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Brazil Business Briefing Session: Q&A Summary

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Speaker: Takayuki Suzuki, President & Representative Director, NISSIN FOODS DO BRASIL LTDA.

Q. What stage is NISSIN BRAZIL currently at in terms of its business development? Is the primary focus on volume growth or profitability?

A. Expanding the scale of our business remains important, as profit growth cannot be achieved without volume growth. At the same time, we are now placing greater emphasis on profitability. Our focus is gradually shifting toward improving profit margins.

Q. The profit margin is expected to improve by 0.5 percentage points this fiscal year. What is your outlook for the next fiscal year?

A. We aim to achieve a double-digit profit margin within three to four years. As it will take time to ramp up the new plant, we expect profitability to improve gradually.

Q. How does NISSIN BRAZIL fit within the overall management structure of NISSIN FOODS HOLDINGS? Does Brazil need an organizational structure similar to the Regional Headquarters of Americas?

A. Brazil does not fall under the jurisdiction of the Regional Headquarters of Americas. As we already work closely with our headquarters in Japan, we do not currently see a need for a similar organizational change in Brazil. The U.S. and Mexico had a different management context, including having locally appointed presidents.

Q. Given the already high market share, where do you see further opportunities for growth?

A. Annual per-capita consumption of instant noodles is 48 servings in Japan, compared with 12 servings in Brazil, indicating further room for growth. The figure is also 15 servings in the U.S. We see significant opportunities among consumers in urban areas and younger demographics, as well as in the cup noodle category.

We are launching 13 new SKUs in October and November and moving quickly to capture new

opportunities. We are also strengthening our product development capabilities, including human resources, as well as our marketing capabilities.

Q. Do you expect competition from Korean manufacturers to intensify in Brazil?

A. Korean manufacturers currently account for only around 0.1% of the market. While the popularity of Korean culture may continue to grow, we have already begun responding through products such as *Geki*. Brazil also has strong ties with China, so we are closely monitoring not only Korean manufacturers but Chinese manufacturers as well.

Our aim is to develop a range of spicy products that are not simply extremely hot, but offer flavors and levels of spiciness that appeal to Brazilian consumers.

Q. Why did the Company's market share decline between 2021 and 2024?

A. This was due to certain issues with our production equipment. Those issues have now been resolved, and our market share has recovered strongly.

Q. What progress has been made in reforms related to materials procurement, production, and logistics?

A. We review materials every year. In addition, we have undertaken a broad review covering several hundred suppliers. We are continuously implementing measures such as competitive bidding and changes in procurement allocation.

As the next step, we are promoting the shift from certain relatively expensive imported materials to locally sourced materials. This does not mean bringing production in-house. The objective is to further improve efficiency.

Q. What is the current status of logistics and production reforms?

A. At our existing plants, we are enhancing visibility into production indicators such as yield and energy consumption by production line.

In logistics, we are working to optimize inventory levels. We have also established a special team reporting directly to the president and are working to improve the accuracy of our sales planning. We are conducting a detailed review of our overall approach, including production and inventory management.

Q. Profitability appears relatively low given the Company's market share. What are the challenges in the cost structure?

A. We have been expanding the new cup category at a very rapid pace, growing it approximately threefold. This growth has required significant promotional and logistics

expenditures.

Brazil is a very large country, and transportation from São Paulo to areas near the Amazon can take around 25 days in some cases. We are therefore reviewing logistics routes and methods. For certain products, for example, we consolidate shipments at our plant in northern Brazil before transporting them onward.

Once the new plant in southern Brazil begins operations, we expect to benefit from improved logistics efficiency.

Q. Is there room to review advertising and promotional expenses?

A. We believe there is scope to review promotional expenses by category, among other measures.

Q. What changed after NISSIN BRAZIL became a wholly owned subsidiary?

A. Under the joint venture structure, manufacturing and sales were separated, with Nissin responsible for manufacturing and Ajinomoto responsible for sales. This meant that we were unable to manage the business in an integrated manner from manufacturing through sales. Today, we are able to make decisions on an integrated basis, which has also accelerated decision-making on initiatives such as new CUP NOODLES products. Our sales capabilities, including in-store execution, have also evolved.

Q. What level of sales growth do you expect going forward on a local-currency basis?

A. In terms of volume, we expect the overall market to grow at a mid-single-digit rate. Brazil is an inflationary economy, so the impact of price revisions also needs to be taken into account. As a result, sales growth will reflect both volume growth and inflation-related factors.

Q. Is it correct to understand that volume growth is expected to be in the mid-single digits, while unit-price growth will depend on inflation?

A. Yes, that is correct. We will respond flexibly depending on the circumstances.

Q. What is necessary to increase per-capita consumption? Instant noodles do not appear to be particularly inexpensive in Brazil. How do you plan to expand consumption going forward?

A. First, we believe our products are reasonably priced. For example, frozen foods may cost around BRL15, while a sandwich could cost BRL7–8. Against that backdrop, we believe our products remain affordable.

The key is to create new eating experiences and consumption occasions. We want consumers to choose our products in a variety of situations, such as when they want a light meal,

something quick and convenient, or when they are busy.

We are also developing flavors tailored specifically to Brazilian consumers. Through offerings such as *The Bold Side of Japan* series and high-protein products across both cup and bag-type noodles, we aim to provide diverse value propositions and broaden consumer choice.

Korean products are imported and therefore relatively expensive. One of our strengths is our ability to provide products at affordable prices through local production for local consumption. There are also product lineups that are already familiar to consumers in Japan but have yet to be introduced in Brazil.

Q. Approximately how many SKUs do you currently have?

A. Approximately 60 SKUs, of which around 30 are bag-type noodles. We continuously conduct SKU reviews while developing new flavors. At the current number of SKUs, we believe we can continue to secure sufficient shelf space at major retailers.

Q. Could you tell us about your professional background? Also, while the senior management team includes Japanese personnel, how are responsibilities divided between Japanese and local employees, and how do you envision the organization evolving going forward?

A. I originally worked for a machinery manufacturer and have professional experience in Brazil, other parts of South America, Europe, and China. I joined Nissin after leaving my previous company and have now been with Nissin for approximately four years.

It has been around ten years since NISSIN BRAZIL became a wholly owned subsidiary, and over the past two to three years we have approximately tripled the number of personnel at the general manager level. We have also increased their opportunities to participate in management meetings, thereby strengthening the depth of our organization.

At the same time, further developing local talent remains an important priority. In marketing, for example, Japanese personnel contribute to communications incorporating Japanese elements, while local general managers focus on understanding what resonates with Brazilian consumers.

Similarly, in product development, local employees play important roles in areas such as optimizing materials. We believe it is important to combine the strengths of both Japanese and local employees.

Q. Where do you see the greatest potential to increase per-capita consumption? For example, does consumption vary by region?

A. Yes, there are regional differences, driven in part by income levels and food culture. Per-capita consumption in northeastern Brazil, for example, is slightly lower than in São Paulo,

and we have introduced distinctive products specifically for that region.

There is considerable scope to develop products that reflect the characteristics of individual regions, and we see this as an important growth opportunity.

Q. The Company is shifting toward a greater emphasis on profitability. How do you balance this with volume growth? Is the priority volume, or improvements in unit price and product mix? What cost initiatives will contribute to margin improvement?

A. Fundamentally, we will pursue both.

Within that framework, we see significant opportunity to increase the proportion of cup noodles, which currently accounts for approximately 10%. Cup noodles have a higher unit price than bag-type noodles, so expanding new brands in the cup category can contribute to an improved product mix.

Some cup-related materials are currently imported. Procurement reform is therefore another important initiative, including shifting these materials to locally sourced alternatives.

Q. How much do cup noodles contribute to profit?

A. We cannot disclose specific figures, but their contribution to profit has improved considerably.

Q. When will the new plant begin operations, and how do you think about ROI on the investment?

A. We are targeting the start of operations around the beginning of FY2027. While this is a significant investment, it is not designed solely to generate short-term profit.

The objective is to optimize our overall operations, including improving production efficiency through the optimal allocation of production among our three plants, enhancing logistics efficiency, and strengthening our stable supply capabilities.

Q. How are instant noodles positioned as a food category in Brazil? What products do they compete with? Also, how resilient are instant noodles to inflation? Are they relatively defensive products, or are they sensitive to economic conditions?

A. Instant noodles have already become deeply embedded in Brazilian food culture to the extent that they can be regarded as an everyday staple. Dried pasta may be the closest competing category.

At the same time, food culture varies by region. Couscous, for example, is widely consumed in northern Brazil, along with other regional staple foods. We have taken advantage of these regional preferences by launching products such as couscous-flavored noodles.

In terms of resilience to inflation, we believe our products are relatively resilient. Having built our brands over many years, we have a large base of loyal consumers. This enables us to maintain a certain level of demand even during periods of economic volatility or inflation. We also implement price revisions at appropriate times. Overall, we believe the business is relatively resilient to economic fluctuations. In October, we implemented a price revision of approximately 4%, in the mid-single-digit range. We have maintained close communication with retailers and are proceeding while gaining their understanding.

Q. Which consumer segments are the new products targeting?

A. Our initial target is younger consumers in urban areas such as São Paulo. We aim to establish a successful model there first and then expand it nationwide.

Q. What has enabled the shift toward a greater focus on profitability? If there were structural issues in the past, could you explain what has changed and how that has affected the business?

A. I believe this is a deeply rooted issue. The temporary production issues we experienced were one catalyst for change.

In the past, demand was extremely strong, and the environment was essentially one in which we could sell everything we produced. As a result, expanding volume was the highest priority. Today, however, our management approach has finally evolved from focusing solely on **how much we produce** to also considering **how much it costs us to produce it**.

We have approximately 3,500 employees, and it is not possible to change everyone's mindset overnight. We have therefore established KPIs for each function and are working to build greater awareness of profitability throughout the organization, including production, procurement, sales, and logistics.

Q. It has been around ten years since NISSIN BRAZIL became a wholly owned subsidiary. What enabled the Company to finally shift its manufacturing mindset from focusing on volume to focusing more on profitability and "how much it costs to produce"?

A. The machinery issues were one factor.

At the time, we were facing persistent supply shortages. Even when our facilities were running, supply was insufficient to meet demand, and we received complaints from retailers regarding product shortages. Our top priority was therefore to stabilize supply.

As the situation subsequently stabilized, we were able to shift our focus toward considerations such as how much it costs us to produce our products.

Q. Were there also changes from a management perspective? Was there increased pressure

from headquarters, for example?

A. As I came from a different industry, I was able to look at the organization from a different perspective. Throughout my career, I have consistently focused on identifying detailed opportunities to reduce costs.

I believe that some of the reforms currently underway have stemmed from identifying issues from an external perspective.

Q. You mentioned mid-single-digit CAGR in volume. Compared with Japan, Brazil has roughly twice the population, but per-capita consumption is only about one-quarter of Japan's level. Assuming Brazil's population continues to grow through 2040, should we think of volume growth as potentially around 7% CAGR? And if inflation is added to that, could this translate into double-digit sales growth?

A. We have not calculated the outlook to that level of precision, but mathematically, that would broadly be the case. That is a reasonable way to think about the growth potential.