

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

Date and time: May 15, 2024, 15:00–16:15 (Online/Conference Call)

Presenters: Kenya Okushi, Representative Director, President & Chief Executive Officer

Kenji Suzuki, Director, Senior Executive Officer, Chief Financial Officer

Yasushi Miyakoshi, General Manager, Public Relations & Investor Relation

Return on Invested Capital (ROIC) Management

(Processed Foods)

Q. The current ROIC is lower than it has been previously. How do you plan to improve it in the future?

A. From the standpoint of changes in the profit structure, because of the series of price revisions implemented since 2021, even though there has been a lag, we have been able to absorb cost increases over the last 2–3 years. However, the depreciation of the yen has been greater than expected, and since our business model relies heavily on importing food material, this has had a significant negative impact on earnings, and we have been unable to attain the level of profitability that we originally envisioned. We are conducting business while bearing in mind the current depressed level of 155 yen to the U.S. dollar, and improving the earnings structure in anticipation of further currency depreciation.

At the same time, we have two strategies for improving profitability beyond changes in the cost environment. The first is selection and concentration in favor of high-margin products. Up to now, we have focused on standard products such as fried rice, growing profit and improving productivity in terms of quantity, but going forward, improving the profitability of standard products will be key. In addition to exploring the potential for reorganization of production systems and items at each plant, we are utilizing digital technologies to improve efficiency, aiming to maximize the earnings generated by a single facility. The second strategy is growth in our overseas business. In North America, in addition to the sales business of InnovAsian Cuisine, since we are expanding earnings by utilizing the production function for rice products at Nichirei Sacramento Foods, going forward we will consider the use of OEM, and developing production functions in categories other than rice. Further, we are looking beyond North America to areas such as Europe and Southeast Asia, aiming to achieve growth through alliances, including M&A.

(Marine Products, Meat and Poultry)

Q. What are the reasons for the anticipated dramatic improvement in ROIC in the Marine Products and Meat and Poultry businesses in FY25/3?

A. In Marine Products, we are consolidating products for which earnings are not expected to improve over the next 2–3 years, which boosts the profit margin even if sales decline, and reducing inventories through item consolidation too improve the capital turnover ratio, which is contributing to improved ROIC. In Meat and Poultry, while our response has been slow compared to marine products, the current aggregation of items has led to an improvement in ROIC.

We are striving to improve ROIC in all segments, including for Processed Foods as discussed earlier, and will work to achieve the long-term management target of 9% ROIC by 2030, with a target of around 8% in the next medium-term business plan.

(Weighted Average Cost of Capital [WACC])

Q. Nichirei has set a target WACC of 4% for the corporate group overall, but shouldn't you also set a hurdle rate for each business segment?

A. We have set internal targets and manage WACC for each business segment, but are still in the process of considering whether to disclose these figures.

Processed Foods

(Development of Latin American food brands in North America)

Q. What was behind the decision to develop Latin American food brands, and what are your earnings targets?

A. InnovAsian Cuisine has established a certain position in sales of Asian foods, mainly chicken and rice, and gained the top market share in 2023. The frozen food market in North America is estimated to be worth around ¥5 trillion, and the share occupied by Asian foods is an extremely niche market. It's common in the U.S. to develop brand strategies, with a typical brand having sales of around 300 to 500 million dollars, and our Asian foods brand is nearing that level. Further, because of the high growth potential of the Asian food market, the number of competitors is increasing. We have been exploring ways to laterally expand our technological capabilities in chicken and rice for several years now, and decided to enter the market for Latin American foods because like Asian foods it is in the ethnic category, and has high potential for growth. We established a foundation for a steady supply of products in March, and are ready launch the business. We plan to allocate spending for promotional campaigns this fiscal year, and increase sales.

(Impact on earnings from overseas businesses)

Q. In the factors that will affect operating profit in FY25/3, you've included a positive factor of ¥1.2 billion from GFPT Nichirei and the Acerola business. What are the specifics of this forecast?

A. Thailand accounts for around half of the ¥1.2 billion, the majority of which is growth in GFPT Nichirei's chicken products for Japan. We will continue to sell products to Europe and third countries, but products for Japan is the main contributor to earnings.

In Brazil, demand for acerola, which is a natural source of vitamin C, is increasing from a "clean label" perspective. We will expand earnings by producing and selling acerola concentrated fruit juice, as well as powdered products. We began operations at a powdered acerola production facility in the previous fiscal year, and expect production to be on track from the current fiscal year.

Logistics

(European business)

Q. Please expand further on the expected effects of business integration in the Netherlands and the U.K., and the business scale in the next medium-term business plan.

A. By establishing the common brand "Thermotraffic" in the Netherlands and the U.K., we will be able to efficiently increase cargo pickups. We are also planning to strengthen our base in Poland this year with new and expanded facilities in response to robust demand in Eastern Europe, and are already looking for new customers. In the next business plan, we will pursue growth from existing assets and explore M&A, as we expect Europe to be a driver of growth.

Q. Many companies struggle after an M&A deal overseas. Why has Nichirei managed to grow steadily after its M&A in Europe?

A. Since the acquisition in the Netherlands in 1988, Nichirei has grown through M&A. Nichirei Holding Holland B.V. (NHH) has been established as the European headquarters and governance is effective, but more importantly, even after an acquisition, the running of the company has basically been left to the local top management. The head of NHH has been stationed in the country for a long time, building relationships of trust through close communication between NHH and the acquiring companies, and expanding the business by making effective use of its central role. However, as cross-border business increases in the future, we believe that a gap may arise between partial and total optimization. We have integrated companies in the Netherlands and the U.K. as a first step in overall optimization, but the challenge going forward will be how to

foster cooperation, including between Eastern and Western Europe.

(Regulatory changes for truck drivers implemented in 2024)

Q. Nichirei has said that it considers the regulatory changes for truck drivers implemented in 2024 to be a business opportunity, yet the FY25/3 revenue growth forecast for Japan is just 3%, which seems insufficient. What are your thoughts regarding the future growth potential of the domestic transport and delivery business?

A. The logistics industry has been experiencing a labor shortage for some time, and these regulatory changes occurred as we were in the process of implementing labor-saving measures and investment in digital technologies. Initially, we assumed that the business environment would shift significantly, but so far, we have not seen any major changes. However, we anticipate that shifts will gradually become more apparent. For example, we have begun to receive inquiries from customers who have previously only contracted with us for storage about also handling the transport and delivery that they had done themselves, or contracted out to other companies. Since our Next-generation Transportation and Delivery System (SULS) now extends from Tohoku to Kyushu, we anticipate an increase in inquiries from customers, including those in rural areas, and that the scope of consignment will expand from single to multiple functions.

End

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