

**FY25/3 Q2 Financial Results Conference Call (Analyst Meeting) Q&A Session**

Date and time: November 6, 2024, 14:30–15:40 (Online/Conference Call)

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**Functional reorganization for food business integration**

Press release: [https://www.nichirei.co.jp/sites/default/files/inline-images/english/ir/pdf\\_file/news/20241105\\_e\\_4.pdf](https://www.nichirei.co.jp/sites/default/files/inline-images/english/ir/pdf_file/news/20241105_e_4.pdf)

**Q. Regarding the functional reorganization of the Marine Products, Meat and Poultry, and Processed Foods businesses, please explain the reasoning behind issuing a release at this time, and the process that led to the decision to reorganize the business.**

A. In the Marine Products and Meat and Poultry businesses, traded products account for most of the product mix, so earnings are greatly affected by international circumstances and exchange rates. There are only a few products where we can take advantage of our strengths, and most of them are prone to price competition with other companies, so we determined that with our business it is difficult to absorb that risk. Under the current medium-term business plan, we implemented far-reaching structural reforms while adjusting our relationships with customers, and now have prospects for a situation where we are only handling those products that will allow us to secure profitability and leverage our strengths. As such, we decided to announce the decision at this time, with an eye toward the next medium-term business plan.

**Q. What synergies do you expect from the integration, and benefits that will lead to growth?**

A. In terms of human resources, product development and sales resources are concentrated in the Processed Foods business, so we believe that if we can develop such resources in the Marine Products and Meat and Poultry businesses as well, it will lead to significant growth. From an asset perspective, the Marine Products and Meat and Poultry businesses have a wide range of suppliers, including OEMs, while the Processed Foods business has many company-owned plants. We think that by utilizing the wide range of food materials that we can procure to create products with a high degree of processing, we will be able to more easily expand our business both in Japan

and overseas. Further, in the Meat and Poultry business we have an advantage in chicken products, which we believe will allow us to generate synergies with the Processed Foods business. In terms of our customer base, by streamlining the areas where the businesses overlap, and conversely, adding new foundations through integration, we will be able to expand the scope of our business operations.

Restructuring functions from procurement to sales will allow us to make full use of both tangible and intangible assets, which will produce positive outcomes. Since the corporate split-up in 2005, each company has focused on maximizing its own sales and earnings, but going forward, we want to further promote business growth from a corporate group perspective.

**Q. Looking ahead, what is your plan for consolidation at your U.S. subsidiaries starting in January 2025?**

- A. In North America, in addition to the frozen foods retail business operated by InnovAsian Cuisine (ICE), Nichirei Foods and Nichirei Fresh each have a local presence for sales of food material for commercial use. Demand for marine products is currently strong in North America, from unprocessed food material to highly processed items, so we plan to integrate the food material sales businesses currently conducted separately by the Processed Foods and Marine Products businesses, and expand our commercial-use products business. Note that this integration does not include ICE.

**Change in the cost environment in Thailand**

**Q. Is GFPT Nichirei (GFN) taking stabilization measures to cope with exchange rate fluctuations?**

- A. Allow me to begin by explaining the relationship between GFN's exchange rate structure and business. GFN basically functions as a mother factory for products for Japan, but the chicken parts that are not used in products for Japan are sold domestically, or exported to Europe and other areas of East Asia. Transactions outside of Thailand are settled in dollars for baht, which is converted to yen for consolidated reporting.

For transactions in dollars to baht, we strive to reduce the impact from exchange rate fluctuations by utilizing foreign exchange contracts in some cases. However, since we cannot completely control exchange rate fluctuations ourselves, to minimize the impact as much as possible, we maintain our production facilities in a state where they can operate at full capacity at any time, and regulate production so that exports to Europe and East Asia can be conducted under the most profitable conditions.

The increase in costs in the second half of this fiscal year is due to the effects of the appreciation of the baht to the dollar, along with the impact of shipping costs, which rose from the first half due to such factors as geopolitical risk. Rising transport costs, longer shipping times, and higher insurance costs are also contributing to the weakening in Thailand's cost environment.

### **North American business**

**Q. Why did the procurement cost of chicken products rise more than expected? Also, please explain why you changed the operating profit forecast but did not revise the sales plan.**

A. One reason is the more difficult conditions for poultry farming due to extreme heat, which pushed up costs more than anticipated. Normally we would raise prices to offset the higher cost, but considering the increasingly severe price competition in North America, we feel that to maintain our market share, this is not an ideal time to revise prices. We will start by making changes to product compositions and specifications, as well as negotiate with OEMs on the purchase price, and decide on the revision of the selling price at an appropriate time.

Regarding the sales plan, we did not make any changes because sales volume is growing.

**Q. What are your targets for sales and the scale of the Latin brand product line?**

A. The Latin Brand product line is still in a growth stage, so we will disclose sales figures when growth is assured. In terms of shipments, namely how many stores stocked the products and in what quantities, we anticipate the results to be around three times that of the initial plan, so we see great potential for the Latin brand. Now that we have an idea about shipments, we will focus on measures to increase the frequency of consumer purchases. We believe that there is room in the next medium-term business plan to consider how to allocate sales promotion expenses to promote growth.

### **Future pricing policy**

**Q. What are your thoughts regarding pricing policy?**

A. At present, considering the market overall, we feel that in Japan the situation makes revising prices difficult, but we maintain our stance that if it becomes difficult for us to

absorb costs through our own efforts, we will revise prices. At the same time, because of the high degree of product appeal, we want to ensure that customers buy value-added products at a fair price. Our policy for products such as chicken and rice items, where we have a particular strength, is to take the lead in utilizing our price negotiation capabilities, while products with added value, such as new products and single serving (personal use) items, will be priced in line with their value. Accordingly, we think it's important to provide explanations so that customers understand the products' value.

### **Direction for cash allocation in the next medium-term business plan**

**Q. Regarding capital allocation, what is the direction in the next medium-term management plan?**

- A. The details are still being considered and will be presented in the announcement for the next medium-term business plan, but we anticipate an increase in operating cash flow on the back of business growth, and do not expect to significantly revise our current priority ranking for cash allocation of growth investments, dividends, and investment and financing, including M&A. For our growth investment policy, with expansion in the overseas business in mind, we will prioritize the allocation of resources outside Japan, including M&A, and are considering a total investment amount of around 100 billion yen over the next three years of the business plan. In addition, we are planning to allocate funds for environmental investments and bolstering human capital, which will be necessary to further sustainability management. In terms of dividends, we are confident that we will be able to steadily accumulate equity capital, so we plan to maintain our stance of increasing dividends in a stable manner based on DOE. We are also considering the overall makeup of the shareholder return policy, so please wait for details in the announcement of the next medium-term business plan.

End

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