Nichirei Corporation

FY22/3 Q2 Financial Results Briefing – Summary of Q&A Session

(November 4, 2021 ; Online / Conference Call)

Q. It seems that the number of Covid-19 cases in Thailand has declined. Have the workers returned? Regarding the operating status of production plants, you stated that plants would operate at 70% capacity in the second half (July to December in Thailand) compared to the previous year. Does this mean that the August to September period was the low point, and operations have in fact recently returned to the 70% level?

A. Thailand's international borders remain closed. We are taking steps to secure an ample workforce, and retain the workers we currently have, including offering additional welfare benefits. The figures are low, but we are securing workers from within Thailand, and pursing automation. Operating capacity declined in August and September, but is improving. In the fourth quarter (October to December locally), we expect to restore operations to around 80% capacity. This is not significantly out of line with our forecasts.

Q. What is the impact from Covid-19 on the two Thai firms in quantitative terms? The breakdown of factors affecting earnings includes the impact of results at affiliated companies, while cost increases due to a switch to OEM would also have boosted revenue. What the amount of impact of earnings decline?

A. In "Factors for Increase/Decrease in Operating Profit" on Page 16, the forecast "Impact of results at affiliated companies" is presented as a decline of 1.6 billion yen. This includes the earnings at the two companies in Thailand, as well as the impact on earnings in Japan as a result of the falloff in production volume, so think of that 1.6 billion as originating in Thailand. The increase in sales due to the switch to OEM was a positive factor for revenue, but we are not disclosing the specific amount.

Q. Regarding price revisions to processed foods in response to higher food material costs, what is the impact of cost increases during the current fiscal year, as well as the situation and effects of price revisions? Also, what is the outlook for cost increase and price revision effects in FY23/3?

A. Food material costs have risen considerably more than our initial expectations. We are now anticipating the total cost increase to be around two to three billion yen for the full fiscal period. As for progress with price revisions, while the business environment is difficult, we are moving forward systematically to gain understanding, and expect to be able to absorb cost increases through price revisions. For FY23/3, we do not anticipate cost increases like those in the current fiscal year, and although a weakening of the yen is a concern, there is likely to be a price revision effect to a certain degree.

Q. Regarding the factors behind the acceleration of growth in household-use products, what are the market factors, and what are individual factors?

A. Market factors include greater awareness of frozen foods as a result of the Covid-19 pandemic, and an increase in media outlets featuring frozen foods that has boosted visibility, as well as a recognition among consumers of the value of frozen foods, including good taste. Building on this, Nichirei has strengthened its lineup of mainstay items such as rice products and processed chicken, while promotional efforts have enhanced engagement, leading to continued growth.

Q. During the second half, it seems that you are anticipating a slight slowdown in household-use products, but are optimistic about commercial-use items, with an upbeat sales forecast of 5.2 billion yen. What is the likelihood of achieving this plan, based on the shifts in the movements of people?

A. The forecast might by slightly bullish, but since the lifting of emergency declarations, restrictions on the movement of people within the country have been loosened considerably, and this figure reflects an expectation in recovery of sales at convenience stores and restaurants. Sales of delicatessen to volume retailers have been solid, and we took this portion of the figures for a forecast of 5.2 billion yen. There is of course a possibility that a resurgence of Covid-19 cases will bring sales of commercial-use items to a sudden stop, but in that case, we expect household-use products to offset the decline.

Q. Regarding the Logistics business, to what do you attribute the solid results in Japan. Also, is it fair to assume that these results will continue in FY23/3, or do you anticipate a leveling off?

A. The improvement in earnings is the result of establishing a structure to capture sales, proactive adoption of digital technologies in warehouses and offices as part of our operational reform efforts, and measures to counter the labor shortage. We expect growth to continue in FY23/3. A decade ago, the operating profit margin in the Logistics business was around 5%, and is now at the 6% level. During that time there was almost no volatility, and we are confident that we can secure firm profitability in this business domain throughout the fiscal year. There are times when we need to make considerable investments, but we formulate plans with consideration to overall earnings growth, to ensure there is no deterioration.

Q. Could you comment on Nichirei's predominance in the overseas logistics business, the business impact this will have over the next three to five years, and the prospects for the future?

A. Nichirei expanded into business in Europe in 1988, and reached its current business structure through acquisition. Our solid customer base in several countries, established over many years, is one of our strengths. We have recently acquired a U.K. company, and are proceeding with a plan to strengthen our business foundation in Europe overall.
The business characteristics vary by country. In some countries we are strong in transport, and in others storage is our main strength. However, going forward we plan to differentiate ourselves from the competition by providing an integrated transport and storage service similar to the way we operate in Japan. Through continued M&A and capital investment, over the next decade we plan to establish an even stronger business structure.

Q. Regarding the consolidated operating profit of the corporate group, in the current fiscal year, the final figure is being dragged down from the actual value by Thailand and food material costs. When considering the new medium-term business plan starting in FY23/3, what will you use as the base for the actual figure for earnings? Please give us an idea of the earnings level excluding extraordinary factors.

A. The medium-term plan we originally released indicated operating profit of 35.0 billion yen, but as a result of external factors and other concerns, we are now forecasting 33.0 billion yen for the current fiscal year. The Covid-19 situation in Thailand has been going on for some time, but it is a temporary factor. Once that's finished, it will bring sales and earnings from the processed chicken products that are the earnings driver in Processed Foods, so we expect to be able to raise the level to a certain degree. In terms of our capabilities, 35.0 billion yen is not a particularly ambitious target, but since we'll be starting the next fiscal year behind plan, we are still considering what rate of growth to set.

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