Nichirei Corporation

FY22/3 Nichirei Group Medium-term Business Plan "Compass Rose 2024" Briefing Q&A Session

(Wednesday, May 11, 2022, 15:00–16:15; Online/Conference Call)

<u>**Group Overall**</u>

Q. Please provide a quantitative assessment of the changes in return on investment capital (ROIC) and weighted average cost of capital (WACC) in each business segment over the three-year plan period.

A. The business segment ROIC is a simplified ROIC calculation using operating profit after tax as the numerator, in order to allow for quick calculation and simple comparison with other companies in the industry.

For Processed Foods, the current figure for ROIC is slightly below 10%, but we aim to increase this to the 11% to 12% range within three years by recovering earnings without a decrease in invested capital. For Logistics, the current figure is in the 6% to 7% range, but since we are planning large-scale capital investments, we expect ROIC to decline slightly. For Marine Products, the current figure is slightly below 3%, which we plan to raise to the 5% level through structural reforms. For Meat and Poultry, the current level is around 9%, which we aim to increase to around 11% to 12% through greater profitability. In the Bioscience business, we are aiming to reach a figure of 4% to 5% by revising the product portfolio.

In terms of WACC, up to now we have calculated this for each business segment by referencing benchmark companies, which generated considerable variations in the rate. For the latest business plan, we have excluded D/E ratios peculiar to the industry and other factors, and set the rates at around 4%, though the figures may vary slightly by business segment.

Q. The operating profit margin in the previous business plan was 5.2%, and in this latest plan is forecast to increase just 0.4 percentage points to 5.6%. Meanwhile, in the next business plan, and for 2030, you've set a management target to raise the profit margin to 8%. What do you expect will be the drivers that provide this growth?

A. The drivers for profit growth will be Processed Foods and Logistics. In Processed Foods, the profit margin declined slightly in the previous fiscal year, but we aim to reach to 7% to 8% level. In Logistics, the rate has remained static at around 5% to 6%, but since we have been able to set appropriate fees mostly in line with plan, the earnings structure has significantly improved. This has also coincided with an increase in cargo volume, putting the 7% range in sight. In other businesses, we will improve the rate by steadily implementing plan measures.

In terms of the overall operating profit margin, despite ongoing strategic expenditures related to sustainability, since the current round of large-scale capital investment in Japan is coming to a close, the rate will steadily increase.

Processed Foods

Q. Regarding the reorganizing of the supply chain, one would assume that production facilities in Thailand offer advantages in terms of supply capacity and cost competitiveness, and that increasing the ratio of items produced in Japan would lead to higher costs. Would you explain your thinking regarding reorganizing once more in detail?

A. Nichirei currently relies on Thailand for around half of its supply of processed chicken products, and this will remain unchanged. At the same time, considering the impact from covid-19 and the situation in Ukraine, we think it will become increasingly difficult to procure food material and products from abroad. For processed chicken products, for example, we will procure material from producing regions including Japan, and produce the final product in Japan. Instead of a labor-intensive, mass-production model like that in Thailand, this will allow us to respond more precisely to varied industry needs.

In the case of rice products, the main ingredient of rice is produced domestically, but we are highly dependent on overseas suppliers for other materials. Since switching to domestic materials for all products would lead to higher costs, we will set priorities for implementing this plan. Of note, we will sell products procured and produced in Japan as high value-added items.

Q. In this latest business plan, how do you envision increasing earnings by adding value?

A. The recently launched *Hiyashi Chuka* (chilled Chinese noodles) is a product with new added value, and is in a relatively high price range. We plan to focus on capturing demand in the growing personal-use category by developing high-margin products and providing added value. Sales of products aimed at personal-use demand are currently at around ¥18 billion, and we expect to increase this to around ¥30 billion over the course of the plan.

Q. What do you mean by "Strengthen measures for growth categories"?

A. There are two main elements. The first is to strengthen sales of commercial-use products with enhanced functional value for welfare facility meals sector. The second is the e-commerce market, where we are able to narrowly focus on the customer segments we want to target. Since we are able to set prices that reflect individual mindsets, our strategy is to aim for high levels of added value.

Q. Nichirei's assumed exchange rate for this fiscal year is 122 yen to the U.S. dollar, while the rate has recently reached the 130 yen level. Has this been reflected in your results forecasts?

A. We have set our assumed exchange rate at 122 yen, but the price revisions announced in April this year were based on recent trends, and designed to be able to absorb the higher costs.

Q. Would you say that current business conditions allow for greater flexibility in revising prices than in the past?

A. We cannot say with any finality that any conditions make it easy to revise prices, but since costs have risen sharply, we are being tenacious in gaining customer understanding.

Q. What is your growth strategy for the overseas business?

A. In North America, InnovAsian Cuisine is expanding into new categories alongside its mainstay rice and processed chicken products, aiming for an average annual growth rate of 10%. The acerola business also benefits from high demand overseas from the standpoint of its clean label, and we consider this to be a major growth market.

Logistics

Q. Do you think there is a possibility that the regulatory changes that will go into effect in 2024 will lead to significant changes in the industry over the next three years?

A. Upper limits on overtime hours worked as prescribed by laws relating to working-style reforms will be applied to truck drivers from April 2024, and we believe that many players in the industry will be unable to conduct business in the same way they had previously. Under such circumstances, we think it will be important to strengthen trunk line transport capacity in the Tokyo, Nagoya, and Osaka areas that account for the majority of cargo, and so recently established the S＆U Logistics System (SULS).* We plan to differentiate ourselves from the competition by utilizing trailers where the cargo bed can be separated at Nichirei Group's transport relay bases. In addition, when drivers both transport goods as well as help load and unload cargo, it extends their working hours, so going forward we will have drivers focus specifically on transport, with loading and unloading work conducted at our facilities rather than by transport staff, which will enhance efficiency.

* SULS: https://www.nichirei-logi.co.jp/news/2022/20220510.html (Japanese)

Q. Regarding "Proactively utilize assets held by other companies," what specifically do you have in mind?

A. We have two main concepts. The first is to use other companies' assets for the frozen food logistics platform, but with Nichirei coordinating the entire process and delivering items to customers. The second is to effectively utilize the warehouse capacity of other companies. There are many refrigerated warehouses being built in Japan, including in rural areas. Nichirei conducts a scrap-and-build program for its own facilities in a planned manner, but going forward, we plan to utilize an asset-light business model that makes efficient use of warehouse capacity owned by other companies.

Q. What are the specifics of Nichirei's ESG response?

A. In terms of environmental issues, we are systematically converting facilities to natural refrigerants. We are also installing solar power systems, and plan to generate enough power to supply around 10% of the electricity used at the facilities equipped with such systems.

END

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