

# Business Strategy

## Processed Foods Business



Nichirei Foods Inc.  
<https://www.nichireifoods.co.jp/en/corporate/>

### President's Message



**Masahiko Takenaga**

Director, Executive Officer, Nichirei Corporation  
 President, Nichirei Foods Inc.

### Progress of Medium-term Business Plan WeWill 2021

#### Medium-term Business Plan Main Measures

- Create new business opportunities
- Expand existing business areas

In the processed foods business in FY2021, household-use frozen foods performed strongly as the COVID-19 pandemic led people to eat at home more frequently to avoid going out. On the other hand, commercial-use sales decreased in an extremely severe environment due to the state of emergency and other restrictions in Japan, mainly in urban areas.

Operating profit increased due to factors including improved productivity at domestic factories resulting from the sales growth of household-use products, a decrease in general and administrative expenses, and rapid progress at our U.S. subsidiary InnovAsian Cuisine Enterprises Inc.

As a new lifestyle has become established, we have been able to capture brisk demand for eating at home by enhancing our mainstay products such as cooked rice and chicken, speedily launching products that meet rapidly changing food needs and increasing production capacity in Japan and overseas.

### Net Sales and Operating Profit by Business Category

(Billions of yen)

Processed Foods Business	FY2021			FY2022 Plan		
	Result	YoY		Forecast*	YoY	
		Variance	% Change		Variance	% Change
Net Sales	225.5	-9.3	-4%	243.0	17.5	8%
Household-use Prepared Foods	70.3	5.5	8%	76.5	6.2	9%
Commercial-use Prepared Foods	86.8	-12.7	-13%	95.0	8.2	9%
Processed Agricultural Products	20.0	0.2	1%	20.5	0.5	3%
Overseas	34.8	0.0	0%	37.0	2.2	6%
Others	13.5	-2.3	-15%	14.0	0.5	4%
Operating Profit	17.2	0.4	3%	17.6	0.4	3%

\* As of August 3, 2021

## • Business Scale

- Total assets: ¥138,592 million
- Group companies: 21 companies (6 in Japan, 15 overseas) and Nichirei Technology Development Center (R&D Department)
- Employees (consolidated): 9,588
- Food production factories: 19 facilities (15 in Japan, 4 overseas)

## • Main Production Facilities

Mori Plant, Shiroishi Plant Yamagata Plant, Funabashi Plant, Kansai Plant, Kyurei Inc., CHUREI Co., Ltd., GFPT Nichirei (Thailand) Co., Ltd., Surapon Nichirei Foods Co., Ltd.

## • Main Products



Use of frozen foods as ingredients for home cooking has increased, and the market for frozen vegetables grew a substantial 23% year on year in terms of sales. In addition, new needs have arisen as time spent cooking at home has increased. There is a stronger preference for products fried in oil such as minced meat cutlets and croquettes, and there is now greater demand for larger-sized products that can be stored longer now that people are shopping less frequently. For commercial-use products, the markets for delicatessens and for hospitals and senior care facilities are expected to grow, and a chronic labor shortage is expanding opportunities for greater use of frozen foods in meals. For example, expectations are high for the rollout of products that reduce the burden of food preparation, such as meal kits that combine vegetables, meat, fish and sauce.

As these changing needs break down the barriers between the conventional household-use and commercial-use business categories, our focus in FY2022 will be on creating new business opportunities and expanding existing business areas.

## • Advantages of Nichirei Foods Inc.

Our major advantage is our processing and production technologies, which are dedicated to reproducing the deliciousness of meals made by hand or by professional chefs. How we address consumer changes to create new business opportunities that utilize this advantage will be the key to further increasing the value of frozen foods in Japan's rapidly changing macro environment. In addition to efforts in our existing business areas, we will work hard to develop products and provide value in a wide variety of industries.

However, we are aware that we have not been fast enough in our response to change. That is why we established two new departments in spring 2021: Marketing, to integrate promotion and branding, which had been conducted separately for household-use and

commercial-use products; and Product Development, to establish a structure for rapid response to diversifying needs. Going forward, we are acutely aware of the need to conduct product development that leads to new value for consumers, even when proposing commercial-use products in areas such as delicatessens, hospitals and senior facilities. Examples include products that are healthy, nutritious and offer consumers the quality of well-known restaurants.

Many companies have entered the frozen food industry during the COVID-19 pandemic and competition is intensifying. As a pioneer in frozen foods, we aim to improve our brand value by fully leveraging our drive to pursue deliciousness, product development capabilities, industry-leading production capacity and diverse customer base.

## • Overseas Strategy

Outside Japan, we intend to further expand our market share in the United States and to enhance our product development functions and increase product value in China and Brazil.

InnovAsian Cuisine Enterprises Inc. of the United States aims to expand its market share with the launch of new household-use products and effective sales promotion activities. It is also considering establishing in-house production functions.

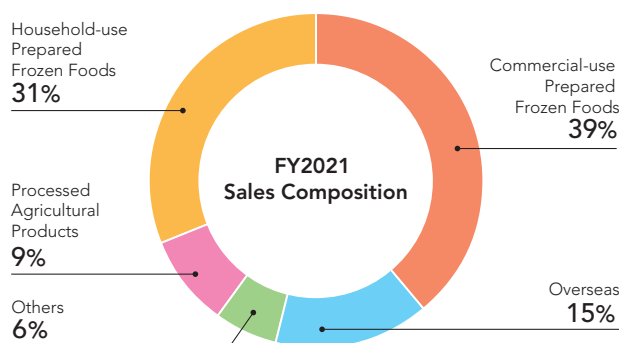
In China, we have established a new product development center as part of our growth strategy for internal sales, and aim to differentiate our products from the design stage through joint development with customers by industry category.

In addition, in Brazil we aim to increase sustainable value in our acerola business from the cultivation stage. Acerola has gained a positive reputation in the globally growing "clean label" market as a natural source of vitamin C with a strong antioxidant effect. We will work to expand this business, mainly in markets outside Japan.

# Processed Foods Business

## • Business Details

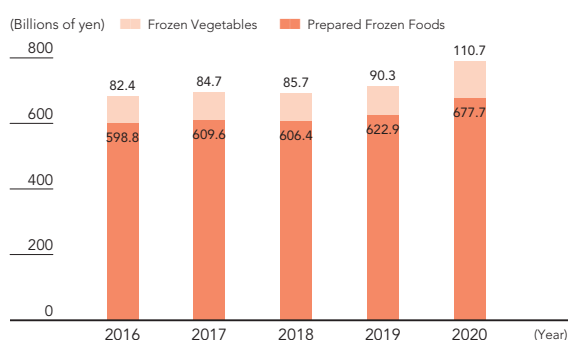
Nichirei Foods Inc. provides frozen foods (household-use and commercial-use), retort pouch foods and wellness foods that utilize the company's unique capabilities in product development and quality assurance. Our frozen foods business in Japan is characterized by high market share for chicken, processed rice products, frozen vegetables, and spring rolls in both the household-use and commercial-use categories, and the large number of commercial-use products handled for the home meal replacement (HMR) and delicatessen categories. Our overseas business is focusing on the development and sale of Asian food products in North America.



- Household-use Prepared Frozen Foods**  
 Main sales outlets:  
 Volume retailers, drug stores and convenience stores
- Commercial-use Prepared Frozen Foods**  
 Main sales outlets:  
 Volume retailers (delicatessens), convenience stores, restaurants and food services

## • Market Environment

### Household-use Frozen Foods Market Scale



Source: Market scale calculated by INTAGE Inc. SCI consumer panel (Spending per 100 people (age 69 and under) at retail outlets only (all industry categories))

### Sales Ranking of Frozen Food Manufacturers (Billions of yen)

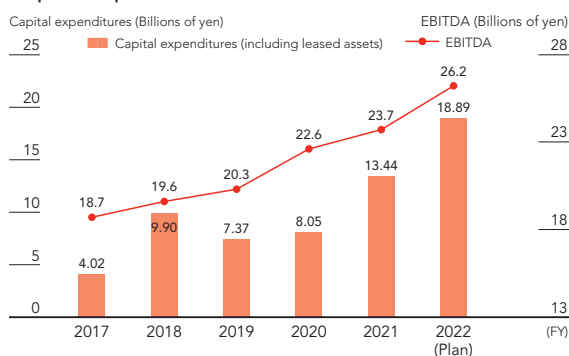
	FY2020		FY2021		Household-use: Commercial-use ratio
		YoY		YoY	
Nichirei	229.6	2.3%	220.2	-4.1%	45 : 55
Company A	211.2	-0.8%	198.2	-6.1%	65 : 35
Company B	193.4	4.0%	193.9	1.3%	56 : 44
Company C	179.8	0.9%	174.5	-2.9%	36 : 64
Company D	108.0	-2.7%	99.1	-6.8%	63 : 37

Source: *Reishoku Nippo*, Shokuhin Sangyo Shimbunsha Co., Ltd

## • Capital Expenditures

- Expected 9% compound annual growth rate (CAGR) for EBITDA over three years
- Invested in labor saving to improve productivity, the environment and other areas in addition to investments for growth
- Between March 2017 and March 2021, production capacity increased more than 10% in Japan and more than 40% overseas

### Capital Expenditures and EBITDA



Note: The plan for FY2022 reflects figures announced on May 11, 2021

## Close Up

## Nichirei do Brasil Agricola Ltda. Receives Gold Rating in EcoVadis Sustainability Assessment (2021)

Nichirei do Brasil Agricola Ltda. ("Niagro"), a Nichirei Foods subsidiary in Brazil, received a gold rating in the 2021 sustainability assessment by EcoVadis, placing in in the top 5% of all companies that underwent the assessment. For five consecutive years starting in 2016, EcoVadis, a leading global organization providing supply chain sustainability assessments, had given Niagro a silver rating for its ongoing initiatives in the areas of the environment, labor and human rights, ethics, and sustainable procurement. Niagro's received its first gold rating in 2021 as a result of its high scores in the ethics category for its steady activities in line with its code of conduct, and in the sustainable procurement category for educating contract farmers about cultivation and conducting CSR training.



## Participation in the Japan Project of the "10x20x30" Food Loss and Waste Initiative

Nichirei Foods is participating in the Japan Project of the "10x20x30" Food Loss and Waste Initiative, a movement by retailers and food manufacturers worldwide to reduce food loss and waste. Advocated by the World Resources Institute (WRI), a U.S. think tank that conducts policy research and develops technologies at the intersection of the environment and human development, the 10x20x30 initiative brings together 10 of the world's biggest food retailers and providers to each engage with 20 of their priority suppliers with the aim of halving rates of food loss and waste by 2030.



### Initiatives at Nichirei Foods' Factories in Japan

In joining the 10x20x30 Japan Project, Nichirei Foods set a target for FY2031 to reduce animal and plant residues per unit of production at domestic food factories by 50% compared with FY2020. We also aim to maintain a recycling rate of at least 99% for waste (including non-food items) at all business sites in Japan. To achieve these targets, we are working to reduce the amount of waste generated by revising production processes and product designs, to donate as food what we previously disposed of as waste, and to conduct recycling, including conversion to animal feed and industrial products.