

FY23/3 Q2 Financial Results Briefing Summary of Q&A Session

Date and time: November 2, 2022, 15:00–16:15 (Online/Conference Call)

Presenters: Kenya Okushi, Representative Director, President

Kenji Suzuki, Director, Executive Officer

Yasunori Sato, General Manager of Business Management

Group Overall

Q. What is your reasoning behind the operating profit target of ¥34.0 billion in FY24/3? Is it fair to assume that the Processed Foods business, the forecast for which was revised downward in the current term, will be the driver for higher earnings in the next fiscal year?

A. We decided to leave the initial plan target unchanged at ¥34.0 billion for the corporate group overall, and will consider the detailed breakdown going forward. Slight adjustments for each business segment will probably be necessary, taking into account such factors as the progress of future price revisions in the Processed Foods business. However, the view that Processed Foods will be a driver for earnings growth in the next fiscal year is essentially correct.

Processed Foods

Q. Regarding the price revisions planned for February 2023, do you expect these to have the same result and scale as the revisions implemented in August and September?

A. Yes, we expect these revisions to have roughly the same result and scale.

Q. What has the situation been like for the price revisions in August and September, including the impact on quantities?

A. The circumstances surrounding the price revisions were extremely difficult, but we were able to gain understanding from customers, and the revisions were implemented in line with plan for the most part. Although there have been some delays for commercial-use items, we are handling the situation, including changing product specifications. There has been a slight decrease in quantities recently, but nothing major.

Q. With all the recent shifts in the business environment, has there been any effect on Nichirei's competitiveness?

A. Demand for “personal use” products (single servings and snack items) increased sharply

during the COVID-19 pandemic. Single-person homes now account for around 40% of all households, and needs have increased for personal use products in both the household-use and commercial-use categories. We believe that considering Nichirei's product development capabilities and production structure to quickly meet these needs, this is an area in which we can exhibit our strength.

Q. For the last few years, the Processed Foods business has continually failed to meet its initial plan targets. Specific examples of the reasons for this include the production decline in Thailand last year, and the cost pressure this year. What is your thinking regarding Nichirei's ability to respond to changes in the business environment?

A. The situation in Thailand last year has prompted us to reconsider the risks surrounding the current state of our production facilities and supply chain. Also, in terms of price revisions, we have set rules for implementation, and have shifted to a structure that allows us to make decisions and take actions quickly.

Q. Sales of processed foods have shown strong growth, rising for the last two years, driven by the COVID-19 crisis. What is your view on the outlook going forward?

A. For household-use items, while we can't expect the same sort of sharp increase that occurred following the emergency declaration and restrictions on going out, but because more consumers began using frozen foods during the COVID-19 crisis, we expect growth to continue. For commercial-use items, we are of course revising prices, but sales have now exceeded the level prior to the COVID-19 crisis (FY20/3). With the exception of certain parts of the restaurant sector, the recovery in commercial-use products has been remarkable, and we are anticipating further growth, including from inbound (tourism-related) demand.

Q. What is your analysis of the current situation for GFPT Nichirei (GFN) and InnovAsian Cuisine (ICE), and the outlook going forward?

A. Earnings at GFN have improved considerably since the recovery in operations, with significant growth in production of products for the Japanese market, as well as a steady increase in sales to Europe, China, and domestically within Thailand. We plan to strengthen sales and other functions with an eye toward growth in markets other than Japan.

At ICE in the U.S., sales volume has seen a slight decline recently as a result of price revisions implemented in response to rising food material and logistics costs. However, we think this is temporary, and anticipate firm growth going forward.

Logistics

Q. What is the status of the electricity fee surcharge being applied in Japan and overseas? Also, do you think there is a risk that applying this charge will drive customers to competitors?

A. Electricity costs have risen to a level that we are unable to absorb through our own efforts. The surcharge is already being applied overseas. In Japan, we are currently in negotiations with all consignors, and expect the effects to be realized in the latter part of the second half of the fiscal year. Such negotiations are never easy, but we are persistently pushing forward in order to ensure business continuity, including maintaining and improving logistics quality. It should be noted that we are only asking customers to cover a portion of the sharp rise in costs for electricity beyond a set level, and we will continue to work to gain their understanding.

End

Note: This document is not a complete record of the Q&A session, and has been edited by Nichirei Corporation.