Nichirei Corporation

FY21/3 Q1 Financial Results Briefing Summary of Q&A Session

(August 4, 2020, Tokyo)

Group Overall

Q. Consolidated operating income increased ¥1.0 billion in Q1, but you are forecasting an increase of just ¥0.5 billion for the full-year period. This suggests that earnings will decline at some point from Q2. What is the timing for that earnings decrease, and the reasons?

A. The impact from COVID-19 on the overseas Logistics business was limited during Q1, and we expect the effects to be realized from Q2 (The fiscal year overseas ends in December, so consolidated figures are three months behind).

In Japan, we are expecting the recovery from the COVID-19 impact to be later than our original assumption, and expect the difficult circumstances to continue from July, mainly in commercial-use processed foods.

An additional factor in Q1 was a difference in the timing of advertising expenditures compared to the previous year, which had a fairly large positive effect. Other administrative costs also declined in Q1, but we expect the amount of reduction to gradually diminish once business activities return to normal.

Processed Foods

Q. The projected factors affecting changes in operating income have changed since the start of the fiscal year. What are the details?

A. We have revised our full-year sales forecast to reflect a decline in prepared foods. The initial forecast was a boost to operating income of ¥0.5 billion from the previous fiscal year on higher revenue, but we are now expecting this to be a negative factor.

The operating income forecast is unchanged because we expect the negative portion will be offset by performance at overseas affiliates that has exceeded initial expectations (¥0.2-0.3 billion), along with declines in advertising and administrative expenses (around ¥0.5 billion).

Q. The percentage change for sales of household-use products overall is +12%, but what is the growth rate for household-use rice and chicken products? Please also give an update on the status of the new *Prime Pork Cutlet* product. In addition, why is Nichirei's growth rate below the market average?

A. The growth rate for rice products was a little over 10%, and around 15% for chicken products. The growth rate for hamburg steak and other processed meat products, the category that includes the *Prime Pork Cutlet*, was more than 20%.

The reason the growth rate for household-use products was below the market average was the extremely sharp market expansion for noodle products such as *ramen* and *udon*, a category in which Nichirei has fewer product offerings.

Q. Sales of commercial-use products were down 12%. What were the rates of decline by sales channel?

A. We do not provides specific figures by sales channel, but in terms of the overall market for commercial-use products including frozen foods, sales to the restaurant market were down around 30%, while everyday dishes for volume retailers were down slightly from the previous year, and convenience stores reported declines in customer traffic of more than 10%. All of this had an impact on sales performance.

Logistics

Q. The full-year forecast for operating income in Logistics business is an increase of ¥0.3 billion, which is a decline of ¥0.3 billion over the next nine months. What are the main reasons for that?

A. The transfer center (TC) business was positive during Q1. We expect this to continue through the end of the first half, and then slow during the second half. Additional factors include the pronounced negative impact in Europe from Q2, and an increase in IT system costs that exceeded initial estimates.

Q. Performance in the Logistics business seems extremely robust. Considering the difficult market conditions, how is Nichirei able to maintain such solid figures?

A. A major factor for strong performance in Q1 was the expanded handling volume at transfer centers. Nichirei has several centers that specialize in deliveries to volume retailers, and sales of daily foods rose sharply at these stores. Many different manufacturers bring products to our centers, and our strength in sorting and delivery was recognized in Q1.

Q. While inventory at warehouses is tight, are there risks due to a slowdown in the movement of goods?

A. The regional storage business derives income from storage fees, as well as receiving and shipping operations, so that aspect could be negatively affected.

Capacity is tight at refrigerated warehouses in the Tokyo and Osaka port districts, but we have built a new logistics center in Nagoya, the midpoint between these two cities. We were able to capture storage demand, and the center has been operating smoothly from its opening, providing a boost to performance.

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