

Summary of FY20/3 Online Results Presentation Q&A Session

(May 13, 2020, Tokyo)

(Introduction)

Hello. I'm Nichirei President Kenya Okushi.

Thank you for joining our results presentation today. Because of the emergency declaration from COVID-19, we are conducting this presentation online for the first time, so please bear with us.

I assume everyone has read through the presentation material and explanations, but before we begin the Q&A session, I'd like to talk about the impact of COVID-19 and our outlook for the current fiscal year.

FY20/3 was the first year for our medium-term business plan "We Will 2021." We achieved gains in revenue and earnings that were mostly in line with this plan. The main reason was that we concentrated management resources in the Processed Foods and Logistics businesses, where markets continue to grow. However, as you are all aware, from February 2020 the impact from COVID-19 spread throughout Japan and around the world.

Nichirei, while managing operations in a way that prioritizes the safety of its employees and trading partners, continues to conduct business and fulfill its social responsibility as a company supporting Japan's food infrastructure.

We expect the impact from COVID-19 to continue through the first half of the fiscal year, but please understand that at this stage the time frame and quantitative estimates are extremely difficult to foresee, and much will depend on when and how restrictions lifted.

Sales through existing business channels will rise or fall, but the overall quantity of food made available to consumers is not declining. Nichirei has a food infrastructure business, so we remain positive, and regard this as a new opportunity for business growth.

The reason is that we don't believe consumer lifestyles will simply return completely to their previous patterns once COVID-19 has subsided. Existing business categories will change to meet needs, and new markets will emerge that are different from anything before. This is only natural. Of course, while adapting promptly to the current situation, we will also take a medium- to long-term perspective, and quickly develop businesses for new markets.

Nichirei is forecasting increases in revenue and earnings for FY21/3, aiming for ¥31.5 billion in operating income for the second year of the medium-term business plan. This initial target is a bit of stretch goal in the current business environment, and we will be issuing quarterly updates on the uncertain impact of COVID-19. We ask for your continued understanding.

(Q&A)

Group Overall

Q. You stated in the results presentation that you consider COVID-19 to be a “new opportunity.” For the two mainstay businesses of Processed Foods and Logistics, what strategies will you implement to maximize that opportunity?

A. Demand for household-use products has increased during this period of self-restraint. Figures for restaurants have fallen sharply, but we view this as a temporary situation.

In household-use products, we are improving the product mix for items where demand has jumped. This is connected to our strategy of expanding sales of regular items.

In commercial-use products, convenience stores are currently in an extremely difficult position as locations in office districts have nearly all closed, but we expect figures to return to normal once restrictions are lifted. Restaurants will have more difficulty returning to their previous state, and will be making changes in products and services. Our basic stance is to adapt thoroughly to such shifts. The labor shortage in particular will continue to be an issue, so we will provide products and services that allow businesses to adjust.

The most important thing we need to watch is the changes in outlets for consumption. Up to now our explanations have focused on differentiating between household-use and commercial-use products, but going forward the barrier between these two categories is disappearing, and we need to consider how we will approach each type of consumption outlet. Accordingly, from the current fiscal year we will be making revisions to our organizational structure that will allow us to meet needs by customer type.

In terms of logistics, although restaurant demand has slumped, the total volume of goods, including household-use products, has increased tremendously. The Tokyo Olympics have been postponed, but goods placed in cold storage in anticipation of demand have filled warehouses. As we have stated previously, warehouse capacity in the Tokyo metropolitan area and Osaka waterfront district remains tight. We opened the new Nagoya Minato Distribution Center in April this year, and since this will be a main route, we will distribute some of this cargo to this facility, and take other steps to build and efficient structure for storage and transport.

Q. For the current fiscal year, the second year of the medium-term business plan, you’ve set a target of ¥31.5 billion in operating income, and will need to make rapid progress to reach ¥35.0 billion in the final year of the plan. How are you positioning the current fiscal year, and what measures are you taking to meet the ¥35.0 billion target?

A. Our forecasts for the current fiscal year are basically in line with the business plan. The situation with COVID-19 is having an impact, but we are continuing with our initial plan of allocating management resources to our two mainstay businesses. In Processed Foods, the extent to which we are able to increase sales will be a major point.

In Logistics, the systematic large-scale investments we have been making are beginning to produce results. To address shortages in workers and drivers, we are taking steps to enhance work efficiency, and systematically making investments in IT systems, which we expect will generate results in the final year.

These two mainstay businesses will drive the figures for us to reach ¥35.0 billion in

the final year of the plan.

In Marine Products, results are currently strained, but we are implementing structural reforms, and hope to produce better figures.

Q. What is your view of the post-COVID-19 situation for frozen foods, such as changes in the competitive environment? Also, will there be changes in logistics?

A. There are various opinions on how the competitive environment will change, and it's difficult to speak definitively, but one of Nichirei's strengths is our many sales channels. We are able to provide service for any channel where sales are increasing, and we plan to use this to our advantage.

In terms of logistics, consignments are increasing for frozen foods, along with meats and other food material, and we are responding by utilizing our own facilities as well as re-storage. Results at our transfer centers have also been positive with increased sales to volume retailers. We don't anticipate any major changes in the structure particularly.

Processed Foods

Q. The situation for sales of commercial-use products from March is difficult to discern, but can you comment on changes in sales channels?

A. We will refrain from providing a breakdown by sales channel, but generally speaking, in the commercial-use frozen food market, sales of food items for convenience stores and volume retailers are greater than that for restaurants and food services. Convenience store sales in the Tokyo metropolitan area have been strained as people have refrained from going out, but we expect this to return to a certain level once restrictions are lifted.

Q. I'd like you to explain once more about post-COVID-19 consumption after restrictions have been lifted. It seems likely that the current demand for frozen foods has been on a trial basis. Has this become repeat business, or have you been able to confirm such moves? Can you give your impression of how sales movement is changing?

A. The increase in new and repeat customers has become visible in the data. Whether this will continue or not is unclear, but if telecommuting and other types of working style reforms become widespread, we can expect to retain a certain proportion of users.

Q. What is the situation for operations at the production facility in Thailand? What measures are you taking to reduce volatility at GFPT Nichirei ("GFN"), and what is the status of progress?

A. There are no operational problems in Thailand at this time. GFN had been selling by-products from its operations domestically within Thailand, but is now exporting a portion of that to China as part of its price stabilization measures. Exports have already begun.

The No.2 Plant is scheduled to commence operations in October 2020. It will mainly produce processed chicken for the Japanese market, but we are designing production lines that will allow us to develop and offer products using various sections.

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