

FY22/3 Second Half Financial Results Briefing

November 4, 2021
Nichirei Corporation

Hello, I'm Kenya Okushi, president of Nichirei Corporation. Thank you for attending this briefing for our FY22/3 first half financial results. Today's presentation is being conducted as both an online and telephone conference. We apologize for any inconvenience. Let's begin the briefing.

Please turn to **Page 1**. I'd like to start with the consolidated results for the corporate group.

Net sales amounted to ¥294.6 billion, an increase of ¥12.8 billion, or 5% from the same period of the previous fiscal year.

Revenue rose on an increase in sales of household-use products in Processed Foods, and steady results from Logistics in Japan and overseas.

Operating profit was ¥16.0 billion, a decrease of ¥0.7 billion, or 4% from a year earlier.

The Logistics business continued to perform strongly, but results in the Processed Foods business declined as a result of a production falloff in Thailand, and an increase in costs.

Net income amounted to ¥11.1 billion, a gain of ¥0.2 billion, or 2% from the same period of the previous fiscal year, mainly as a result of a ¥1.3 billion gain on sales of investment securities in extraordinary income.

Page 2 and **Page 3** show the status of progress with the main measures in the current medium-term business plan.

Starting with **Page 2**, for "Strengthen the management base" we have steadily implemented measures in Logistics, and achieved continued growth.

For "Sales expansion using new approach," while we expect sales to recover and increase for the corporate group overall during the current fiscal year, we are strengthening product development to further capture demand generated by the "new normal," and in the second half will invest approximately ¥4.0 billion in production facilities to meet growing personal use demand.

For "Capital expenditures for sustainable growth," in addition to the project I just mentioned, we are making growth investments in Japan and overseas according to plan. Nichirei has also invested in a production company in the U.S., and acquired a refrigerated warehouse company in the U.K., so we will put these on a growth track going forward.

In "New business creation," Nichirei acquired "me:new," a startup that pioneered an app to automatically generate menu ideas, and is integrating this app with the "conomeal kitchen" menu support service in order to further increase business opportunities.

Going forward we will continue to provide support for the "me:new" app, and pursue a data services business based on food preference analysis.

Next, turn to **Page 3**.

As I noted in the first half results, restoring earnings for Processed Foods is a newly emerged, urgent management issue. I will explain our response more thoroughly in the segment information later.

Page 4 shows our plan for the full FY22/3 period.

These are the results forecasts for corporate group. For net sales, while estimates have been adjusted for the various segments, the overall figure of ¥600 billion is unchanged from the previous forecast.

The full-year operating profit forecast has been revised downward by ¥2.0 billion to ¥33.0 billion. While we expect performance in Logistics to remain firm, tough circumstances continue in Processed Foods.

For the corporate group overall, we will work to restore earnings gains in the second half, and full the full year secure earnings that exceed those of the previous fiscal year. The forecast for profit has been revised downward by ¥0.5 billion to ¥22.5 billion in consideration of operating profit, but this still represents an increase of ¥1.3 billion, or 6% from the previous fiscal year.

Next on **Page 5** is our capital expenditure plan and financial strategy.

The forecast capital expenditure for FY22/3 has been reduced by ¥7.3 billion, as certain planned maintenance expenditures have been pushed back to the next fiscal year.

In consideration of the current progress of capital investment, as well as the D/E ratio and other aspects of our financial position, Nichirei decided to acquire treasury stock in order to further expand shareholder returns and enhance capital efficiency. We plan to purchase up to four million shares, with a total maximum cost of ¥10 billion, on the open market.

In addition, Nichirei plans to retire around 6.03 million shares held as treasury stock.

Continuing on to segment information, **Page 6** shows the Processed Foods business.

Sales during the first half rose ¥8.1 billion, or 7% from the same period of the previous fiscal year, on positive performance for household-use products and the overseas business. Operating profit was ¥6.8 billion, down ¥1.8 billion, or 21% compared with the same period of the previous fiscal year.

In the second half, we are anticipating an increase in revenue from continued strong results in the household-use category, and expanded sales of commercial-use products. We will also implement price revisions and strict cost controls. These measures are aimed at securing earnings on a par with that of the previous fiscal year, but since we are unlikely to make up for the delays in the business plan from the first half, we have revised downward our forecasts for net sales by ¥2.0 billion, and operating profit by ¥2.4 billion.

The main factors affecting operating profit are presented in the reference material on Page 16, which you can review later.

Next, please turn to **Page 7**.

I'd like to address our two priority issues for earnings recovery, measures to counter the shortage of processed chicken, and rising food material costs.

Let's begin with the processed chicken shortage. The situation facing production plants in Thailand is that Covid-19 cases are spreading in rural areas of the country. The national border remains closed, and workers from outside Thailand are currently unable to enter. This has caused a labor shortage at our two big production plants.

The rate of operation at GFPT Nichirei has declined, and was particularly low in August and September. Surapon Nichirei Foods also experienced a decline in its operation rate in September as the number of infections spread. The rate of operation at both plant is currently at around 60% capacity, below our prediction at the time of Q1 results.

It's still unclear when the pandemic will subside and borders will be reopened, but Nichirei is taking immediate steps to restore normal operations as quickly as possible, and make up for the falloff.

In terms of response strategy, for the production and procurement aspects we are focusing on the two areas of restoring production levels and securing alternative suppliers, while for sales aspects we are bolstering sales of products other than chicken from Thailand.

The first measure is to restore production levels at company-owned factories.

GFPT Nichirei is taking steps to secure workers within Thailand, while also enhancing production efficiency by utilizing automation to provide labor savings. As a result of these measures, by the January to March period of 2022, the company plans to reach 80% capacity compared to 2020 levels prior to the pandemic, and return to a pre-covid level in the second half. Our medium-term business plan from FY23/3 anticipates full operations, including at the No. 2 Plant that was expanded last year, and an increase in production volume to 1.5 times that prior to the Covid-19 outbreak.

Surapon Nichirei Foods is expanding its network of poultry suppliers, and focusing on internal

production of chicken meat by introducing automated cutting machines. Like GFPT Nichirei, the company plans to restore its production level to around 80% of normal by the January to March period of 2022, the first quarter period in Thailand, and return to normal operations in the second half.

The second measure is to utilize and equip alternative production facilities as a means of dealing with the recent supply shortage, and mitigating the risk of a similar situation occurring again in the future.

Nichirei is pursuing procurement through OEM in Thailand and China, as well as selecting applicable products in advance, and revising product designs to allow production to be shifted to other facilities in a flexible manner. Processed chicken produced at Nichirei's plants in Thailand are a major earnings driver for the Company, on a par with rice products.

Up to now we have brought in workers from nearby countries, but in future we expect that a shortage of such workers, and rising personnel costs, will become problems. In response to the newly emerged issue of "temporary shortage of workers," Nichirei is pursuing automation at a rapid pace, getting its production structure back to normal as quickly as possible, and establishing a stable operating structure. We plan to restore earnings by offering value-added products to suit the growing market for chicken in Japan.

Next, turn to **Page 8**.

In terms of measures in the sales aspects response to the supply shortage, we are utilizing excess capacity at plants in Japan as much as possible, and increasing the supply of alternative products. We have also established new production lines for personal use items such as individual meals and snacks, and plan to increase sales by getting these lines up and running as quickly as possible.

The second issue in terms of earnings recovery is adapting to the rise in food material costs. With economic activity returning to normal as the world recovers from Covid-19, food material costs have risen higher than our initial expectations, pushing down profitability.

From the second half, we will continue measures to lower costs with productivity improvements, and place curbs on the use of SG&A expenditures, as well as revise prices for certain items in an effort to offset the cost hikes.

The rise in food material and other costs is expected to continue going forward, and while this will take precedence in the current fiscal year, the effect of these measures will minimize the impact in FY23/3.

Next, on **Page 9**, is our measures for future earnings growth.

In the current fiscal year, our delay in responding to the deterioration in the business environment led to a temporary decline in profitability, but sales continue to be firm.

Over the longer term, we expect demand for frozen foods to continue to rise. As such, since there is still room to expand sales of existing mainstay products, while taking steps for restoration of our profit structure, we will continue to allocate resources to strategic categories, and support growth.

Nichirei is also strengthening development of products to meet personal use demand, which has expanded as part of the "new normal." In Q4 this year, we will invest approximately ¥4.0 billion in the Yamagata Plant to establish a production line, and offer new value-added products.

On **Page 10** is our overseas business.

Nichirei's U.S. subsidiary InnovAsian Cuisine is strengthening its product procurement structure to meet robust demand, and expanding sales mainly of household-use items. We will continue to increase sales of mainstay products, launch new products, and grow our market share.

In summary, the Processed Foods business has been impacted by the spread of Covid-19 in Thailand, and rising food material costs. We have implemented the measures I've just described, but in the second half, we don't expect to be able to make up for all the ground lost during the first half.

From the second half, and in the next medium-term business plan, the management policies we are contemplating include a further strengthening the production and earnings foundations in our strategic categories of chicken and rice products, and allocating resources to establish new earnings drivers. We plan to further strengthen the process of selection and concentration, establish an earnings structure less susceptible to downturns in the business environment, and get back on a growth track.

Moving on, turn to **Page 11**. The next segment is Logistics. Let's begin with a look at the first half.

Net sales amounted to ¥109.6 billion, an increase of ¥4.9 billion, or 5% from the same period of the previous fiscal year.

In Japan, the Logistic Network's transfer center (TC) business recorded a steady handling of products for supermarkets. In Regional Storage, haulage volume for imported cargo and the amount of commercial-use cargo remained at low levels, but handling volume for household-use products expanded, and sales rose by 1% compared with the same period of the previous fiscal year.

Overseas, revenue in Europe rose 20% on an increase in handling volume as countries recovered from Covid-19, and steady capturing of growing storage demand related to Brexit.

Operating profit totaled ¥7.8 billion, an increase of ¥0.9 billion, or 14% from the same period of the previous fiscal year.

Earnings rose as a result of steady growth in the TC business, and the revenue boost from the increase in volume of frozen foods, as well as Nichirei's initiatives for operational efficiency and curbing costs.

Next, let's turn to full-year forecasts.

The breakdown of the net sales forecast between Japan and overseas has been adjusted, but the total remains unchanged at ¥224.0 billion, for a year-on-year increase of ¥11.7 billion, or 6%.

The operating profit forecast has been revised upward by ¥0.5 billion from the previous figure to ¥14.8 billion, for an increase of ¥1.7 billion, or 13%.

In Japan, the recovery in imports has been slower than expected, but as business recovers, we are expanding collections of commercial-use cargo, and anticipate that the volume of household-use frozen foods and the TC business will remain firm. We are also pursuing operational improvements and greater transport efficiency, which we anticipate will offset the expected sharp rise in electricity rates and delivery costs. As such, we are forecasting gains in both revenue and earnings.

Overseas, Nichirei expects to achieve increases in revenue and earnings for the full fiscal period from expanded handling volume in port areas in Europe.

The factors affecting operating profit on presented on Page 16, which you can review at your convenience.

Continuing on, please see **Page 12**. This shows the status and outlook of the main measures we are implementing in Japan in the second half.

In the logistics network, handling volume in the TC business remains at a high level. During the second half, we will take steps to capture trade volume for the HMR and home meal markets, and by utilizing the new TC that began operations in October, further expand our service offering. In the third-party logistics (3PL) business, we will focus on expanding the frozen foods logistics platform launched in the previous fiscal year.

In Regional Storage, the volume and turnover for household-use freight remains steady, but the falloff in imported cargo that began in the second half of FY21/3 remains unchanged. We anticipate a recovery in intake and inventory levels as the pandemic subsides, and will work to expand collections, focusing on major metropolitan areas in Kanto and Kansai, as well as the Nagoya region where we increased warehouse capacity last year.

Next on **Page 13** is the status of measures in the medium-term business plan.

Nichirei is implementing management measures to respond to the changes in the business

environment, and strengthen its earnings structure.

Through continued sales expansion by offering varied services, measures for operational improvements in storage and transport along with other reforms, and strict cost management, we expect to achieve a growth rate and profit ratio in excess of plan.

We are also making systematic growth investments to reinforce our business base, such as constructing new refrigerated warehouses.

Going forward, although we anticipate various types of cost increases, Nichirei will continue to steadily implement measures to increase sales and improve operations, and strengthen our earnings structure.

Continuing on, see **Page 14**.

Overseas, Nichirei is focusing on capturing the recovering demand in the European region, and expanding business in the U.K.

In the Netherlands, we are expanding our warehouse in the Rotterdam port area, and plan to begin operation in December. This facilities expansion will provide the capacity to increase cargo collections, as well as allow us to gain new customers by offer value-added services such as defrosting and repackaging. Moreover, by strengthening ties among group companies, we aim to further enhance our port area one-stop service.

In addition, we expanded two facilities in France, increasing our capacity.

Although vehicle procurement costs are rising across Europe, Nichirei will focus on expanding cross-border logistics and transport to volume retailers, mainly in the Netherlands, Germany, and Poland.

In terms of business expansion in the U.K., in October Nichirei acquired a local refrigerated warehouse company. The firm we acquired, Norish Limited, has around 100 thousand tonnes of storage capacity. Strengthening storage capacity in the U.K. will allow Nichirei to provide a one-stop service integrated with its existing customs clearance and defrosting functions, and broaden its customer base.

Finally, on **Page 15**, is the Marine Products and Meat and Poultry segments.

I'll begin with Marine Products. Revenue and earnings rose in the first half as a result of increased sales to the sushi market of fish roe processed at company-owned facilities, along with a rise in the selling price of octopus.

In the second half, despite an anticipated increase in procurement costs, Nichirei expects to secure a gain in earnings for the full-year period by focusing on appropriate procurement based on sales status, and strict adherence to sales emphasizing profitability.

In Meat and Poultry, during the first half the handling volume for domestically raised fresh chicken and pork declined as a result of a cyclical downturn following the spike in home meal demand in the previous fiscal year, but we managed to secure earnings on a par with the same period of the previous fiscal year with improved profit on imported frozen foods, along with reductions in logistics and administrative costs.

In the second half, Nichirei will continue to focus on sales of processed foods for the home meal and HMR markets, and expand its lineup of differentiated products, and is forecasting an increase in earnings for the full year period.

Reference material is presented from **Page 16**, which you can review at your convenience.

This concludes the presentation. Thank you for your attention.