Explanation of FY20/3 Results

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Nichirei Corporation

In this presentation, we explain the current status of the “We Will 2021” medium-term business plan, and the outlook for the future.

Progress during FY20/3

Page 1 shows the progress made implementing the business strategies for the first year of the business plan. It lists the four main measures, along with explanations for each point.

For the first measure of “Raise profitability,” we achieved increases in revenue and earnings in the mainstay Processed Foods and Logistics businesses, driving earnings for the corporate group overall, and leading to a rise in the operating margin.

For the second measure of “Allocate resources to achieve sustainable growth,” Nichirei made ¥27.3 billion in capital expenditures during FY20/3. These included new facilities such as the Nagoya Minato Distribution Center (DC). The pace of investment is slightly behind plan, so from the current fiscal year, we will systematically implement investments for growth, and to strengthen the management foundation.

For the third measure of “Expand scale of overseas operations,” Nichirei achieved steady growth for sales of Asian frozen foods in the U.S. and expansion of the temperature-controlled logistics business in Europe, but increasing the pace of expansion remains a challenge, and we are pursuing alliances and other growth investments.

For the fourth measure of “Improve capital efficiency and expand shareholder returns,” we maintained ROE at above the 10% level, and continued to increase returns, raising the target dividend standard to 3% of DOE (consolidated payout ratio).

Page 2 shows FY20/3 results by business segment. The figures are as presented in the chart. Results for Processed Foods rose from the previous forecast, and figures for the Logistics and Marine Products, Meat and Poultry businesses were in line with forecasts. Operating income was ¥0.5 billion over the previous forecast, reaching ¥31.0 billion, an increase of ¥1.5 billion from the previous fiscal year. Profit, however, declined from a year earlier, due mainly to a loss on retirement of non-current assets and expansion in removal costs stemming from renewal of facilities.

Impact from the COVID-19 pandemic

Before moving on to measures for FY21/3, we'd like to explain the situation for Nichirei during the COVID-19 epidemic, outlined on **Page 4**.

Nichirei Group, to fulfill its roll as a corporation that supports the functioning of society with food and logistics, has made every effort to continue normal operation of its production plants and distribution centers, and maintain a stable supply of goods and services.

Over the last few months the trend toward at-home meals and home meal replacement (HMR) has continued while restaurant dining has slowed, but we consider this to be a temporary shift in demand and consumption outlets. There is no change in overall food demand, and over the longer term we think demand for frozen food will be firm. Rather, we consider this an opportunity for a company like Nichirei with production facilities and multiple sales channels, and without being constrained by the categories of "household" and "commercial" use, we are providing products to meet a wide range of needs, including home delivery and e-commerce. Also, with demand for frozen foods and meat products rising, we can also expect stable cargo volumes for temperature-controlled logistics. We will continue to implement growth strategies, concentrating on these two businesses.

Next, on **Page 5**, is our forecast during the COVID-19 situation.

We anticipate that the slowdown in mainly commercial-use volume for processed foods in Japan, and logistics services in Europe, will continue during the second quarter, with the impact on earnings to be around -¥2.5 billion for the corporate group overall. This figure is a rough estimate so please forgive the lack of a breakdown by segment, but we expect the greatest impact to be in Processed

Foods, which accounts for the largest share of business.

We are taking steps to offset the negative impact, including expanding sales for the at-home dining and HMR markets where demand is robust, increasing handling volumes at the transfer centers that handle sorting and delivery for volume retailers, and strictly controlling SG&A and other costs.

Business measures and forecasts for FY21/3

Next on **Page 6**, are the main measures for Nichirei Group and each business segment.

FY21/3 is the second year of the medium-term business plan, and while the business environment will have some difficult aspects, we plan to steadily implement measures that will provide the footing to achieve the final year of the plan.

In the Processed Foods business, we will enhance earnings capabilities through increased sales of household-use products and adjustments to the product mix, while also developing and expanding the production structure in Japan and overseas to meet growing demand.

In the Logistics business, we will adapt flexibly and effectively to the high cargo volume and tight warehouse capacity, while focusing on an early date for the stable operating of the new Nagoya Minato Distribution Center as a base center for the Chubu region.

For Marine Products, we will build a business model combining sustainable resource procurement with greater profitability.

For Meat and Poultry, we will expand sales of fresh and processed items to meet the firm demand for at-home meals and HMR.

On **Page 7**, we outline our efforts to develop new business fields and strengthen the R&D function in order to create new customer value.

Also, a step toward realizing our Vision for 2030 formulated in the previous fiscal year, Nichirei is also developing specific long-term strategies, such as designating important items (materiality).

Next on **Page 8** is our capital investment plan and financial strategies.

Nichirei plans to make ¥38.8 billion in capital expenditures during FY21/3. By segment, we plan to invest a total of ¥17.3 billion in Processed Foods to increase production capacity including expansion of the GFPT Nichirei No. 2 Plant, and ¥17.3 billion in Logistics including construction of the Nagoya Minato Distribution Center, and expansion of cold storage warehouses in the Netherlands.

In terms of dividends, as per our target of 3% of DOE we plan to increase the annual dividend by two yen to 44 yen per share, for a payout ratio of 29.3%.

Accordingly, in terms of cash flow distribution we anticipate operating cash flow of around ¥47.0 billion, with capital expenditures of ¥38.8 billion (appropriation basis) and dividend payments of around ¥6.0 billion. We will also consider growth investments on a flexible basis as we pursue expansion of our overseas business, including forming alliances.

Next on **Page 9** is our forecast for FY21/3.

For Nichirei Group overall, we are forecasting increases of 1% in net sales to ¥590 billion, 1% in operating income to ¥31.5 billion, and 2% in profit to ¥20 billion. For EBITDA, we anticipate an increase of ¥1.9 billion, or 4% from the previous fiscal year.

Page 10 shows our forecast by segment.

In Processed Foods, we aim to increase revenue and earnings by improving the product mix, focusing on the positive household-use market. For Logistics, we anticipate a decline in operating income as a result of startup costs for the new distribution center, but this is in line with plan. For Marine Products we expect results to be on a par with the previous fiscal year, while for Meat and Poultry we are projecting a recovery for items such as mainstay chicken products. In the Other business segment, we expect earnings in the bioscience field to improve in the absence of temporary expenses incurred in the previous fiscal year.

Accordingly, Nichirei is predicting steady growth in its mainstay businesses, and overall is aiming for profit in line with the target figures for the second year of the medium-term business plan. However, there are also uncertainties, such as when COVID-19 will be contained, and we will make updates to earnings forecasts depending on the progress each quarter.

Next, we'd like to explain our measures for each segment.

On **Page 11** is the Processed Foods business.

The market environment, as noted in the presentation, has changed quickly from February this year for both household-use and commercial-use products. Business conditions for restaurants and food services are particularly severe. However, there has been no change in the trend for more meals to be eaten outside the home and HMR as a result of shift in lifestyles and family composition, or in the labor shortage. In the near to long term, we expect demand for frozen food to remain firm. We also anticipate a gradual rise in the use of home delivery services and e-commerce as new outlets for purchases.

Under such conditions, Nichirei will utilize its product development capabilities, production capacity, and broad sales channels to continue providing products that meet market needs.

On **Page 12** shows our segment results and forecast.

Revenue and earnings rose in FY20/3, mainly as a result of strong sales of household-use products, and improved performance of affiliates.

For FY21/3, sales of household-use products have been positive with more people staying home. Nichirei will take steps to meet the growing demand for meal staples and main courses with such mainstay products as *Honkaku-itame Cha-han* (Authentic Fried Rice) and the *Tokukara* series, as well as the new *Prime Pork Cutlet* launched this spring. In commercial-use products, as business conditions remained strained for restaurants and food services, we will focus on items for delicatessens and convenience stores, and aim to expand sales of prepared foods overall. See Page 20 for a list of the main factors affecting operating income in FY20/3 and FY21/3.

Next, on **Page 13**, are the main measures we are taking during FY21/3 for Processed Foods to ensure continued growth in existing business and future expansion.

The first measure is "Increase profitability in Japan, and accelerate overseas business development."

Demand for at-home meals and HMR is increasing in Japan, and ensuring that we have sufficient production structure is an urgent matter. Demand for rice products in particular is rising sharply, and we are concentrating production on mainstay products, and expanding production capacity. For processed chicken, we have bolstered processing lines to build an efficient production structure. By improving the product mix, we are increasing profitability. Also, at GFPT Nichirei in Thailand, we have built a second processing plant (scheduled to begin operations in October 2020), and are producing high value-added products.

Overseas, COVID-19 is affecting demand in a similar way, with higher sales of household-use items, and a slump in commercial-use products. We will focus on securing product procurement through OEM to expand sales of household-use items, and continue to examine owning the production function.

The second measure, on **Page 14**, is "Implement measures to create new value."

As a first step, we are enhancing our access to growing industries such as home delivery and e-commerce. In FY21/3, we newly established the "Well Life Business" division, and are expanding business by developing products focused on health needs. For e-commerce, we expanded our in-house online sales site "Nichirei Foods Direct" (https://wellness.nichirei.co.jp/shop/), and are focusing on using SNS and other outlets to gain customers.

For the measure "Generate new demand," we are pursuing joint R&D with DAIZ Inc., the company in which we acquired a stake in January 2020, to develop and commercialize a meat alternative based on sprouted soybeans.

Let's turn next to the Logistics business, on **Page 15**.

Revenue and earnings rose in FY20/3 on high volume levels for frozen foods and meat, and strong results at transfer centers.

For FY21/3, although we anticipate a decline in the volume of commercial-use goods, mainly for restaurants in Japan due to the impact from COVID-19, movement of frozen foods and meat remains firm, and we expect an increase in volume handled at transfer centers. Overseas, we are anticipating declines in transport volumes in France, which is heavily weighted toward restaurants, and for customs clearance and transport services in the Netherlands. Accordingly, we are forecasting a slight decline in earnings in the Logistics business for FY21/3, though the main factor will be startup costs for the new distribution center, in line with the forecast for the second year of the medium-term business plan.

Next, on **Page 16**, are our main measures for Logistics during FY21/3.

In Japan, inventory levels continue to be high in the Tokyo metropolitan and Kansai regions. This has been compounded by the slow movement of goods due to COVID-19, and warehouses are strained. We are responding by efficiently utilizing facilities, including making use of the assets of other companies and dividing cargo into categories (optimal placement), while also dispersing inventory utilizing capacity at the newly built Nagoya Minato Distribution Center, and actively expanding cargo collections.

In the transfer center business, our 36 locations throughout Japan handling distribution to volume retailers are increasing handling volumes, and we are pursuing new measures in the third party logistics (3PL) business.

Overseas, we anticipate difficult conditions in Europe due to the impact from COVID-19, but we will increase handling volume for volume retailers, pursue diversification in the types of cargo handled, and implement growth strategies for location expansion.

Page 17 outlines our new measures in the 3PL business.

Logistics for frozen foods is becoming more complicated with the greater variety and type of products, and the industry faces shortages of workers, warehouse capacity, and vehicles. These are difficult issues for producers to solve on their own, so Nichirei is leveraging its expertise and IT platform to plan and coordinate solutions. By linking together many different producers and warehouses, and pursuing standardization and efficiencies tailored to the special characteristics of logistics, we can realize solutions, and provide a stable logistics function.

Page 18 shows our progress with operational reform measures.

Nichirei has been implementing operational reforms since the previous business plan, but under the current plan we are focusing on digitization of warehouse information, and labor savings/minimal workforce. During FY21/3, we are working to consolidate and enhance the visualization of all types of information within the warehouse as digital data, and based on this accumulated data, reach a level in which people are able to conduct efficient work management. Ultimately, we aim to achieve an optimal form with coherent operation for all tasks in the distribution center, from receiving and storage to shipping, autonomously managed using AI.

We have designated the newly built Nagoya Minato Distribution Center as a “model center for operational reform” to prepare for the future labor shortage. This is a cutting-edge temperature-controlled warehouse incorporating automated facilities and a variety of advanced information technologies. Compared to existing distribution centers work efficiency has been increased 20%, and going forward we plan to implement successful labor saving measures at all locations nationwide.

Next, on **Page 19**, are the Marine Products and Meat and Poultry businesses.

In both businesses, we are concentrating on sales to meet the firm demand for at-home meals and HMR.

For Marine Products, we are focusing on procurement and sales emphasizing profitability, and strict cost controls, in an effort to secure earning on a par with the previous year.

For Meat and Poultry, we are working to expand sales in fresh meat markets and cooperatives, aiming to increase revenue and earnings.

Reference material is available from **Page 20**.

This concludes the explanation.