Nichirei Corporation

FY18/3 Financial Results Briefing Summary of Q&A Session

（May 9, 2018, Tokyo）

Nichirei Group Overall

Q. What is the policy on earnings for the Nichirei Group overall? Not long ago you were talking about maintaining a minimum ROE of 10%, but looking at the results for FY18/3, ROE is gradually declining. Taking the long-term view, unless the operating profit margin is around 6-9%, I don't think ROE of 10% is sustainable. What is your thinking regarding the profit growth rate going forward, including the next medium-term management plan?

A. Our target of maintaining double-digit ROE is unchanged. Of the three elements comprising ROE (profit margin, turnover rate, and leverage), we focus first on enhancing profitability, and then increasing asset efficiency. A large investment project requires the use of leverage, but since our financial condition has improved, our reserve force is sufficient.
Earnings growth over the last few years has led to accumulation of capital, and we think this is one of the reasons for the gradual decline in ROE. Based on this understanding, we will continue to conduct management with a focus on capital efficiency. In the medium-term management plan (FY2016–2018), the operating profit margin for the group overall is a bit over 5% on average, and over the longer term we of course are looking to raise that to 6-8%. We are certainly not satisfied with the current status of just over 5%.

Q. You're forecasting a ¥1 billion increase in system-related expenditures in FY19/3. Is it correct to think of this as a temporary increase?

A. System expenditures comprise depreciation and outsourcing costs related to upgrades to the corporate group's core system. The old and new systems will be operating in parallel for a certain period during FY19/3, so this is increasing expenditures, but we expect a gradual decline from the next fiscal year and beyond.

Processed Foods

Q. You've stated that you're aiming for an operating profit ratio of 8-10% over the longer term, but what is the timeline for that? Should we expect 8% in the next medium-term plan? Also, would you explain your policy regarding the marginal profit ratio in a little more detail?

A. Unfortunately we're not able to give a response regarding the timeline. In terms of raising the marginal profit ratio, the contribution from our strategic categories of processed chicken products and rice products will be essential. That is because the market scale for these categories is huge, and is expected to grow in the future. Also, the expertise and other capabilities that Nichirei has accumulated in these categories are highly regarded. We also have the advantage of a strong customer base. Accordingly, we will continue to invest management resources in both categories, with the expectation that they will be sources for generating earnings.

Q. The top line for household-use prepared foods grew by 9%, but the forecast for FY19/3 is for slowing growth to 5%. You've explained that this is due to mainly to the settling down of sales from the new *Tokukara* series launched last spring, but sales of fried rice continue to rise. Your forecasts seem a little conservative.

A. We anticipate continued growth for rice products during FY19/3. We expect revenue increases for the Tokukara series this fiscal year as well, but see the rate of growth as slowing as sales settle after the initial launch. At the same time, processed chicken and rice products are the core of our category strategy, and we will continue to focus on expanding sales, including for the new Precut! Salad Chicken launched this spring.

Q. Sales of commercial-use prepared foods fluctuated by quarter during FY18/3. Is the business environment changing as a result of more intense competition?

A. One of our major customers conducted a large-scale campaign in the first half of FY18/3, so while figures were good in the first half, there was a rebound decline in the second. Also, snow damage had an impact in the fourth quarter, resulting in harsh conditions not just for Nichirei, but the entire market. Overall, the market for commercial-use prepared foods has reached bottom, and is trending toward recovery. The growth rate is not so high, but going forward we anticipate growth of around 1-2% annually.

<u>Logistics</u>

Q. The main measures for FY19/3 are expanding cargo pickups and countering rising costs, but looking at the factors for variation in operating profit, the effects don't seems to be materializing.

A. The effects from measures centered on regional storage are emerging in the factors for increase/decrease in operating profit, such as "Effect on results from increase in cargo collection" and "Operational improvements." In FY19/3, however, the impact from higher costs will be greater, mainly in transport/delivery costs and electricity fees, so compared to the previous fiscal year we expect the gains to be smaller.

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