

FY25/3 Q1 Financial Results Conference Call (Analyst Meeting) Q&A Session

Date and time: August 7, 2024, 16:00–17:00 (Online/Conference Call)

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Processed Foods

Factors for increase/decrease in operating profit (GFPT Nichirei in Thailand)

Q. Regarding the ¥1.0 billion in “Impact of results at overseas affiliated companies” as a positive factor for Q1, you stated that the reasons included an increase in GFPT Nichirei’s sales volume to Japan, and a stronger U.S. dollar and weaker Thai baht. What is the degree of contribution from each factor? Also, please elaborate on the point about how positive effects are skewed toward the first half of the year, as well as future risks.

A. There were three main factors behind the profit increase in Q1: 1) foreign exchange rates, 2) a decline in the procurement price of raw chicken, and 3) an increase in production profit due to expanded sales volume to Japan. The contribution from each of these factors was roughly equal. Future risks include 1) a rise in the procurement price of raw chicken, 2) a decline in the market price of chicken by-products, and 3) an increase in ocean freight rates for sales to Europe and other countries. Based on these factors, we expect the positive factors for profit growth to be felt mainly in the first half of the fiscal year.

Household-use prepared foods

Q. Why have sales of household-use prepared foods exceeded that of the market overall?

A. In order of growth rate, sales increased for noodles, snacks, rice, and processed chicken items. Sales in strategic categories were particularly strong because of the boost from TV commercials aired in March this year. We will continue to air TV commercials, conduct increased volume campaigns, and work with retailers to develop sales spaces linked to advertisements. Sales of *Munekara* chicken were especially strong owing to good taste and the healthy image of breast meat.

Q. Please elaborate on the market conditions for commercial-use products and the trends that you are seeing at Nichirei, along with the progress of efforts to scale back low-margin products.

- A. Nichirei recorded growth for both processed chicken and rice products. Last year, sales volume declined due to cuts of low-margin items from the product lineup, but since sales volume is on a recovery trend due to the release of new products, we plan to maintain our stance of emphasizing profitability, and continue to promote the release of new items.

By sales channel, the market for deli items increased by about 4%. While our pace of sales growth lags behind that of the market overall, we will continue to offer high value-added products with an emphasis on profitability. The convenience store (CVS) market was mostly flat year on year, but Nichirei managed to achieve growth at a level exceeding the market by focusing on planning proposals, store promotions, and product development other than standard items, mainly for processed chicken products.

Q. Do you expect sales of personal use (single serving) items to exceed your annual target of ¥30 billion?

- A. Our initial target of ¥30 billion is unchanged, but based on the results of the first quarter, we will work to reach levels that exceed the plan.

Changes in the cost environment due to the appreciation of the yen

Q. If the yen appreciates further, what impact will this have on business performance?

- A. Processed Foods is an import-centric business, so the appreciation of the yen will have a positive effect. However, since Nichirei utilizes forward booking for foreign exchange to a certain extent in order to stabilize cash flow, the effects will be softened, and it will not be possible to enjoy the full benefit of the yen's appreciation. At the same time, in the overseas business, the appreciation of the yen will have a negative impact in terms of currency translation. Nevertheless, we expect yen appreciation to have a positive impact on consolidated results overall.

Improvement of profitability

Q. Nichirei's profitability has improved markedly, and I feel that there is strong growth potential. Please comment on the advancements in your overall and organizational strengths, as well as the measures you have taken to improve profitability.

- A. The price revisions that we have implemented over the past few years have been a team effort, with management taking the lead and fostering a sense of cohesion within the company. We have always had a sense of solidarity in product development, production, sales, and marketing, and we believe that this has been further strengthened through the series of price revisions, while our ability to generate product reproducibility and convenience has further driven growth.

Further, in terms of organizational structure, in 2013 we switched from a function-based system to a business division-based system in which the entire process from development to sales is overseen within the business unit. In addition, in April 2024, we established a new Line & Marketing Strategy Department to implement strategies across business categories.

End

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