Financial Strategy

We will increase corporate value by emphasizing ROIC in resource allocation and maintaining the optimal capital structure.

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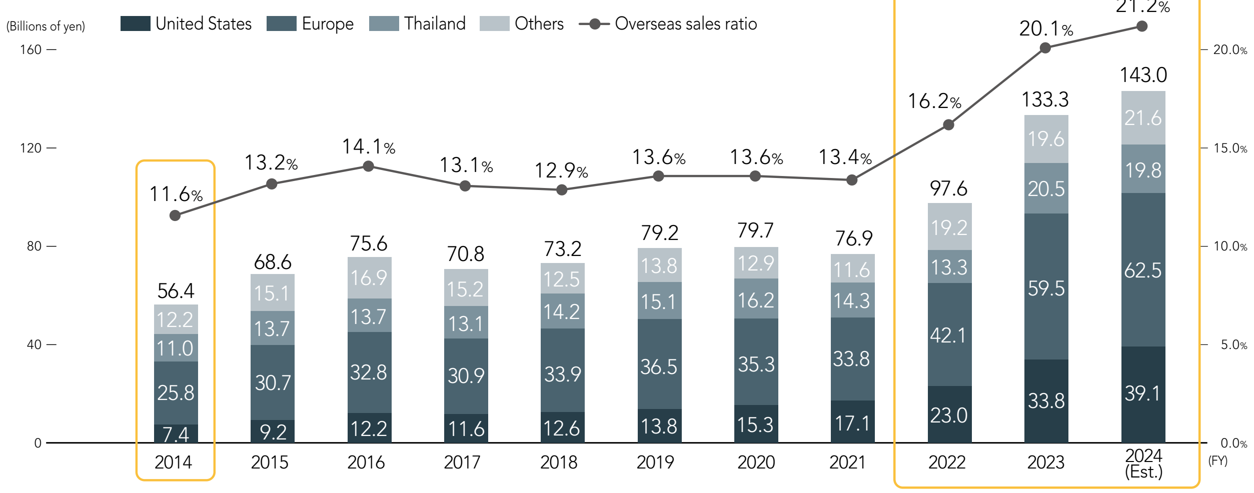
The First Year of Medium-term Business Plan Compass Rose 2024 in Review

Net sales for FY2023, the fiscal year ended March 31, 2023, were ¥662.2 billion, an increase of approximately 10% compared with the previous fiscal year, driven by the mainstay processed foods and temperature-controlled logistics businesses. Overseas sales grew substantially, increasing approximately 37% to ¥133.3 billion, partly because the impact of M&As and capital investment in the temperature-controlled logistics business in Europe under the previous medium-term business plan began to show. Operating profit increased year on year and exceeded our initial plan, but the ratio of operating profit to net sales decreased slightly due to the impact of higher costs. Profit attributable to owners of parent decreased due to a year-on-year decrease in gain on sale of investment securities.

As for the Nichirei Group's financial position, total assets were ¥457.3 billion, net assets were ¥233.5 billion, the equity ratio was 49.0%, and the debt-to-equity (D/E) ratio was 0.5 times, all of which were within expectations. On the other hand, capital expenditures fell short of the plan. At the start of FY2023, we planned to invest ¥43.6 billion during the fiscal year, but investment ultimately totaled ¥30.4 billion. In the temperature-controlled logistics business in particular, investment was ¥13.5 billion, compared with a planned ¥24.1 billion. This was mainly due to a delay in acquiring commercial land for a large-scale warehouse. In addition, planned strategic investment in environmental measures, IT/DX, brand building and other items are slightly behind schedule, and will be issues requiring attention. During FY2024, we will continue making investments for growth in our mainstay businesses and in environmental measures, among other purposes. We expect capital expenditures to total ¥47.0 billion, including expenditures for a new plant for frozen rice products in the processed foods business, a new base in Rokko, Kobe for the temperature-controlled logistics business, and the installation of solar panels. We will monitor progress to ensure that investments are executed as planned.

Nichirei Group Overseas Sales (Overseas Sales for All Segments by Region)



Exchange Rate	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (Est.)
USD/JPY	97.65	105.86	121.05	108.87	112.19	110.44	109.06	106.83	109.80	131.45	135.00
EUR/JPY	129.69	140.43	134.32	120.36	126.66	130.42	122.08	121.82	129.88	138.05	145.00

Note: Exchange rate figures are the average for the January–December period of each year.

ROIC Management

Aiming to improve capital efficiency, we are conducting business portfolio management using return on invested capital (ROIC) as a key financial indicator. Weighted average cost of capital (WACC) has been set at 4% for the Nichirei Group. Due to large-scale upfront investments, ROIC for FY2023 was 6.9%, and our plan for FY2024 is 6.7%, but the target for the final year of Medium-term Business Plan Compass Rose is 7% or higher.

In addition, we have set cost of capital and ROIC targets for each business, and by setting KPIs that break down ROIC and conducting measures to improve ROIC in each business we will widen the spread and raise the capital efficiency of the entire Group. At monthly results meetings for each operating company and quarterly Group Monitoring Committee meetings, comments on operating funds and capital expenditures are increasing, and I sense a growing awareness not only of improving profit margins but also of reducing capital employed. Regarding ROIC improvement in each business, the processed foods business has a relatively high asset turnover, so raising profit margins is an issue. Because the temperature-controlled logistics business requires substantial capital expenditures, we will aim to improve ROIC by conducting capital expenditures systematically to obtain effects from investment, and by expanding asset-light businesses such as third-party logistics and transportation and delivery. In the marine products business, we are planning for a decline in sales during Compass Rose as we cut back on products with low profitability and revise the product mix for a more stable earnings structure while increasing the efficiency of inventory assets to transform marine products into a more streamlined, robust business.

Business Portfolio Management Using ROIC

Group Total	FY2023 Results	FY2024 Plan	FY2025 Targets
ROE	9.9%	10% or higher	
ROIC	6.9%	6.7%	7% or higher Consistently above 4.0% of WACC
NOPAT[1]	¥23.4 billion	¥24.1 billion	
Capital employed	¥339.1 billion	¥358.1 billion	
NOPAT ratio	3.5%	3.6%	
Capital employed turnover	2.0 times	1.9 times	

	Simple ROIC[2]			Measures to Enhance ROIC
	FY2023 Results	FY2024 Plan	FY2025 Targets	
Processed Foods	8.5%	9.3%	12% or higher	• Improve profitability (Adjust prices, strengthen sales in strategic categories and for new value-added products)
Logistics	7.7%	7.3%	7% or higher	• Conduct systematic capital investment and realize tangible investment results • Expand asset-light businesses, including third-party logistics and transportation and delivery
Marine Products	3.5%	5.7%	6% or higher	• Reduce volume handled in low-profitability categories • Strengthen overseas sales
Meat and Poultry Products	13.8%	23.0%	25% or higher	• Improve profitability by strengthening processing and product development functions • Expand sales of differentiated products
Biosciences	8.9%	5.1%	5% or higher	• Concentrate resources in growing field of molecular diagnostic agents • Achieve stable growth for immunochromatographic diagnostic agents

1. Net operating profit after tax (NOPAT) = Profit before income taxes excluding interest expense and share of profit/loss of entities accounted for using equity method x [1 - Effective tax rate] + Share of profit/loss of entities accounted for using equity method
2. Simple ROIC = Operating profit after tax ÷ Main capital employed (Operating funds + Non-current assets)

Financial and Investment Strategies

We use the D/E ratio as a KPI from the perspective of balancing financial soundness and capital efficiency. Our benchmark level is a D/E ratio of around 0.5 times, which will enable us to maintain our credit ratings and ensure the capacity to make large-scale investments and secure loans.

Keeping in mind a balance between economic rationality and stability in fund procurement, we have set standards for both the short-term to long-term ratio and the direct to indirect financing ratio. In this way, we endeavor to diversify funding sources and methods so we can respond to sudden changes in the financial environment.

During the three years of Compass Rose, we expect to generate ¥142.0 billion in operating cash flow and to make ¥120.0 billion in capital expenditures. Although investment fell behind schedule in the first year of the plan, we will resolutely allocate resources to growth investments, overseas expansion, new businesses, environmental measures, DX promotion and other purposes initially earmarked to achieve sustainable growth and improve our corporate value over the medium to long term.

Financial Strategy

Three-year cumulative

Operating cash flow (Three-year cumulative): **¥142.0 billion**

Increase/decrease in borrowings, etc.

Capital expenditures: ¥120.0 billion

- Continue growth investments in mainstay businesses
- Expand investment for environmental measures

Shareholder returns: ¥24 billion or higher

- Continue stable dividend increases with target DOE of 4.0%
- Flexibly conduct stock buybacks

Flexible investment and loans

Consolidated Cash Flows

(Billions of yen)

	FY 2017	2018	2019	2020	2021	2022	2023
Cash flows from operating activities	40.8	29.9	31.3	39.4	45.5	34.7	37.9
Cash flows from investing activities	(11.4)	(20.3)	(17.9)	(24.3)	(32.2)	(26.0)	(26.8)
Cash flows from investing activities ÷ Cash flows from operating activities	28%	68%	57%	62%	71%	75%	71%

Policy on Shareholder Returns

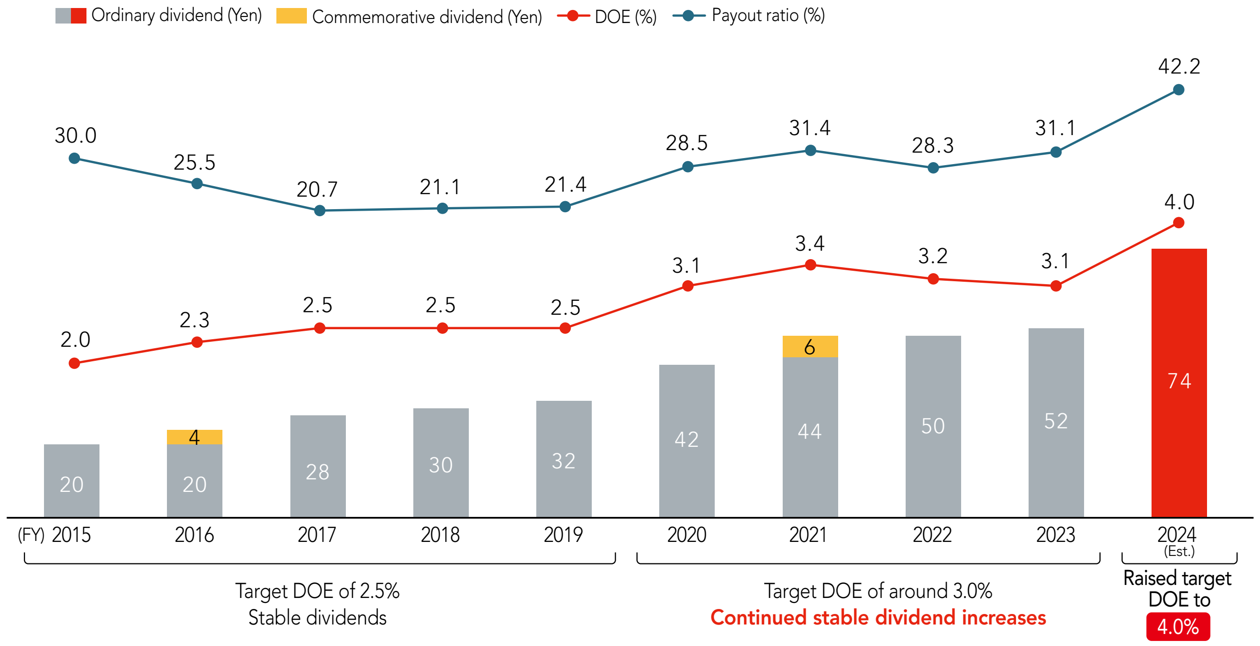
Our basic policy on shareholder returns is to maintain stable dividends and to flexibly conduct stock buybacks. For dividends, our criterion since FY2007 has been to use a dividend-on-equity (DOE) ratio to return a certain percentage of the balance of shareholders' equity. Shareholders receive stable cash income, and dividends continue to increase steadily in line with equity increases.

In FY2024, we raised the target DOE ratio from 3.0% to 4.0%. There are two reasons for this: to further improve capital efficiency and to demonstrate our commitment to maintaining the profit level. Moreover, we aim to make Nichirei more attractive to individual shareholders, as they account for a smaller proportion of Nichirei's shareholders than they do at other companies in the food products sector.

We will continue to consider stock buybacks after comprehensively taking into account our capital structure, funding needs, stock price and other factors.

Shareholder returns are an important aspect of management policy. While allocating cash flows generated from our mainstay businesses to growth investments, we will steadily and continuously increase shareholder returns.

Shareholder Returns



Stock Buybacks and Retirement

(Thousands of shares)

	FY 2011	2012	2013	2016	2017	2018	2022	2023
Acquired	2,351	5,149	4,426	567	4,718	4,328	3,810	1,826
Retired	–	–	7,500	–	–	8,000	6,034	–

Note: Figures adjusted to reflect consolidation of shares on October 1, 2016.

Strengthening the Management Base and Disclosure

Strengthening the Group's management base and maintaining dialogue with stakeholders are two of our key roles as the holding company. We make it clear within the Company that remaining aware of and fulfilling these roles in daily work will lead to improvement in corporate value.

I feel that dialogue with investors and analysts in the capital market and enhancing disclosure will grow in importance. Earning trust from the market through dialogue with stakeholders reduces volatility, leading to lower cost of capital.

ESG investment has been on the rise in recent years, and by properly disclosing the Nichirei Group's targets and performance in addressing climate change and explaining the details of its initiatives to investors, we will be positively evaluated by ESG investors and selected for ESG indexes. The same is true of our sustainable supply chains. Formulating and implementing a human rights policy enables business partners to evaluate us based on global standards, thus helping to stabilize sales and costs. Building intangible assets works the same way: We strengthen our foundation for sustainable growth by investing in human capital and intellectual property while remaining mindful of their connections to management strategies and management issues.

The Nichirei Group has set an overseas sales ratio of 30% and ROIC of 9% or higher in its long-term management goals toward 2030. Investors are very interested in medium- to long-term returns, so clear disclosure of specific measures and KPIs is crucial. For example, along with disclosing profitability and efficiency data, I believe that providing well-reasoned growth stories to explain initiatives such as our overseas business expansion will be a factor in increasing our price-earnings ratio.

In particular, we will step up our IR activities and present the Nichirei Group's initiatives in an easy-to-understand manner to gain stakeholder trust and raise their expectations for our further growth.