

FY19/3 Financial Results Briefing Summary of Q&A Session

(May 15, 2019, Tokyo)

Nichirei Group Overall

Q. I'd like to ask the president, is there any particular area you'd like to address during your term? If so, what are the main points?

A. There are various ways to approach this, but one thing I'd like to do is change our earnings structure.

Profitability in Japan's frozen foods and temperature-controlled logistics industry remains fairly low compared to the foods industry overseas or other industries in Japan. Long-term deflation has probably had an effect, but going forward the social structure is expected to change considerably, and I think we will see further increases in demand for processed foods and logistics. At the same time, a variety of cost increases can be expected amid this business environment, and along with the conventional measure of cost reductions, a major issue going forward will be how to change the earnings structure. I think we are at that turning point.

Accordingly, we need to shift to a structure that allows us to provide the high value-added products and services customers need, at a fair price. In this new business plan, we are actively pursuing research and technology development to accomplish this.

Processed Foods

Q. In the new business plan, you are forecasting 5% growth in net sales. How do you plan to accomplish this?

A. The market environment is evolving toward more meals prepared/eaten outside the home. At the same time, expectations are increasing for the frozen foods industry to provide both shorter prep times and good taste, as well as to conduct operations with minimal personnel. We anticipate continued expansion in demand.

Up to now, household-use products have been highly processed, while commercial-use products were less processed, requiring a bit a time and preparation before being provided to the customer. Recently, however, these needs are increasingly reversed. Nichirei has a strong position in both household-use and commercial-use products, and since we have considerable know-how and technologies in these areas, we see such trends as an opportunity.

In this regard, how to add value in frozen foods is of course extremely important. In the household and commercial products we've created up to now, particularly processed chicken and rice which we have focused on as strategic categories, I think that by adding value we've been able to generate greater demand. Over the next three years, I want to focus on how we add value, and by expanding investment, boost revenue and earnings.

Q. Previously you mentioned aiming for an operating margin of 10%, but in this plan the target is 7%. What measures will you take over the next three years toward achieving this 10% target?

A. The ultimate goal is 10%, but over the next three years we plan to precisely achieve an operating margin of 7.1%, and use this as one of our footholds toward reaching the 10% target.

Q. Adapting to changes in the business environment and rising costs are issues for the company. What are your specific measures in these areas over the next three years?

A. Labor costs at production facilities are rising considerably, so we are pursuing automation and mechanization. At GFPT Nichirei in Thailand, up to now fluctuations in the market price of chicken has had a considerable impact on earnings. We will improve the earnings structure by expanding the No. 2 plant, and increasing the proportion of more highly processed products.

Q. Regarding the plan for more than ¥40 billion in capital expenditures, please explain in a little more detail what this comprises.

A. This includes the factory expansion at GFPT Nichirei I mentioned a moment ago, as well as proactive investments in Japan for mainstay categories. We will also introduce production facilities to enhance productivity, and create new value. In addition, we need to make investments in cutting CO₂ emissions as an environmental measure.

Logistics

Q. You are implementing measures to enhance added value in logistics, such as the innovative third-party logistics (3PL) you described. Please explain this a bit further.

A. An increasing number of companies are becoming unable to handle shipping because of personnel shortages or the need to comply with regulations. One of the ways we are addressing this situation is with further advancements in the consolidated shipping arrangements we have been pursuing up to now. Acting as coordinator, we combine shipments in a project style. We want to expand this further.

Another measure is to take the non-asset 3PL we have accumulated, combine this with our other assets, and partner with other firms to capture demand and achieve further growth. During the period of this new business plan, we want to put in place a platform able to provide a one-stop service with the same quality level using the assets of other companies as when we use our own.

Q. In the business plan, the EBITDA margin is basically flat. Will there be any opportunities to increase the margin over this three-year period?

A. We want to expand the EBITDA margin in the future. Logistics needs are rising, and our market share is around 10%, so there is still room for growth. We will continue to strengthen our one-stop service, including storage and transport.

Also, while we have revised certain charges for transport and transfer centers, over the next three years we will take steps to normalize charges for temperature-controlled storage, which we have yet to address. Rather than surcharges for electricity rates or transport costs, we are planning to do this with charges proportionate to quality and cost.

End

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