Nichirei Corporation

FY24/3 Q2 Financial Results Conference Call (Analyst Meeting) Q&A Session

Date and time: November 1, 2023, 15:00–16:15

Presenters: Kenya Okushi, Representative Director, President & Chief Executive Officer
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Yasushi Miyakoshi, General Manager, Public Relations & Investor Relation

Processed Foods

(Recovery of sales volume)

Q. Regarding the scaling back of low-margin commercial-use products, which items specifically are you are targeting? Also, what are the details of your initiatives, and the timing for recovery in earnings?

A. In the process of implementing price revisions, we identified products with low prospects for earnings growth. The products for which we revised prices are based on a strategy of steadily driving growth and reinforcing the profit structure.

The main dish items subject to this latest round of sorting are primarily those with processed chicken. Since the profit structure has improved due to the price revisions, we feel that if we can increase the sales volume of those products for which we were able to revise prices, we can expect a significant increase in revenue and earnings.

We expect the effects of these measures to be most pronounced in the fourth quarter.

Q. What is the current situation for sales volume of household-use items?

A. Sales volume is increasing as a result of promotional campaigns. In the second half, we expect revenue from household-use items to increase by around 5%, and for sales volume to rise as well.

Q. Is there a risk of a resurgence in price competitiveness in response to the decline in sales volume due to price revisions?

A. We recognize that the possibility is not zero. However, it’s our belief that once we lower our prices in consideration of price competition, it will take a certain number of years to regain profitability, so we want to avoid heading down the path of competing on price. Even if price competition does occur and our sales volume drops by about 10%, because our earnings structure has improved, we believe that we will be able to maintain a certain degree of profitability without being forced to compete on price.

Q. Would you elaborate on the story of how promotional campaigns help drive recovery in sales volume of items that experienced a fall in demand due to the egg shortage?

A. Volume growth is determined by the distribution and turnover rate, and distribution of out mainstay products is extremely high compared to other Nichirei items or those of our competitors. One of our sales strategies is to maintain consistent distribution to avoid stockouts, so as a result of our response to the egg shortage of preventing stockouts by maintaining a balance between production volume and sales promotions, volume growth stagnated in the first half.

Once distribution declines, even if we conduct promotions to increase turnover, sales quantity will not rise significantly. The important point is to maintain the distribution level so that products are available in as many stores as possible, which then becomes the basis for increasing quantity. In the first half, because we were concerned that the egg shortage would impact production, we tried not to increase the volume too significantly so that distribution would not decline. Based on the fact that we maintained distribution during the first half, we believe that we can boost the sales volume for products subject to price changes, which will lead to an increase in earnings.

Q. What are your thoughts on growth in household-use sales in the next fiscal year?

A. Prior to the price revisions, household-use sales had been growing at a rate of 7~8%, so we would like to aim for a quantitative increase of 3~5%. Streamlining of the number of products has provided excess production capacity at factories, so we should be able to handle the increase in volume.

(Cost environment and pricing policy)

Q. With the recent depreciation of the yen, what are your thoughts on the future cost environment? Are you at the stage where you are considering further price revisions?

A. We recognize that further depreciation of the yen is a risk, but we conduct foreign exchange contracts, so we are hedging risks to a certain extent. However, depending on the situation, if we are unable to absorb cost increases through our own efforts, we will consider countermeasures, including price revisions.

(North American business)

Q. Do you expect further growth at InnovAsian Cuisine (ICE), considering the inflationary environment in the United States?

A. In the first half, ICE's total revenue increased because of price revisions, the same way as in Japan, but turnover fell, and sales volume decreased. At present, sales promotions have led to a recovery in volume exceeding the previous year's level. In addition, if the operating rate at Nichirei Sacramento Foods, our new production base for rice products, increases along with the rise in ICE's sales volume, this will provide a manufacturing profit as well, generating earnings growth from integrated manufacturing and sales.

Logistics

Q. With the approaching implementation in 2024 of new regulations regarding truck drivers, what are the opportunities for new customer acquisition?

A. We have received several promising leads for new customer acquisition triggered by the 2024 issue, but we have yet to conclude contracts. While there haven't been any major movements at this point, we have been making preparations that will allow us to mitigate the risk of not being able to transport goods once the new regulations are enacted, so should new opportunities emerge, we will be well placed to capture demand.

Capital Investment

Q. The capital expenditure plan was revised, with the amount for the current fiscal year reduced by ¥10 billion. You stated that the capital investment plan for the next fiscal year is currently in the review stage, but what is the outlook?

A. We had originally projected spending ¥120 billion over the course of the medium-term business plan, but we spent ¥10 billion less in the previous fiscal year, and cut ¥10 billion from the current year plan, so the current forecast is for total expenditure of ¥100 billion over the business plan period. The main reasons for the revision are a review of spending plans for greater efficiency, and delays in acquiring land for a new logistics facility. However, we believe that we will be able to respond suitably to the challenges arising from regulatory changes in 2024 with careful management, including utilizing the assets of other companies.

Risks and Opportunities for Achieving the Medium-Term Management Plan

Q. What are the opportunities and risks in the Processed Foods and Logistics segments?

A. In Processed Foods, the earnings structure was significantly disrupted by COVID-19 and the depreciation of the yen. In such a business environment, we felt that even if we increased our sales volume, we would soon reach the limit of our capacity and that profitability would not improve, so we revised our prices last year and this year. We were ultimately able to gain the understanding of our customers, and the earnings structure was restored beyond what we had anticipated.

Going forward, we see an opportunity to substantially expand earnings by enhancing the utilization rate of factories through volume growth. We believe volume growth can be achieved by leveraging our strengths in technological capabilities and our broad range of customer sales channels. We've determined that even if we face the risk of sluggish growth in sales volume, because the earnings structure has changed, we will not find ourselves in a situation where we cannot make a profit.

Further, overseas business operations are performing well for both Processed Foods and Logistics, so this also presents a significant opportunity.

End

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