

3Q/FY2020 Teleconference Major Q&A

Date/time: Feb 5, 2021 (Fri.); 4:00pm – 5:00pm (JST)

Speaker : Tomoki Matsumoto, Member of the Board ,Executive Officer, CFO

<About thoughts on overall earnings>

Q. What is your outlook for the next fiscal year?

A. We expect that the impact of COVID-19 will be reduced and that 1H sales volume will be steady in the next fiscal year. Under such an assumption, the key point will be how we can offset the recent surge in raw material prices through cost reduction and other measures.

In addition, the recovery of profitability of Blommer by reducing the impact of COVID-19 will be one of driver, and we expect the strong sales of products for the baking market in the China to contribute to profits.

Q. What is the impact of the soaring market prices of raw materials?

A. The impact of the soaring palm oil market price has been gradually emerging since the current 3Q, and is expected to be a major risk for the next fiscal year, especially in the Vegetable Oils and Fats business.

The market price of raw materials is likely to fluctuate significantly in the future, so we are watching it carefully. From the next fiscal year onward, we will be required to pass on the cost of raw materials to selling prices, but given the rapid rise in market prices and the business environment of weak consumption and oversupply, it is expected to take some time to pass on the cost.

<About Blommer >

Q. What is your forecast for the next fiscal year?

A. In the current fiscal year, many employees of Blommer were affected by COVID-19 in the U.S., where the infection is spreading.

We prioritized to maintain production and supply, and profitability worsened due to increased costs such as disinfection of factories and increase in temporary employment, and some improvement measures were delayed. In addition, processing margins in the cacao business also weakened due to the decline in demand in the chocolate market as a whole.

For the next fiscal year, the volatility in profits due to the recording of futures gains and losses will be limited as a result of the complete shift to the procurement scheme for cocoa beans with ITOCHU Corporation. Therefore, we do not expect to post futures gains in the next fiscal year, but we hope to secure the same level of profit as in the current fiscal year (including 1.1 billion yen in futures gains on cocoa beans) by reducing the impact of COVID-19, promoting improvements in aging facilities, and implementing productivity enhancement measures.

Q. Are there any structural changes in the competitive situation of the industrial chocolate business in the U.S.?

A. We estimate that the current growth of the chocolate market in North America is about -2%, so the decline is not significant.

There have been differences in the COVID-19 impact on production activities and the recovery situation at the major competitors. Therefore, in the short term, there were some fluctuations in the order situation from major multi-national companies. However, we do not expect any major changes in the overall structure of competition or market share.

<Others>

Q. Why was the profit margin small in Q3 despite the strong sales of the emulsified and fermented ingredients business?

A. In Japan, cream products performed well, especially for dessert applications, due to an increase in home consumption. However, overall sales were not strong due to the lingering effects of COVID-19, such as a decline in demand in the restaurant market.

In China, sales of margarine, fillings and other products for the bakery market continued to be strong, but higher raw material prices resulted in lower profitability of some products. In addition, continued impact of the decline of sales to Japan in the Asian Preparations business.