Nichirei Corporation

FY21/3 Q3 Financial Results Briefing Summary of Q&A Session

(Tuesday, February 2, 2021)

Q. **Business performance through Q3 has been steady, and the forecast for operating profit revised upward. However, the target for next year, the final year of the medium-term business plan, is ¥35.0 billion. What are the prospects for meeting this target, focusing on the Processed Foods and Logistics business?**

A. We are unable to make any definitive statements at this time, but we are currently formulating the plan for the next fiscal year, aiming for ¥35.0 billion on a consolidated basis.

We are studying measures for both the Processed Foods and Logistics businesses. For Processed Foods we are considering investments in production that will allow us to offer products to meet market needs, while in Logistics we are looking at investments to strengthen the business foundation. The focus is on recovery in revenue, and we expect to set a target around the ¥600 billion mark.

Q. **Regarding the top line, you are saying that you hope to reach around ¥600 billion next term, which means sales will have to increase by around 5 %. Considering the slow growth this year due to the impact from the coronavirus, that seems aggressive. How do you plan to achieve this growth, and why this particular focus on the top line? Is it fair to say that there is nothing special planned, and that you plan to steadily implement the measures taken up to now?**

A. We plan to boost performance in Logistics, but the segment in which we most need to achieve recovery is Processed Foods. In the Marine Products and Meat and Poultry businesses sales of food material products to restaurants have declined, but we think we can pursue measures in processed foods jointly with the Processed Foods business.

Q. **The original business plan was premised on an increase in depreciation expense in the final year. Is it fair to assume that this expense will not increase beyond the plan for the corporate group as a whole?**

A. Total capital expenditures over the last two years is projected to be ¥62 billion, comprising ¥27 billion in the initial year and a planned ¥35 billion this year.

In terms of investments for growth, in Processed Foods the No. 2 plant at GFPT Nichirei (GFN), an affiliated company in Thailand, commenced operations in November, and we expanded production lines for rice products. In Logistics, expenditures have proceeded according to plan, with the new Nagoya Minato DC opened at the end of the previous fiscal year, and the rebuilt Honmoku DC commencing operations in March. The initial plan called for around ¥100 billion over a three-year period. Investments to strengthen the business foundation and maintenance are slightly behind schedule, but depending on the investments next year, depreciation expense should be close to the initial plan.

Q. **You've stated that you are making steady progress toward ¥35 billion in operating profit next year, but have any risk factors emerged compared to your initial assumptions, or have any of the positive factors been better than anticipated? Also, in terms of costs, grain prices and spot rates for electricity have risen. Will this have any effect on next year's results?**

A. One of the positive factors has been Logistics, which has exceeded plan. As things stand, we expect the impact from the coronavirus to continue through the first half of the upcoming fiscal year. Based on that assumption, we can expect the strong performance in the transfer center (TC) business to continue while conditions for commercial-use processed foods remain difficult, but the driver for net sales of ¥600 billion will be Processed Foods. At this point we are unable to comment on the sort of measures we are planning, but new demand is emerging in expanding sectors, individual meals, and household-use products, so we plan to concentrate on those areas, and implement measures to meet needs focused on products and sales channels.

In terms of cost increases for food material, there have been positive and negative factors this year depending on the material, but overall we expect costs to be on a par with the previous fiscal year, though we can't comment on next year. Electricity rates have been a positive factor this year, but if they increase next year that component will vanish.

Q. **Regarding commercial-use processed foods, in the first half results presentation you mentioned a range of countermeasures, such as altering the packaging for products for convenience stores. Have there been any indications of benefits from these measures, and what are you planning going forward? What is your thinking regarding the sales for the commercial-use products, including forecasts for the future?**

A. We are pursing various measures for commercial-use products, but it is difficult to see results right away. In the largest category of delicatessen, products prepared under the direction of well-known stores is proceeding as planned. Measures for packaging are being conducted by trial and error, and we plan to continue with this going forward.

Q. **Regarding processed foods at the U.S. business, InnovAsian Cuisine (ICE) posted a 21 % increase in revenue during Q3 alone. What impact did this have on earnings? You've talked about ¥1.3 billion in earnings improvements at affiliated companies, but how much of this is from ICE? Also, in terms of my thinking regarding next year, the frozen foods market in the U.S. is extremely strong at the moment. Do you expect this momentum to continue?**

A. We included around ¥1.3 billion in gains from earnings in affiliated companies in the Q3 cumulative period. The majority of this is ICE, and the rest is Thailand.

We expect demand to be firm next year, but the strong growth this year presents a high hurdle. If performance in household-use foods levels off, we will offset it with gains in commercial-use products.

Q. **In overseas sales, revenue from GFN has fallen. What are the reasons for this? Will it have an impact on results?**

A. The graph on Page 6 shows GFN's net sales outside Nichirei Group. This is mainly sales of by-products within Thailand. The principal factor is the decline in the number of chickens processed. This will not have a major impact on earnings.

Note: GFN's main business is processed foods for the Japanese market. This portion is eliminated as an intra-company transaction, and so is not included in GFN's net sales.

Q. The Logistics business has already reached its earnings target for the final year of the medium-term business plan, and profitability has exceeded initial assumptions. What is behind the increase in margins? Also, in the original business plan narrative, large-scale investment would conclude this year, and there would be gains of around ¥1.3 billion in the final year of the plan. Has there been any change in your thinking?

A. One of the positive factors has been the growth in the TC business, which was greater than anticipated. Another that is common to all segments is strict cost management. These are the factors that have driven earnings beyond plan, and why profitability has risen.

Next fiscal year we will incur a depreciation burden as the large-scale distribution center begins operations in March, but we will pursue measures for optimal placement of cargo and combined delivery of frozen foods. The benefits from combined delivery will take some time to be realized, but we hope to gain market share in this area in the future. If various manufacturers cooperate, it will lead to labor savings and help address environmental concerns.

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