Nichirei Corporation

FY21/3 Q2 Financial Results Briefing Summary of Q&A Session

(Thursday, November 5, 2020; Online / Conference Call)

Q. What is the current status of commercial-use prepared foods by business sector? Sales are stagnant, down 15% in the first half, with a forecast decline of 14% in the second half. The company is implementing a range of category-specific measures, but how will these be reflected in results?

A. Please understand that we are taking a cautious stance with regard to commercial-use sales. At the start of the fiscal year we were expecting an upturn during the second half, but by the second quarter it was clear the recovery was delayed. We are offering new products and implementing other measures by business category, but considering the impact from the coronavirus and other uncertainties, it's difficult to determine the extent to which this will affect sales. That's why we are being conservative in our sales forecasts.

Q. How will commercial-use sales recover from the next fiscal year? When do you expect figures to return to pre-coronavirus levels?

A. We should start to see results from Q4 from the introduction of new products and other measures, and by FY22/3 hope to restore sales to FY20/3 levels at minimum. We will implement various measures for the home meal replacement (HMR) and restaurant categories, and by concentrating on these together will aim to regain FY20/3 levels.

Q. Performance at subsidiaries has been positive, and generated considerable earnings. You've stated that you expect this contribution to continue during the second half. What is the background for this?

A. Our overseas subsidiaries have performed well, particularly InnovAsian Cuisine in the United States. As in Japan, the household-use market is growing, and the company has expanded sales, mainly to major volume retailers.

Our subsidiary in Thailand also outperformed initial forecasts. In terms of monetary value the U.S. is larger, but the Thai company is also making a contribution.

Q. What are your thoughts at this point on reaching ¥35 billion in operating profit in FY22/3, the final year of the medium-term business plan?

A. We plan to aim for this figure. The Logistics Business has played a steadfast role during the coronavirus crisis in supporting the food infrastructure, and results have been in line with plan, which has provided tremendous underlying support. In the Processed Foods Business, lifestyles have changed considerably, and business categories have shifted, but so long as we are able to respond well in household-use foods, we should be able to achieve our targets. We'll need to reconsider the allocations in the initial plan for investment in the household-use and commercial-use sectors, but we expect to achieve the ¥35 billion figure.

Q. Regarding the shifts in business categories, do you consider this series of changes in consumption behavior as an opportunity for the company?

A. Yes, we think it's an opportunity. We've always imagined that the working styles of consumers would change eventually, and has just been pushed forward. The key is how quickly we are able to adapt to change. We plan to focus on the areas of our customer base where we can strongly pursue measures, and provide the appropriate products and services.

Q. Do you have the general impression that there will be considerable changes in sales style and products for commercial-use frozen foods?

A. We don't think things will simply return to the way they were after the coronavirus crisis has passed. Takeout and delivery demand will likely continue going forward. We producers don't yet have many product specifications or services that cater to such demand, so we'll need to establish the necessary production facilities and logistics structure.

Q. You've stated that the Logistics Business will support earnings in the next fiscal year. What is the likelihood of an earnings gain in FY22/3, and how do you plan to achieve it?

A. Imports have declined recently due to the impact from the coronavirus, providing a degree of leeway in warehouse capacity in the Tokyo and Kansai areas, so we're in a position to revise storage placement and rearrange cargo to increase efficiency. In April we opened the new Nagoya Minato DC as a facility midway between Tokyo and Kansai, allowing us to fully cover imports, and when cargo volumes increase, providing us with a structure to receive goods in Nagoya when Tokyo or Kansai is unable to do so. We have also begun offering joint delivery for frozen foods, and this will start generating earnings in the next fiscal year. The ability to provide services that combine storage locations with transport is one of

Nichirei's strengths, and will drive results in Japan operations in the next fiscal year.

Overseas, we are considering investment projects in the U.K. and other areas of Europe. The coronavirus crisis is driving the same trends in Europe as in Japan, with sluggish sales of commercial-use products and positive performance from volume retailers, but we are actively pursuing capital investments so that we'll be able to expand operations once conditions return to normal.

Q. Despite the high hurdles for household-use frozen foods, you are forecasting a 10% increase for the full fiscal year. Is there room for growth going forward?

A. We are receiving requests to increase quantities, so there is still room for growth, and we expect this to continue in the next fiscal year. During the first half we made capital investments for rice and processed chicken products, and in the meats category the *Prime Pork Cutlet* has sold extremely well. *Imagawayaki* cakes and other snacks have also performed well, and we are considering capital investments. We feel that if we expand our production capacity for mainstay products, we still have room to increase orders.

Q. For U.S. firm InnovAsian Cuisine, you're forecasting a 5% revenue increase for the full year period, but the graph on Page 9 seems to show even higher growth. How much did sales increase during the first half? Also, you've stated that you're providing for product procurement, but how much room for growth is there with the current capacity?

A. Sales rose 14% during the first half. Growth exceeded expectations, but we are being a little conservative with our forecasts, and will revise them at the appropriate timing.

In terms of capacity, the number of suppliers has increased, and is currently sufficient. If it seems that further growth is likely, we will consider such measures as new suppliers or in-house capacity.

Q. Why are you offering the 75th Anniversary commemorative dividend at this time, and what is the outlook for next year and beyond? Also, why did you choose a dividend rather than a share buyback?

A. We had been planning a commemorative dividend at the start of the fiscal year, but since the cash flow outlook was unclear due to the coronavirus, we decided to wait and watch how the situation developed. At the end of the first half, it seemed that we would be able to reach ¥20 billion in profit for the period, and decided to offer the commemorative dividend. We plan to continue monitoring the situation, including the effects of the commemorative dividend, based on DOE of 3%.

The total amount of the commemorative dividend is approximately ¥800 million. Going forward, along with growth investments we are planning for other expenditures, including exploration of new businesses, environmental investments such as compliance with the Task Force on Climate-related Financial Disclosures, and investments in digitization. From a standpoint of prioritizing the allocation of financial resources for these investments, we decided on a dividend payment rather than a share buyback.

Q. How will you change the margins in the Marine Products and Meat and Poultry businesses?

A. In Marine Products, we are exploring measures to change the earnings structure. We plan to change the structure in a way that produces synergies with Processed Foods.

For Meat and Poultry, we are generating synergies with Processed Foods, particularly for chicken.

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