Nichirei Corporation

FY20/3 Q2 Financial Results Briefing Summary of Q&A Session

(November 6, 2019, Tokyo)

Group Overall

Q. President Okushi, it's now been six months since you assumed your present roll. Would you summarize the response and current issues?

A. Earnings have been mostly in line with plan, driven by the Processed Foods and Logistics segments. However, in terms of enhancing the collective strengths of the corporate group, the Marine Products, Meat and Poultry, and bioscience business in the Other segment have struggled during the current term.

The food business in Japan is changing substantively. We will utilize our advantage in production, while also strengthening our technology development and planning/solutions capabilities, to further enhance our customer responsiveness. Outside Japan, the Asian foods market in the United States is growing. We will delve deeper and expand in this category, and increase our sales.

For the Marine Products and Meat and Poultry segments, we will shift from quantitative expansion, and increase profitability by raising the level of processing, and providing added value.

Processed Foods

Q. Please explain the reasons for the positive performance in household-use prepared foods, and growth in commercial-use prepared foods during Q2.

A. In household-use prepared foods, we posted double-digit growth for *Honkaku-itame Cha-han* (Authentic Fried Rice) and the *Tokukara* series, but the main factor was how we managed to bring out the best taste. For *Honkaku-itame Cha-han*, for example, it has been difficult to mass produce a product that would provide an authentic professional flavor when prepared in a microwave, but persistent research by our technology division made it possible.

For commercial-use prepared foods, the home meal replacement (HMR) market has grown steadily, mainly for processed chicken. During Q2 we completed a delivery to a major user, which led to the growth in sales.

We have invested considerable management resources in product development for rice and processed chicken products, including R&D and equipment, and this has generated results. We will remain tightly focused on these areas going forward.

Q. What are the main reasons for the forecast earnings decline in the second half?

A. The main factors are shown on Page 8 of the presentation material. Results at affiliated companies improved from the second half of the previous fiscal year, but that cycle is complete, and the currency exchange rate for the Thai baht has risen around 7% compared to the same period of the previous fiscal year, and we are anticipating a negative impact. Also, the market price in Thailand for chicken byproducts rose during the first half and selling prices were higher from the previous term, but we expect this to settle lower in the second half. We also anticipate an increase in depreciation.

Logistics

Q. What the status of supply and demand for storage, and progress with setting appropriate fees?

Ａ. In the Tokyo metropolitan area, the shortage in warehouse capacity continues. This is due in part to the concentration of cargo in the Tokyo area, but another factor is the moves we are taking together with other companies in the industry, based on working style reforms, to prevent overstretching workers, leading to a decline in usable warehouse capacity. While the labor shortage continues, providing reasonable working conditions will be necessary to secure warehouse staff. We are systematically pursuing negotiations aimed at setting fees proportionate to costs and service quality.

Q. What are the reasons for the upward revision in the operating income forecast, and the outlook going forward?

A. We revised the operating income forecast because we expect storage demand to continue rising steadily during the second half. For FY21/3, while the results from the current fiscal year will lift the base overall, we also anticipate temporary expenses for the start of operations at a newly built large-scale logistics center. Accordingly, we expect figures to be flat, and our forecast is unchanged.

Other

Q. What are the reasons for the downward revision in the operating income forecast for the Other segment?

A. The downward revision is due mainly to the bioscience business. Sales of molecular diagnostic reagents and rapid diagnostic reagents fell short of initial plan, and we incurred temporary expenses including startup costs for a new R&D center, and acquisition-related expenditures in the U.S.

End

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