Nichirei Corporation

FY22/3 Q3 Financial Results Briefing Summary of Q&A Session

(Tuesday, February 1, 2022)

Q. What were the main factors affecting operating profit in the Processed Foods segment during the third quarter cumulative period?

A. Positive factors were a revenue increase and productivity improvements, which led to gains of 1.6 billion yen. Negative factors included an increase in food material and procurement costs (1.5 billion yen), impact of results at affiliated companies (1.0 billion yen), increase in depreciation (0.8 billion yen), increase in advertising expenditures (0.2 billion yen), and "Other" including an increase in ocean freight charges (0.7 billion yen).

Q. Regarding the plan for Q4, you are forecasting earnings in Processed Foods on a par with the previous fiscal year, and a substantial increase in Logistics. What are the circumstances underpinning these predictions?

A. These forecasts are based on increasing sales during the fourth quarter. For Processed Foods, the positive sales growth continues, so we have formulated a plan in which revenue gains absorb the cost increases to secure a level near that of the previous fiscal year.

For Logistics, strategic expenditures in the previous fiscal year were concentrated in the fourth quarter, and have been more evenly distributed this year, so when viewed on a year-on-year basis, expenditures in the fourth quarter will decline.

Q. Regarding the situation in Thailand for processed foods, what was the operating rate during the October to December period? Also, regarding "impact of results at affiliated companies," compared to your full-year forecasts at the time of the first half results announcement, this has been revised upward by 0.3 billion yen to a negative 1.3 billion yen. Is it fair to assume that this will be fully eliminated in the next fiscal year?

A. Operations in Thailand are recovering faster than originally expected, so we are expecting a slight upward swing. The operating rate has risen recently to near 80% of normal capacity, and we are aiming for full normal operations by March this year. We can't say definitively that the impact will be fully eliminated in the next period, but we are working toward improvement.

Q. What are your views regarding the impact during the next fiscal year of the increase in food material costs for processed foods, and the effect of price revisions?

A. At the time of the first half results announcement, we stated that the effect of increases in food material and other costs would be around 2 to 3 billion yen. We cannot say at this point what that figure will be in the next fiscal year, but our thinking is that prices of certain food material will continue to increase, and that nothing will decline. Ocean freight charges are rising, and the yen is weakening, so costs will likely continue to rise. The degree of increase is greater than we can absorb through our own efforts, so we are maintaining our policy of gaining understanding for price revisions.

Q. How have sales been since the price revisions?

A. Revenue from household-use products rose around 3% during the third quarter, which is a slowdown compared to growth through the first half. However, the main reason for this is the temporary decline in sales of processed chicken due to supply side constraints in Thailand. We do not expect the impact from price revisions to be too extensive.

Q. Is it fair to say that your basic thinking is that processed foods, including food material, hit bottom in Q3, and although costs will rise going forward, momentum is improving?

A. Yes, that is the view we want to convey.

Q. Regarding domestic regional storage in the Logistics business, what are the circumstances surrounding the downward revision to revenue forecasts, and the market conditions for setting appropriate rates? Will you be able to pass on higher costs due to the labor shortage and other factors in the next fiscal year as well?

A. Receipts of animal products and other imported goods is behind plan, so sales have declined, but handling volume of household-use items is positive, and commercial-use cargo is starting to move. In terms of setting appropriate rates, there has been a marked increase in outsourcing costs, electricity rates, oil prices, and other expenses. While we are working to absorb costs by pursuing further operational improvements, for the areas where this is difficult, we are asking for understanding from clients to cover these increases.

END

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