FY21/3 First Half Financial Results Briefing

November 5, 2020
Nichirei Corporation

Hello, I'm Kenya Okushi, president of Nichirei Corporation. Thank you for attending this briefing on our first half financial results. Today's presentation is being conducted as both an online and telephone conference. Let's begin the briefing.

Page 1 shows our first half results.

Consolidated net sales amounted to ¥281.8 billion, a decline of ¥10.1 billion, or 3%, from the same period of the previous fiscal year. Operating profit totaled ¥16.7 billion, an increase of ¥1.8 billion, or 12%.

Sales were positive for household-use products for home meals, and products for the home meal replacements (HMR) market, boosted by an increase in stay-at-home consumption demand due to the coronavirus crisis. Revenue declined overall, however, on the sharp drop in sales to restaurants. Nevertheless, we managed to secure an increase in earnings on positive performance in Logistics, and strict group-wide cost management.

Profit amounted to ¥10.9 billion, an increase of ¥1.4 billion, or 14% from the same period of the previous fiscal year.

Page 2 outlines the situation for Nichirei Group during the coronavirus crisis.

With people spending more time at home, and the changes in consumer lifestyles, the restaurant industry is facing difficult circumstances, and there is increased demand for products related to this "stay-at-home consumption" style. Amid such conditions, Nichirei, while taking steps to prevent the virus spreading among employees, has managed to continue operations at its production factories and logistics centers without interruption.

We have focused on providing products and services to meet needs for stay-at-home consumption, such as in the Processed Foods business, selling household-use prepared foods in Japan and overseas, in the Logistics business providing delivery to supermarkets, and in the Marine products, Meat and Poultry business selling food material and processed foods for home meals. We have also imposed strict cost management across the entire group.

We had initially estimated the negative effects from the coronavirus at more than ¥2.5 billion, and at this point it's unclear when the pandemic will end. Even though the impact is expanding, we expect to be able to absorb the effects, and secure an earnings gain for the full fiscal year.

Nichirei Group is able to provide products and logistics for a broad range of food-related business categories, including at-home meals, HMR, and restaurants, and we utilize these business characteristics to the fullest, pursuing business management that quickly adapts to changes in demand.

Page 3 presents our measures going forward.

For FY21/3, we are forecasting an increase in operating profit, and a decline in sales. As I've stated previously, overall food demand among consumers has not changed during the coronavirus crisis. We've managed to expand sales of household-use products and adjust our production structure, but we were late in adapting to changes in the restaurant category in terms of buying opportunities and styles, and we recognize that the slow recovery in sales of commercial-use products is a challenge. I will explain our specific measures to address this in a moment.

To achieve our growth strategies going forward, we are looking to increase our top line as the source of earnings growth. In both the domestic and overseas markets, we believe there is still room for expansion in frozen foods and temperature-controlled logistics. To adapt to changing business categories, building on our strong customer base, we will strengthen measures for categories in which demand is strong, and pursue resource allocation and product development to meet expansion in new demand, in order to achieve a recovery in sales.

Page 4 shows the progress of management measures taken during the current fiscal year, and our plans for the second half. We will present the breakdown by segment together with our full-year forecasts from Page 7.

In terms of ESG measures, we announced the identification of materiality in June. The particulars and approach for these items can be found in the *Nichirei Integrated Report 2020* published in September.

During the second half, we will formulate measures and KPI while incorporating the materiality into the medium-term business plan. For environmental measures, we have announced our participation in the Task Force on Climate-related Financial Disclosures (TCFD), and formulated long-term environmental goals, and so will take steps to achieve these targets.

Page 5 presents our full-year forecasts.

The impact of the coronavirus has made the outlook difficult to predict, and we have revised our forecasts according to the progress made during each quarter. As such, my explanation of full-year figures will focus on the comparison with our forecasts at the first quarter point in August.

Starting with consolidated group net sales, the impact from the coronavirus has been greater than expected, and sales have been slow to recover, particularly in Processed Foods. We have revised our forecast downward by ¥13.5 billion from the previous forecast to ¥571.5 billion, a decline of 2% year on year.

In terms of operating profit, the Logistics business has exceeded plan, and group-wide cost controls have provided an additional boost. We have revised our forecast upward by ¥0.5 billion from the previous announcement to ¥32.0 billion, representing an increase of ¥1.0 billion, or 3% from the previous year.

The profit forecast of ¥20.0 billion is unchanged. We will examine the details later by segment.

Page 6 shows our capital expenditures and financial strategies.

We are making investments in line with plan for growth and to strengthen the business foundation.

The projected capital investment is ¥35.8 billion. This is a reduction of around ¥3.0 billion from the initial estimate, but there have been no delays in major growth investments. Resources are being focused on our two mainstay business. In Processed Foods, we will enhance production capacity in Japan and overseas to support expanded sales, while in Logistics, we are building new large-scale refrigerated warehouses.

In terms of dividends, as we announced yesterday, the Company has decided to pay a 75th anniversary commemorative dividend of six yen per share. Combined with the two yen increase envisioned at the start of the fiscal year, this represents a year-on-year increase of eight yen per share, for an annual dividend of 50 yen per share.

Next, from **Page 7** are the results by business segment. Let’s start with the Processed Foods business.

Net sales during the first half amounted to ¥112.6 billion, a decrease of ¥5.9 billion, or 5% from the same period of the previous fiscal year.

The household-use market grew by 13% overall on the expansion in stay-at-home consumption demand.

Nichirei’s sales increased 11% year on year during this period, due mainly to positive sales of mainstay items *Honkaku Itame Cha-han* (authentic fried rice) and

Tokukara fried chicken, as well as the new *Prime Pork Cutlet* launched this spring.

Sales of commercial-use prepared foods declined 15%, due mainly to slow recovery in sales to restaurants and major HMR users.

Operating profit, however, increased ¥0.1 billion from the same period of the previous fiscal year to ¥8.6 billion. We managed to secure an increase in earnings from expanded sales of household-use products, an upturn in performance at our U.S. and other overseas subsidiaries, and cost controls.

Next, let’s look at full-year forecasts.

In Household-use Prepared Foods, we recorded strong growth of 10% during the second half of last year, and propelled by the increase in demand, we will work to continue expanding sales of mainstay products, and are forecasting full-year sales of ¥71.5 billion, an increase of 10% from the same period of the previous fiscal year.

In Commercial-use Prepared Foods, we are taking steps to increase sales of existing products and launch new products for the HMR market where demand is firm, but we do not expect to be able to recover ground lost during the first half. We have revised our forecast downward by ¥5.3 billion from the previous announcement, to full-year net sales of ¥85.0 billion, a decline of 15% from the same period of the previous fiscal year.

In Processed Agricultural Products, sales to the household-use market have been positive, offsetting declines in the commercial-use market, and we expect to secure an increase in revenue.

Overseas, U.S. firm InnovAsian Cuisine is expected to maintain its strong performance, and we are forecasting a full-year increase of 4% year on year.

For the Other category, as a result of the coronavirus, sales have been sluggish for commercial-use room temperature products and ice for cafes, and we are anticipating a decline of ¥1.5 billion from the previous forecast.

Full-year operating profit is projected to be ¥16.8 billion, a decline of ¥0.2 billion from the previous forecast of ¥17.0 billion, but we are aiming to secure earnings in excess of the previous fiscal year.

The breakdown of factors for increase and decrease in operating profit are shown on Page 16, which you can review later.

Allow me to add a little about how we determined the output for the third and fourth quarters.

Looking back on the previous fiscal year, in the third quarter we recorded operating profit of ¥5.5 billion on expanded sales, a jump of 22% from the same period of the previous fiscal year. In the fourth quarter, however, as a result of strengthening promotions for mainstay products and increase advertising expenditures, operating profit was ¥2.8 billion, a decline of 24% from a year earlier. In this fiscal year, we are not planning any such moves during the third or fourth quarter, so while it might seem that earnings will decline through the third quarter, we expect they will recover in the fourth, and anticipate earnings in excess of the previous fiscal year for the full fiscal period.

Next, turn to **Page 8**. These are the measures we are pursuing for the priority issue of sales recovery.

As general policy, we are utilizing our strengths of numerous sales channels and extensive production capacity, and further allocating resources to growing categories with the aim of increasing sales going forward.

Demand continues to increase in the household-use segment, and this is a market where we can expect a certain degree of growth. With consumers spending more time at home, demand for food material is rising. Along with mainstay rice products and kara-age fried chicken, we are offering appealing items developed for at-home cooking, which will drive growth during the coronavirus crisis.

In the HMR segment, we are concentrating on delicatessen for volume retailers, which have a large market scale and firm demand. Sales spaces and styles have changed as a result of the coronavirus, and growth was somewhat sluggish during the first half, but we are strengthening development of products to meet these new sales spaces, and aiming to capture segments of the restaurant segment where demand is growing, such as fast food.

In the convenience store category, sales of products at the register counters have been slow to recover. Working on the hypothesis that customers are concerned about infection risk from products not offered in sealed packaging, as well as the policy of charging for plastic bags, our sales proposals have focused strictly on items in packaged form.

One segment that has remained firm during the coronavirus crisis is food services for hospitals and nursing homes. We are developing products specifically for these categories, and have formed a new specialized team capable of development and sales.

The range of take-out and delivery services is increasing, including from restaurants, driving demand for single-serving meals and meal kits. We are making use of our existing production lines, and are considering new capital investment.

Through such measures, we aim to achieve sales recovery and growth.

Next, on **Page 9**, is the current status of Nichirei's overseas business. I'd like to focus my remarks mainly on our U.S. subsidiary InnovAsian Cuisine.

The lockdowns across the U.S. that began in March generated extraordinary demand for household-use products. This demand continues to be strong, and the Asian frozen foods market in particular is maintaining double-digit growth.

Amid such conditions, InnovAsian Cuisine's efforts to strengthen development of products for families and single-serving meals, and raise brand awareness, has led to expanded sales mainly to major volume retailers, and profitability has improved considerably. We expect sales to continue expanding going forward, and are taking steps to enhance the product procurement structure.

Continuing on **Page 10** is the next segment, and Logistics Business. I'll begin with the status during the first half.

Net sales amounted to ¥104.7 billion, an increase of ¥2.0 billion, or 2% from the same period of the previous fiscal year.

In Japan, the logistics network transfer center (TC) business expanded handling volume for supermarkets, and regional storage remained firm, resulting in a 5% increase in sales.

Overseas, revenue in Europe declined 7% with the falloff in transport volume to restaurants due to the coronavirus.

Operating profit was ¥6.9 billion, up ¥1.2 billion, or 22% from the same period of the previous fiscal year.

The increase in earnings was the result of the revenue boost from expansion of the TC business and greater volume of frozen foods, along with cost reductions.

Next let's look at forecasts.

We expect net sales in Japan to increase 5% year on year for the full-year period on continued firm business during the second half, mainly at transfer centers business. Overseas, in Europe we anticipate a resurgence of the impact from the coronavirus, and so are forecasting a revenue decline of 10% for the full-year period.

As a result, we are forecasting full-year net sales for the segment of ¥210.0 billion. While this is a decrease of ¥3.1 billion from the previous forecast, it is mainly because the initial estimates at the start of the period in Japan were a little ambitious, so please look at this as an adjustment from that figure.

The full-year forecast of operating profit has been revised upward by ¥0.4 billion from the previous figure, to ¥12.5 billion. The revision was made based on positive performance during the first half. The breakdown of factors for increase and decrease in operating profit are shown on Page 16, which you can review later, but for now I'd like to explain the main factors for the projected decline during the second half.

In terms of sales, the increase in volume at transfer centers and household-use frozen foods, which drove revenue during the first half, we expect will gradually stabilize and return to normal. Also, inventory levels for imported meat and other products were high during the first half, but because of the slump in restaurant demand, receipts have fallen, and cargo movement is sluggish.

We also expect to incur a series of one-time costs, including relocation expenses to reorganize goods following the opening of the new facility in Nagoya, a bulk purchase of tablets for business reform, and performance-based bonuses. These are the main factors for the earnings decline during the second half.

Page 11 shows the current status of the Logistics Network, with a particular focus on an overview of the Transfer Center business, which you can review later.

Moving on, on **Page 12** is the current status for Regional Storage.

As I mentioned a moment ago, the slowdown in movement of imported meats, one of our mainstay products, has provided a bit of leeway in warehouse capacity. Though it is difficult to rearrange cargo placement when the capacity is tight, we consider this an opportunity to do that, including re-storage. From the next fiscal year, we will pursue optimal cargo placement and leveling of operations, in order to enhance profitability.

Page 13 shows the current status of overseas businesses, and the progress of operational reforms, which you can review later.

Page 14 is reference material for the Logistics Business.

Year-on-year comparisons of the logistics network and regional storage are affected by the shift of certain facilities from Logistics Network to Regional Storage, so we've included a comparison of the storage and non-storage sections of the business. This allows for a more substantive comparison.

Finally, **Page 15** presents the Marine Products, Meat and Poultry businesses.

Let's start with Marine Products. Revenue and earnings declined during the first half, but we are seeing recovery in demand from sushi chains and other major users, sales are rising for food material to meet stay-at-home consumption demand,

and operations at domestic processing factories are on the rise. Cost controls are also having a positive impact, and we have revised our operating profit upward by ¥0.2 billion from the previous estimate.

In Meat and Poultry, sales continue to be firm to supermarkets and the meat counters of volume retailers to meet the growing stay-at-home consumption demand, Processing center operations are also steady, and we expect results in line with plan.

From **Page 16** is general reference material, which you can review at your leisure.

This concludes the explanation.