FY22/3 Nichirei Group Medium-term Business Plan
“Compass Rose 2024” Briefing

May 11, 2022

Nichirei Corporation

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

Please turn to **Page 1**, where we start with a review of the previous medium-term business plan.

The “WeWill 2021” plan had three main points as its general strategy: 1) Sustainable profit growth; 2) Improve capital efficiency and expand shareholder returns; and 3) Create new value.

In terms of overall results, while net sales reached a record high of ¥602.7 billion, because of the impact from covid-19 and other factors, the compound annual growth rate (CAGR) was just 1.3%.

Overseas sales amounted to ¥97.6 billion, which was slightly short of plan, but still represented a growth rate of 7.2%.

Operating profit rose steadily through the second year of the plan, but fell back to ¥31.4 billion in the final year, for a CAGR of 2.1%.

Profit attributable to owners of parent amounted to ¥23.4 billion as a result of the recording of a gain on sale of investment securities, with earning profit per share of 177 yen and ROE of 11.3%, all in excess of plan.

Next on **Page 2** is the breakdown by business segment.

Net sales rose ¥29.9 billion from the previous fiscal year, driven by the Processed Foods and Logistics businesses.

Operating profit declined ¥1.5 billion overall. The Logistics business posted a year-on-year gain of ¥1.5 billion to ¥14.6 billion, but earnings in Processed Foods declined ¥2.9 billion to ¥14.2 billion.

Page 3 presents a review of our measures and strategies.

For the first measure of profit growth, operating profit rose as a result of strengthening the business foundation for temperature-controlled logistics. Overseas business expanded through M&A in the U.K., Poland, and Malaysia, while in Japan we achieved steady earnings growth with the startup of operations at a large-scale distribution center as a strategic facility, and acceptance of appropriate fee rates. We also systematically implemented operational reforms that strengthened the earnings base for the future.

In the Processed Foods business, Nichirei was able to increase sales primarily from household-use frozen foods.

Next, let's look at the issue of failing to meet targets for profit growth, and the points at issue.

Processed Foods was severely impacted by higher costs for food material and the weak yen, which along with the slowdown in chicken processing in Thailand due to the covid-19 situation, resulted in a sharp falloff in earnings.

We also made insufficient progress with structural reforms in the Marine Products business, while results from investments in the Bioscience business failed to materialize, resulting in an operating loss.

For the second measure of improving capital efficiency and expanding shareholder returns, Nichirei maintained an ROE of 10% or higher and continuously increased dividends, while also buying back stock and working to enhance shareholder returns.

For the third measure of creating new value that supports a good dietary life and health, we moved forward with commercialization of the "me:new" menu suggestion service, as well as introduced and operated a program based on an innovation management system (IMS) as part an initiative for new business development.

From the standpoint of sustainability, Nichirei established measures and KPI for the Nichirei Group's material matters (materiality) for 2030. We are proactively accelerating measures in response to the ever-increasing expectations and demands of society.

We plan to address the lingering issues from the WeWill 2021 plan, namely the recovery of earnings for Processed Foods and structural reforms in the Marine Products and Bioscience businesses, in the new medium-term business plan.

Next, turn to **Page 4**. This is the Nichirei Group business model.

The strength of Nichirei Group is its ability to create value across the entire food value chain, from procurement to processing and manufacture, storage and logistics, and sales.

The Processed Foods business has utilized its strengths in processing and production technologies, product development, and quality assurance capabilities to increase its earnings capacity on the back of the growth in the frozen foods market.

The Logistics business has drawn on its strengths of a nationwide network, consultative sales capacity, and high service quality to meet the broad needs for logistics efficiency, and generate stable cash flow.

In this way, we believe that Nichirei Group, with the Processed Foods and Logistics businesses at its core, is able to provide solutions to the problems facing society.

Turn to **Page 5**. Here I will explain the characteristics of our business portfolio.

As I mentioned a moment ago in the review of our previous business plan, up to now Nichirei Group has been supported by the high growth potential and capital efficiency of the Processed Foods business, and the highly stable earnings generated by the Logistics business. However, profitability in the Processed Foods business has recently declined, and we recognize that such volatility is an issue we must address. The main reason for this instability is a structure that is highly dependent on imports and production abroad, and so is subject to shifts in the external environment. Also, in the Logistics business, although we can expect benefits from systematic investments, the initial costs are substantial, and recovering the investment takes time. The nature of the business makes it difficult to enhance capital efficiency soon after investment. We address these issues in the new medium-term business plan.

Next, see **Page 6**. Before going into the details of the new business plan, let me explain our long-term vision.

In 2019, Nichirei adopted “Long-term Management Goals toward 2030”, setting long-term targets of net sales of ¥1 trillion, with overseas sales ratio of 30%, and an operating profit margin of 8%.

In the new business plan, we will enhance awareness of capital efficiency throughout the corporate group, and introduce ROIC (Return on Invested Capital) as a monitoring indicator, aiming to reach 9% or higher in the future.

The measures and KPI for the Nichirei Group material matters are shown in the table on the right. For the point of “sustainable food procurement,” we plan to conduct ESG due diligence on all of our main suppliers regarding their human rights and environmental performance.

For “climate change initiatives,” we will reduce our total carbon emissions by 50% compared with 2015 levels, and take proactive measures to switch to natural refrigerants.

Turn to **Page 7**.

The expectations and demands from society regarding sustainability issues continue to increase. In order to conduct management in a way that emphasizes sustainability, we recently revised our CSR policy to formulate the “Nichirei Pledge,” our basic policy regarding sustainability.

Going forward, we will conduct business activities based on this policy.

See **Page 8**. I will now present our new medium-term business plan, “Compass Rose 2024.”

This new plan has been positioned as covering a “period of change” leading up to the halfway point to 2030.

The fundamental principle of this plan is for Nichirei, through the business activities based on the basic policy for sustainability that I mentioned a moment ago, to ramp up sustainability management and pursue capital efficiency, aiming to enhance its social and economic value, and meet its social responsibility as a company contributing to people's good eating habits and health.

Page 9 presents the content of the group strategy.

The four main measures are: 1) Create new value; 2) Strengthen ESG response; 3) Conduct business portfolio management; and 4) Grow core businesses and improve low-profit businesses.

To achieve this, we will prioritize allocation of management resources in the six areas of growth investment, overseas expansion, new businesses, environmental measures, promotion of IT and DX, and human resource development.

Page 10 explains our main measures in more detail.

For the first measure of "Create new value," we will utilize the "cooling power" to focus on developing materials that offer new health value, and offering products.

The second measure of "Strengthen ESG response" is part of our initiatives to address sustainability issues.

We will conduct ESG due diligence on suppliers regarding their human rights and environmental performance, aiming to reduce CO_2 emissions by 30% as a means of addressing climate change. While continuing to pursue cuts in consumption at individual business locations, the holding company will take the lead for overall management for installation of solar power systems, and procurement of certificates.

For the strengthening of corporate governance, as an incentive for furthering materiality, from this fiscal year the degree of achievement for ESG indicators will be reflected in the assessment of executive compensation, helping Nichirei meet its financial and non-financial targets over the longer term.

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The third measure is "Conduct business portfolio management."

Nichirei has up to now conducted management conscious of the capital cost in each business, but from the current fiscal year we have also set ROIC targets for each business. Setting policies and KPI that analyze profitability and turnover rates will enhance awareness of capital efficiency among employees, and allow for monitoring of progress. ROIC targets have also been established as an evaluation index for executive compensation. We will make decisions on asset allocation based on business assessments through ROIC, and enhance the capital efficiency of the corporate group overall.

The fourth and final measure is "Grow core businesses and improve low-profit businesses."

In the Processed Foods business, we will enhance profitability through pricing strategies and streamlining of the procurement and production structure. In the Logistics business, we will raise capital efficiency by pursuing an asset-light business model, including growth in third-part logistics (3PL) and utilization of assets owned by other companies.

To improve low-profit businesses, for Marine Products business we will implement reforms to the business structure. For the Bioscience business, we will revise the product portfolio, and concentrate management resources in the growth field of molecular diagnostic agents in order to rebuild the earnings base.

As shown on **Page 12**, to execute these priority measures, management resources will be preferentially allocated in six areas.

Around half, or ¥61.5 billion, of the ¥120 billion in total capital investment over the three-year period will be allocated for growth investments.

In overseas business expansion, for temperature-controlled logistics in particular, we will build on the achievements from investment under the previous business plan to increase the proportion of overseas sales to 20%, from the current 16%.

In new businesses, we will invest in R&D and adapting systems to generate new value.

For environmental response, we plan to invest a total of ¥29.2 billion for such projects as installation of solar power systems, and conversion to natural refrigerants.

Of note, over this three-year period, we anticipate expenditures of around ¥5.0 billion as "strategic costs," including one-time expenses for these measures and depreciation.

In addition, to execute these four priority measures, investment in IT/DX to support the utilization of digital data, and human capital for personnel development, will be essential. We will focus particularly on increasing personnel with expertise in such areas as IT, international business, and sustainability.

Page 13 presents our financial and non-financial targets.

For financial targets, in the final year of the plan we aim to reach net sales of ¥660.0 billion, representing a compound annual growth rate (CAGR) of 3.1%, with operating profit of ¥37.0 billion (CAGR of 5.6%), and profit attributable to owners of parent of ¥24.5 billion (CAGR of 1.6%). We have also set targets for ROIC of 7.0% or higher, and ROE of 10% or higher.

Of note, ROIC is forecast to temporarily decline with the increase in capital investment, but by 2027, we expect the level to be at 8% or higher as a result of greater profitability from Processed Foods business, the completion of major investment for Logistics business, and asset-light business operations.

We have also set targets for non-financial data, such as new value creation, sustainable procurement, and climate change initiatives, and will monitor our progress.

Page 14 gives targets by business segment.

As I noted in the section on resource allocation, Nichirei will spend around ¥5.0 billion for strategic expenditures over this three-year period, but we still expect to achieve increases in both revenue and earnings through growth in our mainstay businesses, and improvement in low-profit businesses.

I will cover the details later in the business segment sections.

Page 15 is an overview of capital investment.

Nichirei plans to invest a total of ¥120 billion under the Compass Rose 2024 plan, compared with the ¥93 billion spent during the previous three-year plan. Around half of this amount will be for growth investments in Processed Foods and Logistics businesses in order to further strengthen our competitive advantage, with just under one quarter allocated for environment-related projects to support a sustainable world.

The main targets for capital investment are shown on **Page 16**.

We plan to spend ¥38.7 billion in Processed Foods business, and ¥64.9 billion in Logistics business.

Specifically, in Processed Foods business we will increase capacity for rice products and processed chicken items, while in Logistics business we plan to build refrigerated warehouses in major urban areas of Japan, and new facilities in Europe.

Page 17 presents our financial strategy.

Operating cash flow for the cumulative three-year period is expected to total around ¥140 billion, of which ¥120 billion will be allocated to capital expenditures, along with a steady increase in dividends at for a target DOE of around 3%. We also plan to make comprehensive determinations on share buy-backs that include such considerations as our financial condition and the outlook for free cash flow, and respond flexibly.

Of note, we plan to maintain a D/E ratio of around 0.5 times, from the standpoint of financial soundness and capital efficiency.

Next, I'd like to discuss our strategies by business segment.

Let's begin with Processed Foods on **Page 18**.
Although the recent circumstances that have made the business environment particularly challenging remain in place, over the longer term we see no change in the trend of steady growth in demand for frozen foods.

Considering this situation, our basic strategy has four main components. We will begin by prioritizing measures to restore profitability, while also taking steps to begin restructuring of our supply chain base to correct the high level of dependence on overseas procurements.

At the same time, we will cultivate strategic categories and work to create new types of added value, establish new profit drivers, and further sustainable growth.

The details of this basic strategy are shown starting on **Page 19**.

For the first item of rebuilding profit base, in addition to enhancing productivity and cutting costs, we will make wide-ranging price adjustments in order to improve earnings.

We will strengthen product development for growth markets as well as existing ones, and focus on setting higher price points.

For the second item of reorganizing supply chain infrastructure, we will increase the proportion of domestically produced processed chicken items, switch to domestic sources of food material in order to reduce our reliance on imports, and implement other structural reforms to limit the factors that lead to fluctuations in earnings.

In Thailand, which struggled during the previous fiscal year, we will focus on increasing automation and getting GFPT Nichirei (Thailand) No. 2 Factory to operate at full capacity, in order to strengthen the degree of contribution to earnings.

The third item, on **Page 20**, is creating markets with new added value.

For pricing that corresponds to new added value, we will pursue development of products based on the themes of better health, individual servings, and cooking ingredients. In particular, to meet rising personal use demand, using as a base the Yamagata Plant in which we invested in the previous fiscal year, Nichirei will launch new household-use products, as well as commercial-use items for the growing welfare meals service sector.

The final item is achieving earnings growth in overseas business. Nichirei's U.S. subsidiary InnovAsian Cuisine will strengthen efforts to capture the robust demand for Asian foods. Specific measures include bolstering the lineup of rice-based products, and expanding into new categories to enhance market share.

Financial targets for Processed Foods business are shown on **Page 21**.

By implementing these priority measures, we are aiming for 4% growth in net sales to ¥275.0 billion, and 8.9% growth in operating profit to ¥18.4 billion.

The factors affecting the increase and decrease in earnings over the three-year period of the business plan are shown in the righthand side graph. We expect negative factors such as the weak yen and rising food material costs to be offset by price revisions, lower costs, and revenue gains, for an increase in earnings overall.

Regarding price revisions, the adjustments made during the previous period and those that we will make during this term will improve the earnings structure for the new business plan. At this point, we have already decided on the content of revisions for major users, and have gained customer acceptance for the most part.

Next, let’s move on to Logistics business.

The basic strategy, shown on **Page 22**, has three main components.

In Japan, we will build a business foundation for the next generation. Overseas, we will pursue sales and earnings growth through investment. In addition, we will take steps for sustainable growth, such as providing solutions to address societal issues.

The details of this basic strategy are presented from **Page 23**.

For the Japan business, the tighter regulations on truck drivers to be introduced in 2024 will affect the entire industry. We consider this to be a new business opportunity, and are strengthening our storage and transport functions.

Along with building new refrigerated warehouses in major urban areas of Kanto and Kansai to strengthen warehouse capacity, Nichirei will also establish a platform in the Kanto region to increase in handling volume for frozen foods. In addition, by establishing infrastructure along trunk lines linking Kanto and Kasai, and using trailer switching, we will expand the business for frozen food logistics, transport, and delivery.

Nichirei will also pursue measures conscious of asset turnover, such as expanding the third-party logistics and transport/delivery business, and actively utilizing the assets of other companies.

For overseas business, Nichirei will focus on ensuring that the expanded warehouse facilities in the Rotterdam port area of the Netherlands are up and running smoothly as quickly as possible, as well as generating synergies with the recently acquired U.K. firm Norish PLC, in order to expand business operations in the Netherlands and the United Kingdom. We will also strengthen ties between Germany and Poland, and expand the transport and delivery network in the region.

Page 24 outlines our initiatives for sustainable growth.

Nichirei will continue its measures for operational innovation, proactively adopting technologies for digitalization, automation, and labor savings. We will also establish a business foundation to adapt to the industry changes to address social issues that go into effect in 2024, move forward with efforts for eliminating CFCs and decarbonatization, and strengthen our corporate structure.

Financial targets for the Logistics business are shown on **Page 25**.

We are aiming for 5% growth in net sales to ¥260.0 billion, and 3.5% growth in operating profit to ¥16.2 billion.

The factors affecting the increase and decrease in earnings over the three-year period of the business plan are showing in the righthand side graph. Negative factors include cost increases resulting from the regulatory changes in 2024, higher electricity rates, and an increase in new facility costs. However, we expect to secure earnings gains from increased revenue in Japan, operational improvements, and growth in the overseas business.

The Compass Rose 2024 plan includes construction of several new large warehouses in major urban areas, but this will complete the current round of large-scale investments to strengthen the foundation for the future. We aim to enhance capital efficiency by reaping the benefits of investments made up to now, and pursuing asset-light strategies such as expansion of the third-party logistics business, and securing warehouse space through cooperation with other companies.

Next is Marine Products. See **Page 26**.

In Marine Products business, as a structural reform measure Nichirei is concentrating management resources on competitive products and food materials, and scaling back its employed capital. At the same time, we are also expanding overseas sales, and handling volume of marine products certified by the Marine Stewardship Council (MSC) or Aquaculture Stewardship Council (ASC), as well as increasing sales of products and food materials in which Nichirei has a competitive advantage, in order to establish a stable earnings structure.

As a result of these efforts, while sales are forecast to decrease by more than ¥20 billion compared with the previous fiscal year to ¥44.0 billion, we expect to maintain operating profit at the current level of ¥1.0 billion, and improve the business to generate ROIC that regularly exceeds the capital cost.

On **Page 27** is the Meat and Poultry business.

We are aiming for 5.8% growth in net sales to ¥95.0 billion, and 19.6% growth in operating profit to ¥2.0 billion.

We expect to achieve gains in revenue and earnings by strengthening the supply chain for domestic chicken and other fresh meats, and expanding sales of differentiated products such as meat that provides health benefits, and *Junwakei* Chicken.

Lastly, on **Page 28**, is our forecasts for FY23/3.

Nichirei is forecasting net sales of ¥618.0 billion, an increase of 3% from the previous fiscal year, with operating profit on a par with the previous year at ¥31.5 billion.

Because of expenditures for strategic costs, the negative “Adjustments” representing company-wide expenses will increase by ¥1.6 billion, but we expect this to be absorbed by earnings gains of ¥0.3 billion in Processed Foods from price revisions and business recovery in Thailand, and ¥0.7 billion in Logistics from business expansion overseas.

Profit attributable to owners of parent for FY23/3 is forecast to decrease 9% from the previous fiscal year to ¥21.2 billion, due mainly to the lack of extraordinary gains.

You can review the breakdown by segment later at your convenience.

Of note, our forecasts for FY23/3 have incorporated to a certain extent geopolitical and other risk factors such as the covid-19 pandemic and the situation in Ukraine. However, since there are still aspects of the outlook that remain unclear, we plan to update these forecasts based on our progress each quarter.

This concludes the explanation of the presentation material. Thank you for your attention.

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