

Marine, Meat and Poultry Products Business

Nichirei Fresh Inc.
<https://www.nichireifresh.co.jp/en/>

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 Representative Director, President, Nichirei Fresh Inc.



Net Sales and Operating Profit

(Billions of yen)

		FY2023			FY2024		
		Results	vs. Previous Year		Plan	vs. Previous Year	
			Increase (Decrease)	Growth Rate		Increase (Decrease)	Growth Rate
Marine products	Net sales	69.0	1.3	2%	50.0	(19.0)	(28%)
	Operating profit	1.0	0.0	(1%)	1.0	0.0	5%
Meat and poultry products	Net sales	85.8	5.5	7%	85.0	(0.8)	(1%)
	Operating profit	1.0	(0.2)	(18%)	1.6	0.6	67%

Basic Strategies



Progress of Medium-term Business Plan Compass Rose 2024

Nichirei Fresh creates social and economic value by helping resolve social issues using its long-established relationships of trust with procurement partner companies, its processing technology capabilities, and its sales force in Japan and overseas, which serves as a link between production areas and customers.

In the Japanese market in FY2023 (the fiscal year ended March 31, 2023), home meal replacement (HMR) and restaurant demand gradually recovered,

and sales increased in both the marine products business and meat and poultry products business due to sales volume expansion and the effects of price adjustments. Operating profit decreased as we were unable to fully respond to the rise in procurement prices, especially in the meat and poultry products business. We will restore profitability in FY2024 as we steadily implement the measures set out in Compass Rose 2024.

Marine Products Business

In Japan, in addition to ongoing market contraction, a further decline in consumption is expected going forward as intensifying competition for marine resources drives up market prices worldwide. In FY2023, our profit margins declined in Japan as we were unable to fully reflect the rise in procurement prices in our selling prices. On the other hand, demand remained high overseas, and by capturing that demand we increased overseas sales and profit, enabling the marine products business overall to achieve its targets.

In FY2024, we will further expand our long-established business of handling marine products that have been certified for sustainability (MSC,¹ ASC² or other certifications) and eco-friendly products. To improve profitability, we will drastically reevaluate the low-profit products we have been handling and make a major shift to highly profitable products with high growth potential, in which we have an advantage. At our own plants, we will also review the items we handle and raise production efficiency. To improve ROIC, we will select and concentrate on product categories based on rising procurement costs and reduce capital used, including low-profit inventory assets.

Meat and Poultry Products Business

In FY2023, we achieved our net sales target as a result of growth in processed products for HMR and restaurants and in imported frozen products, as well as increased sales of premium ingredients, mainly meat products with health value. However, selling price adjustments were unable to cover the rapid rise in production costs due to soaring feed prices and other factors. The result was a decline in operating profit. In addition, due to a slump in demand for eating at home and the impact of avian influenza, the volume of meat packaged for mass retailers by the processing business decreased significantly.

Improving profitability is an urgent matter for the meat and poultry products business. In FY2024, we will respond appropriately to increases in procurement prices while working to rapidly transition to a stable profit base by shifting to sales of high-value-added processed products and improving capacity utilization at our production facilities. Moreover, we will refine our various distinctive brands of premium ingredients that originate in Japan, including the *Amani-no-Megumi* series and *Gomanten* pork, which are meat products with health value, and sustainable *Junwakei* chicken. Expanding sales of these products, including online sales, will improve profitability.

Overseas Business Strategy

We will continue to expand overseas sales of marine products, which is a growth area. The market for Japanese food continues to grow worldwide, and a series of *kaiten-zushi* (conveyor belt sushi) shop chains and other Japanese restaurants have been opening outlets overseas. To meet their needs, particularly in North America and China, we will expand sales of products from Trans Pacific Seafood Co., Ltd., our processing base in Vietnam. In North America, we will ramp up sales to local retailers in addition to expanding sales to our current customers. In China, we will expand sales by enhancing synergy among our three local affiliates.

Although overseas sales of our meat and poultry products are still small, we will review our organization and build up our sales force, ultimately making inroads into local sales in ways such as exporting meat products with health value, Japanese beef and other Japanese products in coordination with our overseas bases.

Progress of Material Matters for the Group

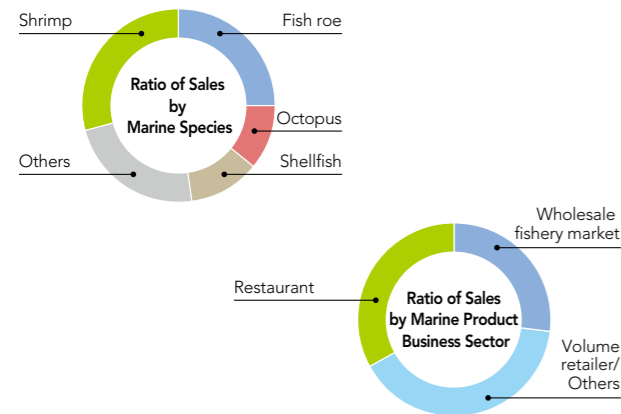
For creating new value in food and health, in addition to expanding sales channels for meat products with health value such as the *Amani-no-Megumi* series, we will proactively develop processed products using these products as ingredients with the aim of increasing sales. In FY2024, we will begin full-scale sales of *Gomanten* pork, which contains sesamin, a functional ingredient derived from sesame, as another new meat product with health value, and *Miraikura* cholesterol-free imitation fish roe.

For the material matter of realizing sustainable food procurement and a circular economy, we will conduct procurement and other initiatives based on the Nichirei Group Sustainable Marine Product Procurement Guidelines, which were established in April 2023. We are increasing the proportion of marine products with MSC, ASC or other globally recognized certifications that we handle, with a target of 50% by 2030. At the same time, we will work to expand sales of shrimp products procured from the *Inochi-no-Mori-Project* and the *Inochi-no-Umi-Project*, two of our in-house initiatives. To address human rights risk in our supply chain, we will cooperate with suppliers and work toward improvements through on-site visits and analysis of questionnaire results.

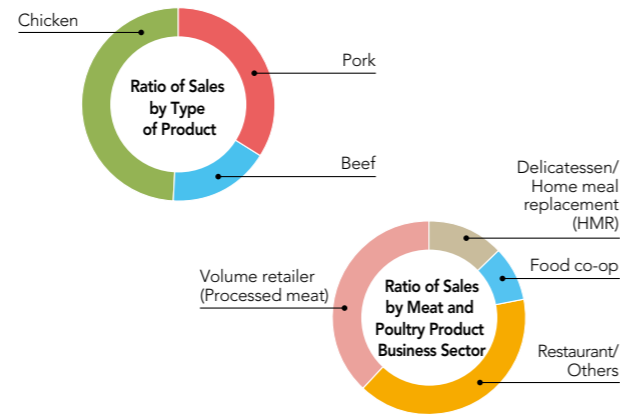
1. Marine Stewardship Council (MSC) certification requires that wild seafood has been caught using methods that do not deplete the natural supply.
 2. Aquaculture Stewardship Council (ASC) certification requires that marine products have been cultivated in a sustainable manner.

Business Details (FY2023)

Marine Products Business



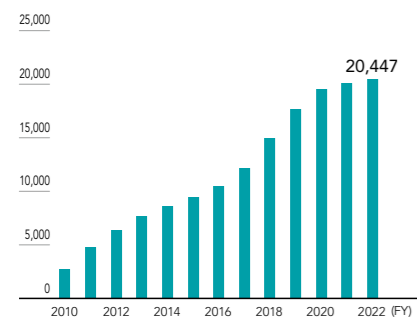
Meat and Poultry Products Business



Market Environment

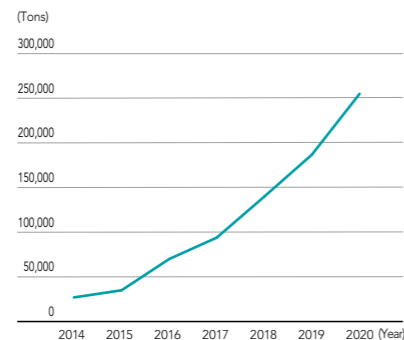
Number of MSC-labeled Products for Consumers Distributed Worldwide

(Number of items with sales reported during the fiscal year)



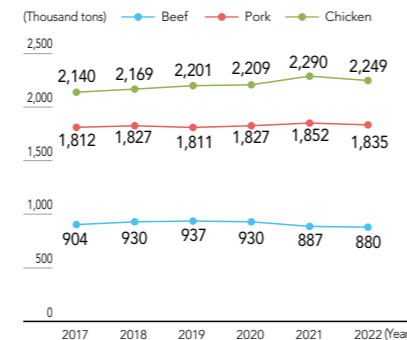
Source: Marine Stewardship Council (MSC)*

ASC Marine Products Sold Worldwide by Weight



Source: Aquaculture Stewardship Council (ASC)

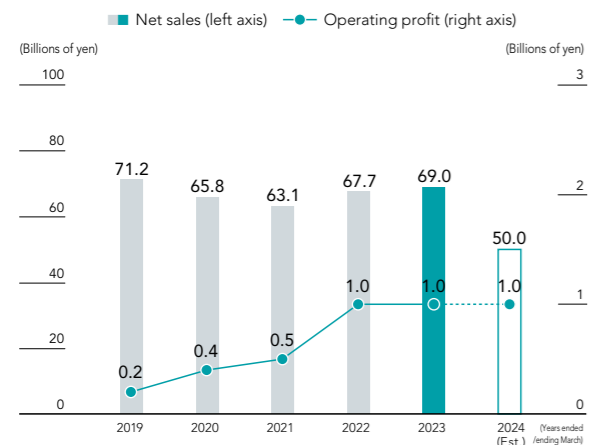
Meat and Poultry Product Consumption in Japan



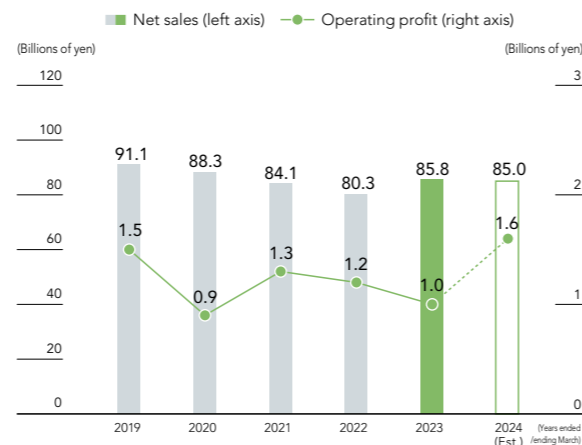
Source: Prepared by Nichirei Fresh based on "Supply and Demand for Livestock Products" in domestic statistical materials on meat and poultry products (cattle, pigs, chickens) from Agriculture & Livestock Industries Corporation

Net Sales and Operating Profit

Marine Products Business Net Sales and Operating Profit



Meat and Poultry Products Business Net Sales and Operating Profit



*MSC (2021) Supplementary Information to the MSC Annual Report 2021-22. Marine Stewardship Council, London, UK. https://www.msc.org/docs/default-source/default-document-library/about-the-msc/msc-annual-report-2021-2022-supplementary-informationdata.xlsx?sfvrsn=c40a294_6 (Downloaded on August 3, 2023)

Material Matter 1 Creating New Value in Food and Health

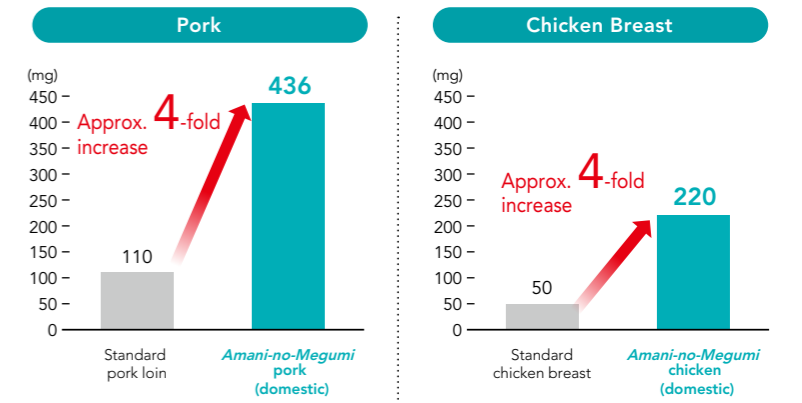
Promoting the Business of Meat Products with Health Value

Nichirei Fresh conducts research and development of meat products with enhanced health value. By giving chickens, pigs and cattle* a formula feed with the ingredient flaxseed, which contains the nutrient α -linolenic acid, the company has developed tender and juicy meat abundant in this nutrient. This meat is sold as the *Amani-no-Megumi* series.

In addition, Nichirei Fresh has begun full-scale sales of *Gomanten*, a new meat product with health value containing sesamin, a functional ingredient derived from sesame that is not normally found in meat. This is the result of adding sesame to pig feed.

Nichirei Fresh will continue to support health management and balanced diets through meat products for everyday meals.

Comparison of Amount of Omega-3 Fatty Acid (α -linolenic Acid) That the Body Can Absorb from 100 Grams of Meat



Source: Nichirei Fresh study



* There are individual differences among cattle.

Material Matter 2 Strengthening Food Processing and Production Technology Capabilities

Overseas Sales Expansion from Our Processing Base in Vietnam

Trans Pacific Seafood Co., Ltd., which operates Nichirei Fresh's processing plant in Vietnam, produces a variety of processed marine products to meet customer needs. We will expand the business by increasing the plant's production capacity to produce products that have been processed to different degrees.

Expansion of sales of these products will encompass North America and China as well as Japan. As the COVID-19 pandemic subsides, Japanese food service companies are ramping up their overseas expansion. Using our current customers in Japan and the products we sell there as a foothold, we will develop products rooted in local cultures overseas while consistently taking market needs into account in offering new products and expanding sales.

Note: The plant has obtained certification under the BRCGS Global Standard for Food Safety and the Marine Stewardship Council Chain of Custody Standard.



Exterior view of the plant

Expansion of overseas sales

MSC-certified crab products