Nichirei Corporation

FY24/3 Q1 Financial Results Conference Call (Analyst Meeting) Q&A Session

Date and time: August 1, 2023, 16:00–17:00
Presenters: Kenji Suzuki, Director, Senior Executive Officer, Chief Financial Officer
Yasushi Miyakoshi, General Manager, Public Relations & Investor Relations

Review of Consolidated Results

Q. Operating profit increased by ¥1.2 billion in the first quarter, and your full-year forecast is an increase of ¥1.6 billion. Even after factoring in one-time expenditures of around ¥700 million in startup costs for the Kobe Rokko DC, both the Processed Foods and Logistics businesses seem to have made a strong start in the first quarter. What is your view?

A. We consider the first quarter to be a good start. Nevertheless, operating profit is largely linked to the timing of when the lasting effects of price revisions materialize, and these effects will diminish from the second quarter onward. In that sense, we see these results as in line with the business plan.

Capital Investment

Q. At the start of the fiscal year, you stated that capital investment for the current period would be ¥47.0 billion, an increase of ¥16.6 billion from the previous fiscal year. The increase in the first quarter was around ¥2.4 billion, which seems small. What is the status of progress with capital investment?

A. The capital expenditure plan is behind schedule as of the first quarter. The main reason is the delay in planned projects for the Logistics business to establish new facilities in the Tokyo and Kansai areas. Going forward, however, in Processed Foods we plan to bolster production lines (other than the Kyurei rice products line), make investments for greater efficiency and environmental measures, and invest approximately ¥3 billion overseas. In the Logistics business, we plan to invest about ¥5 billion for the construction of the Kobe Rokko Distribution Center (DC), and about ¥6–7 billion for capital investments overseas, mainly in the United Kingdom and Poland.

Since capital investment results in greater corporate value over the longer term, there is no change in our approach of steadily implementing capital investment as planned.

Processed Foods

Q. The operating profit margin was 5.3% in the first quarter, and the full year forecast is 5.3%, so progress seems strong in that regard. What is your view regarding upward revision of the operating margin forecast in the future?

A. We do not expect the operating margin to change significantly over the course of the fiscal year. Although sales of some products are subject to seasonal fluctuations, we do not anticipate a significant change in profit margins. We feel that as of the first quarter, the operating profit margin is in line with plan.

Q. The anticipated impact from performance of overseas affiliated companies was revised downward by ¥0.4 billion from the initial plan. What is the reason for this revision?

A. The main reason is the business performance of our Brazilian affiliate, Niagro Nichirei do Brasil Agricola Ltda. The acerola powder plant commenced operations at the end of June, but due to unseasonable local weather, the affiliate has had difficulty securing a sufficient quantity of the fruit for food material, and results have fallen short of plan.

Q. Regarding the INTAGE SCI data on household-use prepared frozen foods in the Appendix (page 17 of the briefing material), I get the impression that Nichirei's sales figures were below the market average in the first quarter, and that you have been losing market share. What is the reason for this?

A. We should first point out that in terms of the source of the data and our view, the INTAGE SCI data is from a National Consumer Panel Survey (daily shopping data collected on an ongoing basis from 53,600 male and female consumers aged 15 to 79 nationwide). We regard it as one reference point illustrating market trends.

Our year-on-year growth rate was lower than the market, but this was due mainly to the implementation of price revisions, while for pilaf rice products and Japanese-style snack items, we scaled back sales promotions for mainstay items such as Authentic Stir-Fried Rice and *Imagawayaki* cakes due to the impact of egg shortages.

In terms of market share, while there have been some fluctuations by category, our market share has remained steady overall.

Q. You stated that Nichirei plans to reverse the decline in sales volume of rice products by strengthening sales promotions, but will enhancing promotions alone really be sufficient to regain sales volume?

A. The shortage of eggs was one of the reasons for the decline in sales volume. We had curbed our promotional activities in response, but now that the egg supply situation is improving, we will take steps to actively expand sales and restore sales volume.

Q. In commercial-use prepared foods, the decline in sales volume of processed chicken products was a negative factor. Are there prospects for a recovery in volume from the second quarter onward? In the first quarter period, revenue was up 1% from the same period of the previous fiscal year, but the full-year plan is for an increase of 8%. What measures will you take to achieve this?

A. Our policy is to strengthen sales related to prepared foods. We will make proposals for revitalizing sales spaces, and product suggestions for global sporting events. For commercial use overall, we will expand sales through such measures as the development of kit products that address labor shortages and enhance the efficiency of on-site prep operations, as well as items for personal use, for which demand is firm.

Logistics

Q. For the Logistics business, the impression is that inventories are at a high level and business is firm. Is there a possibility of an upward revision to the plan?

A. Inventories in port areas have remained at a high level both in Japan and overseas as the disruption to global logistics has eased, allowing for recovery in imports of meat and other products. At the same time, we recognize that we cannot be overly optimistic about the current situation, particularly considering the upcoming regulatory changes for truck drivers in Japan in 2024. If we consider transport in addition to storage, we will need to respond to inevitable requests from shipping companies for rate revisions and service reductions to cope with personnel shortages and rising labor costs. Even though storage demand is strong, we have formulated our results forecasts in consideration of the situation of the Logistics business as a whole.

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