Nichirei Corporation

FY24/3 Q3 Financial Results Conference Call (Analyst Meeting) Q&A Session

Date and time: February 7, 2024, 10:00–11:10
Presenters: Kenji Suzuki, Director, Senior Executive Officer, Chief Financial Officer
Yasushi Miyakoshi, General Manager, Public Relations & Investor Relations

Processed Foods

(Household-use prepared foods)

Q. Is it possible that fourth quarter standalone sales will exceed the current growth rate plan?

A. In the third quarter, sales grew by 14% on a standalone basis, broken down by 6% from unit price and 8% from volume. In the fourth quarter, we anticipate growth of 8% on a standalone basis, comprising 1% from unit price and 7% from volume. On a volume basis, we expect sales of core products to continue to expand in the fourth quarter.

(Commercial-use prepared foods)

Q. You stated that because of consolidation of items, profitability increased while revenue declined. What was the amount of revenue decrease from item consolidation, and your expectations going forward?

A. We do not disclose the amount of revenue decrease, but the items subject to consolidation were mainly processed chicken products for prepared foods. We are working to scale back the number of low-profit items from overseas OEM producers, and increase the number of high value-added products made at our own facilities. However, we will continue to sell select items that have low profitability but for which we can secure a large sales volume, so that we can restore sales volume while expanding sales of high value-added products, aiming to improve profitability.

(Overseas)

Q. In the factors for increase or decrease in operating profit (P.10 of the briefing material), the impact of results at overseas affiliated companies is an increase of ¥400 million in the fourth quarter period. Please give a breakdown of this, focusing on the North American business.

A. The increase of ¥100 million is the effect for the U.S. business as a whole. We expect a ¥100 million decrease year on year from InnovAsian Cuisine, offset by a ¥200 million increase at Nichirei Sacramento Foods.

Logistics Business

(Decline in inventory levels)

Q. Low inventory levels is an issue affecting the entire industry, but can you provide more detail, and discuss your outlook for the future?

A. In addition to the impact from the slowdown in cargo movement that has occurred so far, there are two main factors behind the downward trend in inventories. These are 1) inventory controls on the part of shippers, and 2) delays in the arrival of imported cargo due to the deterioration of the situation in the Middle East. We expect the effects of delays in imports from Europe to continue. In the past, inventory levels generally remained low in the fourth quarter due to shipments of year-end products, and picked up again in February. This time, however, we revised the full year forecast for the domestic business downward due to delays in imported cargo. For the European business, however, at present we do not anticipate any impact from delays in vessel arrival.

(Regulatory changes for truck drivers in 2024)

Q. Regarding the conclusion of new contracts, what is the quantitative effect, and the expected impact on business performance in the next fiscal year?

A. It's difficult to ascertain the quantitative effects specific to just the 2024 regulatory changes. Qualitatively speaking, however, for example, we are making proposals for transportation and delivery services to customers who have contracted only for storage services, and we've received an increasing number of inquiries from vendors and manufacturers regarding the efficiency of our logistics operations, which has led to the successful conclusion of new contracts. We also anticipate an increase in inquiries regarding joint delivery services in the wake of these regulatory changes, and we hope to take advantage of these opportunities for further growth. We expect the results from these developments to manifest as earnings from the next fiscal year.

ROIC Management

Q. How will ROIC [return on invested capital] be utilized in management?

A. In the Processed Foods business, for example, capital employed turnover ratio has been on a downward trend, but with the introduction of ROIC, awareness of inventory levels has increased. The significant reduction in low-profit products in the Marine Products business is a further result of this heightened awareness. In the Logistics business, the rate of increase in sales and NOPAT [net operating profit after tax] exceeds that of invested capital, so stable earnings growth can be achieved through determinations made from analysis of ROIC.

There are also some issues that still need to be resolved. In the Marine Products business, improving profit margins and further reducing inventories are challenges, while in the Meat and Poultry business, the capital employed turnover ratio is high, but the profit margin remains at around 1%. We are implementing structural reforms for both businesses. The Meat and Poultry business especially needs to increase its handling of chicken, where synergies can be expected with the Processed Foods business. From the standpoint of the corporate group as a whole, we feel that using ROIC to further examine our business portfolio will be an issue for the future.

End

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