to improve, as our Plant-Based Food business, which has been a key focus, has received high praise not only for meat substitutes, but also for vegetable cheese and butter.