May 12, 2021
Nichirei Corporation

FY21/3 Financial Results Briefing

Hello, I'm Kenya Okushi, president of Nichirei Corporation. Thank you for attending this briefing for our FY21/3 financial results. Today's presentation is being conducted as both an online and telephone conference. Let's begin the briefing.

I'd like to begin with the progress made during the second year of the medium-term business plan. Please turn to **Page 1**. Net sales for the corporate group declined 2% from the previous fiscal year. In Processed Foods, sales of household-use frozen foods were positive amid rising demand for home meal replacement (HMR) and home meals, and in Logistics the transfer center (TC) business (sorting and delivery to retailers) grew considerably, but this was insufficient to cover the changes of declining demand, mainly to the restaurant industry.

Operating profit rose ¥1.9 billion, or 6% from the previous fiscal year to ¥32.9 billion, which was ¥0.4 billion above the previous forecast. The solid results in Logistics continued, and in Processed Foods sales in the household-use and overseas categories were firm. Strict company-wide cost management also contributed to the gain in earnings.

In terms of the main factors for the variance from earnings forecasts, in Processed Foods a decrease in advertising and management costs led to a positive ¥0.4 billion excess, while in Logistics, earnings were ¥0.2 billion over forecasts due to a slightly conservative estimate for overseas operations.

For details on previous year results, please refer to the relevant sections of this presentation, and the summary financial statements.

Page 2 outlines the main measures in the current business plan and progress of each. The main measures are on the left side of the chart.

This first measure is "Increase profitability by strengthening the management base and reforming the business structure." We will continue to pursue earnings growth in the rapidly changing business environment, focusing on our core businesses, in line with the business plan. At the same time, we recognize that to achieve sustainable growth, we need to address such issues as expanding sales consistent with the "new normal" conditions during and after the COVID-19 pandemic, and improving earnings in the Marine Products and Bioscience businesses.

The second measure is "Accelerate expansion of overseas business." Mainly because of the COVID-19 situation we expect to fall short of plan targets in both the Processed Foods and Logistics businesses, but we are accelerating our efforts from the current period.

For the third measure, "Allocate resources to achieve sustainable growth," we have made investments to expand production capacity in Thailand and for large-scale refrigerated warehouses, but the plan is slightly behind schedule overall. We expect to catch up during the current period, and steadily make investments essential for sustainable growth.

Continuing, turn to **Page 3**. The fourth measure is "Strengthen measures for longer-term growth." We have steadily developed new businesses, and have put in place a framework to implement a digital transformation (DX) for the corporate group as a whole. Operational reforms in the Logistics Business, such as digitization of warehouse processes, are also proceeding according to plan.

The fifth measure is “Contribute to the realization of a sustainable society by resolving social issues through business.” Last year we determined materiality for the corporate group, and are currently working to establish group targets and KPI (key performance indicators). The specific figures will be incorporated into the next medium-term business plan for implementation.

The sixth measure is “Enhance capital efficiency and expand shareholder returns.” In FY20/3 we raised our dividend standard to 3% DOE (dividend on equity) and have continued to pay a stable dividend. We are also continuing efforts to increase capital efficiency, and maintain ROE of 10% or higher.

From **Page 4** we explain our plan for FY22/3.

Because of COVID-19, the business environment for Nichirei has changed considerably from our initial assumptions. In Japan, considering the progress of the vaccination program and spread of virus variants, a return to normality is likely to take a little more time. At this point, we have formulated a plan based on the assumption that vaccinations will continue to a certain extent during the first half, and that economic activity will begin to recover in the second half.

However, it also seems likely that the new lifestyles and values people have adopted as a result of the COVID-19 crisis will continue to a certain degree. Also, the trends in ESG and DX, which have received increasing attention in recent years, are expected to further accelerate.

Based on this view of the business environment, I would like to explain our priority measures aimed at achieving the targets in the final year of the business plan.

There are five main points, the first of which is “Sales expansion using new approach.”

In the previous fiscal year, with the sudden shifts in the business environment we are unable to fully align our business adequately with consumer needs, and sales declined as a result. We feel that existing markets that have contracted during the COVID-19 crisis are unlikely to fully recover, so we are prioritizing the allocation of management resources to industry segments and customers that are expanding in the “new normal,” providing products and services to new markets with a sense of urgency, and expand sales, which are the source of earnings.

The second point is “Strict cost management.”

During the previous fiscal year, we were able to curb travel and entertainment costs because of the limitations on the movements of people. This period as well, while continuing to control costs and focusing closely on priorities and urgency, we will proactively utilize funds necessary for future growth, such as R&D and human resource development.

In addition, for IT system-related expenditures, we are allocating a fair portion of human resources to the holding company in order to enhance operational efficiency using IT, and to strengthen competitiveness and increase profitability by pursuing DX.

The next point is “Capital expenditures for sustainable growth.”

Our capital expenditure plans have been delayed by COVID-19, but this spending is essential to establish a foundation for future growth, so this period we are planning to spend on a scale exceeding that of the previous fiscal year, keeping to the amount in the original three-year plan. We will make investments necessary for the era of “new normal,” such as facilities catering to new markets and responding the urgent environmental problems, so that we do not miss the strong growth opportunities in frozen foods and logistics.

Continuing on **Page 5** is “New business creation.”

Along with the previously launched “conomeal” system and commercialization of the “*Gohan no Mirai*” project, Nichirei has introduced and is moving forward with a “business development acceleration support” program that seeks to commercialize new ideas based on the IMS framework for generating continual innovation.

We are also strengthening our measures for ESG (environmental, social, and governance) criteria. Amid the growing expectations and demands from a wide range of stakeholders for solutions to environmental and social issues, we are helping to resolve social issues through our food and logistics business. For our response to climate change in particular, we recognize the need to quickly address the recent escalation in global demands. We are revising our corporate group low-carbon policy and other long-term environmental goals, and pursuing strategies in accordance with the TCFD declaration. In terms of “sustainable food procurement,” we are pursuing procurement policies with consideration for sustainability, including the environment and human rights. These two points were identified as part of Nichirei Group’s materiality in the previous fiscal year. This period we will establish specific targets and KPI, incorporate them into a new business plan as part of the management strategy, and implement a PDCA cycle.

Next, on **Page 6** is the quantitative forecasts for the business plan period.

Net sales in FY22/3 are expected to be less than the initial plan forecast, but we are still aiming for an increase of 4.8% year on year for the corporate group overall, to ¥600 billion. Operating profit is forecast to be in line with plan at ¥35.0 billion, for an annual average growth rate of 5.9% over the three-year plan period. The operating margin forecast of 5.8% is 0.5 percentage points above the initial plan, while the net profit forecast of ¥23.0 billion is ¥1.0 billion over plan. The forecast for EBITDA, which we have established as a key management indicator, is mostly in line with plan at ¥57.2 billion, an increase of 8.7% from the previous fiscal year, and an average annual growth rate of 6.8%. We are forecasting ROE of 10% or higher, with EPS of 172.6 yen.

Continuing on to **Page 7** is our forecasts by segment.

We expect Processed Foods and Logistics to drive gains in revenue and earnings, leading to sustainable growth going forward. I will go over the details of the main segments in a later section. In the Real Estate segment, as per plan, we anticipate a temporary decline in earnings as a result of scheduled renovations to leased office buildings, but expect to secure stable earnings from the following fiscal year. In the Other (Bioscience) segment, we expect to achieve profitability with rapid diagnostic agents and improvement in the U.S. business. In adjustments, expenditures for new business development and DX measures have been incorporated as company-wide costs.

In terms of the impact from COVID-19, at this point we have formulated a plan premised on recovery from the second half, but since the status of the infection and other aspects remain unclear, we plan to update our results forecasts each quarter. We appreciate your understanding.

Next, on **Page 8** is our capital expenditure plan.

We are planning capital investments of ¥43.3 billion during FY22/3 for the corporate group as a whole, including growth investments consistent with the “new normal,” and investment to strengthen business foundations. In Processed Foods, we will make investments in production facilities for new core products and to strengthen capacity for mainstay items, while in Logistics we will expand warehouse facilities in

Europe to support overseas business growth. As a result, we plan to send ¥108.4 billion over the three-year plan period. This is slightly above our initial plan, but we have accelerated the pace in order to capture business opportunities.

Page 9 shows our financial strategy.

Operating cash flow in FY22/3 is forecast to be ¥46.5 billion, of which ¥43.3 billion will be allocated to capital expenditures. In terms of dividends, Nichirei aims for stable increases based on a standard of 3% DOE (dividend on equity). We expect to pay an ordinary dividend of 50 yen per share, representing a year-on-year increase of six yen per share, for a payout ratio of 29%.

Continuing on, the next section is results by business segment. Let's start with the Processed Foods business.

Page 10 is an overview of the market environment. **Page 11** shows the quantitative aspects, and **Page 12** presents a summary of segment measures.

For FY22/3, we are forecasting segment sales of ¥240.0 billion, an increase of ¥14.5 billion, or 6% from the previous fiscal year, with operating profit of ¥18.2 billion, up ¥1.0 billion, or 6%. The specific factors for increase and decrease in operating profit are shown on Page 23, which you can review later, but in general we expect expanded sales to absorb increase in depreciation and other costs for an earnings gain.

Let's look at the overview of measures for sales growth. One of the market trends that has emerged as eating meals at home has become common, is that consumers have begun to appreciate the value of frozen foods, such as the feeling of cooking and convenience, authentic good taste, and as a substitute for cooking. We expect demand for frozen foods to rise further going forward.

We want to seize the market changes and opportunities in this "new normal," and during this period will pursue measures to expand existing business areas and create new business opportunities, in order to increase sales.

For expansion of existing business areas, we will focus on increasing sales of rice products such as *Honkaku Itame Cha-han* (authentic fried rice), now in its 20th year since launch, as well as strategic category items such as chicken and meats. For commercial-use products, we will strengthen product development for the HMR and delicatessen sectors where demand remains firm. We expect these measures to drive revenue gains.

For creation of new business opportunities, we will develop products that require less food preparation, such as meal kits and instant food items, as well as pursue measures in expanding categories such as e-commerce and products for welfare meal services. We will also work to spark demand in the commercial-use route in anticipation of recovery once the COVID-19 situation subsides, and capture the rebound in consumption.

As a result of these measures, we anticipate a 7% increase in sales of household-use products, and a 9% gain in commercial-use items. Overseas, we are forecasting a revenue gain of 2% from the previous fiscal year.

Please turn to **Page 16**.

Nichirei's U.S. subsidiary InnovAsian Cuisine recorded year-on-year growth of 16% on a U.S. dollar basis, on a sharp rise in sales of household-use products. For this period, we expect the strong growth in household-use products to slow as the COVID-19 crisis subsides in the U.S., but by continuing to introduce new products and other efforts to expand sales, and focusing on the commercial-use sector such as delicatessen counters, we anticipate growth of around 3%.

We will bolster the procurement and production structure in accordance with the sales increase, to support future growth.

Moving on to the Logistics business, please turn to **Page 17**.

For FY22/3, we are forecasting segment sales of ¥224.0 billion, an increase of ¥11.7 billion, or 6% from the previous fiscal year, with operating profit of ¥13.5 billion, up ¥0.4 billion, or 3%. Along with a revenue boost of more than ¥10 billion, on a par with that in the Processed Foods business, we expect to secure stable earnings growth from improved performance at the large-scale refrigerated warehouses that began operating in the previous fiscal year. The specific factors for increase and decrease in operating profit are shown on Page 23, which you can review later.

Nichirei's various measures for the Logistics business are explained from **Page 18**.

In Japan, along with the new facilities built in the previous fiscal year, we will maximize earnings through a combination of existing centers and various services, and strengthen logistics solutions to comprehensively handle logistics management for client companies.

For the Logistics Network, we expect the firm growth in the transfer center (TC) business in the previous fiscal year to continue during the current period. The TC business covers around 13% of supermarkets in Japan. We will work to increase cargo volumes for the HMR and home meal sectors, and are considering building several new facilities to further expand the scope of service. For third-party logistics (3PL), Nichirei will focus on expanding the frozen foods logistics platform launched in the previous fiscal year.

For Regional Storage, since the latter half of the previous fiscal year there has been a marked decline in inflow of imported products and a slowdown in movement of commercial-use material. However, we expect intake and inventory levels to recover from the second half as the COVID-19 emergency subsides. We will make efforts to expand cargo collections, focusing on the major metropolitan areas of Kanto and Kansai, along with the Nagoya region where we have increased capacity. Along with optimization of cargo placement, we expect this to drive gains in revenue and earnings.

Please turn to **Page 20**.

Overseas, we are forecasting a revenue increase of ¥3.0 billion, or 8% from the previous fiscal year. Nichirei is making investments for growth in Europe, as per the business plan, to expand its business base. In the Netherlands, we are expanding warehouse facilities in the Rotterdam port area to further advance a one-stop service for customs clearance, storage, and transport. In the U.K., we are focusing on capturing demand for customs and storage services stemming from Brexit, and strengthening coordination with the Netherlands to expand business. In Germany, where demand remains firm, we are considering investments to strengthen port functions. In addition, while this is not included in the presentation, in China, in response to increasing demand for temperature-controlled logistics, Nichirei is strengthening its foundations to support expansion from the Shanghai area.

Page 21 presents the status of operational reform measures, which you can review later.

Next is the Marine Products, Meat and Poultry businesses, presented on **Page 22**.

In Marine Products, Nichirei is forecasting sales of ¥60.0 billion, a decrease of ¥3.1 billion, or 5% from the previous fiscal year. Operating profit, however, is expected to increase to ¥0.7 billion, up ¥0.2 billion year on year.

The tight focus on more lucrative products will lead to a decline in revenue, but we will secure earnings by strengthening the production and sales of processed items to meet demand from *sushi* chains and other restaurants, as well as for home meals.

In Meat and Poultry, we are forecasting sales of ¥90.5 billion, an increase of ¥6.4 billion, or 8% from the previous fiscal year, with operating profit of ¥1.6 billion, up ¥0.3 billion.

Along with recovery in the HMR and restaurant industries, Nichirei will focus on products with favorable sales to procurement cost, mainly chicken, and work to expand sales of premium, select ingredients such as *Junwakei* Chicken, produced as a livestock circulating model with consideration for sustainability.

This concludes the explanation of the presentation material.

Finally, although it will still be some time before the COVID-19 pandemic subsides, after a year and a half since the outbreak people seem to have settled into a “new normal” lifestyle to a certain extent. During the time, new markets, products, and services have emerged. Through trial and error, we have identified the various issues, regarded the COVID-19 crisis as an opportunity, and will continue to be a company that contributes to society. Thank you for your attention.

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