Nichirei Corporation

FY22/3 Q1 Financial Results Briefing Summary of Q&A Session

(Tuesday, August 3, 2021, 16:00–17:00)

Q. Please review the factors affecting operating profit in Processed Foods.

A. The main positive factor was the increase in revenue (+0.4 billion yen). Negative factors included the impact on performance from the slowdown in operations in Thailand and a related temporary increase in costs* (-0.5 billion yen), an increase in food material and procurement costs (-0.4 billion yen), a rise in advertising expenditures (-0.5 billion yen), an increase in depreciation (-0.2 billion yen), and other expenses (-0.3 billion yen).

* The temporary increase in costs was around 0.2 billion yen, and limited to Q1.

Q. Please provide a little more detail on the situation in Thailand.

A. Our subsidiary in Thailand, GFPT Nichirei, is suffering from a shortage of foreign workers due to immigration restrictions implemented in response to the COVID-19 pandemic. At the start of the fiscal year, we did not expect the situation to last for too long, but from April through June the restrictions were further tightened, and we were unable to meet our production targets. Going forward, we plan to address the situation by utilizing the existing workforce, introducing automation equipment, and other measures that will allow us to maintain the current level of production volume.

Q. What are the specifics of the increase in price of food material? What are the differences from initial forecasts?

A. At the beginning of the term, we anticipated cost increases of around ¥0.4 billion year on year, mainly for chicken. However, because of an outbreak of bird flu, prices for chicken meat and eggs have risen beyond our expectations. The increase in the price of cooking oil was also a significant factor. Prices rose sharply from around April through June, greatly exceeding our initial forecasts. In total, for the full fiscal year we expect costs to grow by more than 1.0 billion yen. We plan to offset these increases with productivity improvements, and reductions in administrative and other costs, but it will be extremely difficult.

Q. Household-use products have shown extremely strong growth, even greater than the expansion in the market. What is behind this growth, and should we expect it to continue from Q2 and beyond?

A. The success is due to penetration of mainstay products, and a broader focus on promotion in April and May. The main drivers have been rice-based products and processed chicken, but products for *bento* lunches have also recovered, leading to positive performance for household-use products in general. Items such as *Honkaku Itame Cha-han* (Authentic Fried Rice), which just marked its 20th year since launch, along with *Gomoku Cha-han* and *Tokukara* fried chicken, continue to be popular, while *Prime Pork Cutlet* has become an established item. New products such as *Teriyaki Chicken Steak* are selling well, and we have begun pre-sales of *Ninniku Cha-han* (Garlic Fried Rice) being released this fall. We expect continued growth in household-use items from 2Q and beyond.

Q. Please provide a little more information on why commercial-use products have shown only 1% growth.

A. Sales to restaurants and for meal services have recovered with double-digit growth, and delicatessen items have also performed well. However, sales to major customers were down year on year, so growth was a lackluster 1% overall. We expect to expand sales in the second half with the launch of new products and other measures.

Q. What is the situation for frozen foods in the United States?

A. At the start of the fiscal year, we expected that as the COVID-19 situation improved, sales of household-use items would decline. Looking at the progress, however, the slowdown has not been as evident as we originally thought. Sales of commercial-use items are also beginning to pick up, and we are anticipating gains on a revenue basis, and so have revised our forecasts upward. We had also originally forecast a year-on-year decline in operating profit, but are now expecting earnings to be on a par with the previous fiscal year, and have revised our forecast upward by 0.2 to 0.3 billion yen from initial figures.

Q. What are the reasons for the upward revision to forecasts for Logistics?

A. At the start of the fiscal year, we anticipated a rebound decline in the transfer center (TC) business from the previous year, but results have exceeded our expectations. Operational improvements in transport and refrigerated warehouses have also exceeded plan, and the overseas business is growing steadily. Based on these considerations, we revised the forecast upward.

END

Note: This document is not a complete record of the Q&A session, and has been edited by Nichirei Corporation.