

FY25/3 Financial Results and Medium-term Business Plan Web Conference (Analyst Meeting) Q&A
Session

Date and time: Wednesday, May 14, 2025, 14:30-15:45

Format: Web conference

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Growth Drivers

Q. Please tell us about the reasons why profit growth in the newly announced Medium-term Business Plan (“Compass × Growth 2027”, hereafter referred to the “current plan”) will be higher than that in the previous Medium-term Business Plan even if excluding the impact of the change in the depreciation method and the growth factor due to M&A.

A. The compound annual growth rate (CAGR) of operating profit in the previous plan was 6.8%, while CAGR in the current plan including M&A is 13.5%, and even CAGR calculated by the declining-balance method before the change in the depreciation method and excluding M&A is 9%. I believe they are high growth rates.

As for profit growth drivers, in the Processed Foods Business, the utilization rate of plants in which large investments were made during the two medium-term business plan periods from FY2020 to FY2025 will increase and their payback phase will begin, and the launch of plants in which large investments are planned in the current plan is scheduled in the second half of the medium-term business plan period, which means that burdens of depreciation will not be heavy, resulting in a rise of the rate of return.

In the Temperature-controlled Logistics Business, in Japan, the expansion of the handling volume of frozen foods and other processed foods, including the expansion of the logistics platform for frozen foods, will lead to larger operating profit/net sales. The retail business (formerly the TC Business), which accounts for one-third of net sales, is a business for retailers and has mainly operated downstream services that sort and deliver products at transfer centers (TC). We will also expand midstream services that single-handedly handle logistics of vendors and manufacturers who deliver products to TC. The increase in sophistication of value provision in the retail business and business expansion will also lead to an increase in overall profitability. In addition, overseas, we plan to capture first-mover advantage particularly in the ASEAN region, where profitability is high

and there are currently few competitors.

Synergies between the Foods Business and the Temperature-controlled Logistics Business

Q. What do you see as synergies between the Foods Business and the Temperature-controlled Logistics Business?

A. Originally, the Temperature-controlled Logistics Business has mainly operated storage of raw material-related cargo including import cargo, and by adding current cargo in the Processed Foods Business to it, the base cargo was created. Currently, the business that handles frozen foods in general including those from other companies in addition to products from the Processed Foods Business is growing rapidly. Specifically, the handling of processed foods including frozen foods accounts for approximately one-third of domestic net sales of about 200 billion yen, of which our processed foods account for slightly lower than one-third. At each logistics base, we deliver products through the nationwide delivery network by combining products from the Processed Foods Business, which are the base cargo, with cargo from other companies. We believe that this is the business only we can do. In order to further increase the handling of other companies' cargo, we intend to organize newly built food plants and logistics bases so that the base cargo business can be operated to increase efficiency of both businesses.

Capital Investment

Q. Please tell us in more detail about your thoughts on capital investments in the Processed Foods Business and how you will concentrate investments in strategic categories more than ever before. In addition, please explain how the company-wide total amount of capital investments will be larger than that in the previous plan.

A. For rice products and processed chicken products in the Processed Foods Business, we regularly enhance production lines, and will continue it in the current plan. On the other hand, given future demand, it is expected that production capacity will reach its limit in the final year of the current plan. Particularly for processed chicken products, it will be necessary to increase facility capacity both in Japan and in Thailand. In order to lead it to the next growth, we believe it is important in the current plan to examine how the production function should be in general, including the reorganization of plants as a whole.

We recognize that it will be a high-risk, high-return choice to concentrate resources on rice products and processed chicken products more than ever. Procurement risks in both categories could be a significant negative factor. However, given the growth we have achieved to date with rice products and processed chicken products as strategic categories, we hope to raise the barriers to entry by concentrating resources.

The total amount of capital investments is planned to be 127 billion yen in the current plan, which

is larger than that in the previous plan. However, this is due to rising construction costs worldwide, and I feel that construction costs are 50% higher than they were in 2019, when I became president. Recognizing that it will take larger amounts of investments than before to have the same scale of facilities as before, we will develop business plans with unit price settings and higher rates of return commensurate with those investments and put them into action on the premise that we will have returns on those investments.

M&A Plan

Q. Is the impact of M&A on revenue factored into the plan?

A. Large M&As have been included in the segment of other businesses. We are currently considering M&A in both the Foods Business and the Temperature-controlled Logistics Business, and we plan to invest in Europe and ASEAN. M&A in ASEAN in the Temperature-controlled Logistics Business has started concrete steps in building cross-border transports.

Processed Foods Business

Q. Please explain your view on the growth potential of the domestic frozen foods market. While the population is expected to decline, when do you expect frozen foods demand to peak out?

A. We expect the domestic frozen foods market to peak out around 2040 due to population decline. Assuming that all frozen food players will have remained at that point in time, we imagine that production bases and supply capacity would exceed demand and become excessive. It is expected, for example, that the method of utilizing assets will start to change, such as transforming plants that have produced products for Japan into production plants for overseas export products, or that we will face competition for revenue in Japan.

Q. Please tell us about measures for realizing success of business of InnovAsian Cuisine in North America.

A. We handle household-use goods in large part, and have been delivering products to major mass retailers. The product distribution rate is high, and an increase in turnover will be a factor to increase net sales in the future. Therefore, we will focus on sales strategies to increase turnover. On the other hand, membership-based wholesale clubs are another huge market apart from mass retailers, and once the introduction of one product category is decided, the handling volume increases dramatically. Therefore, we plan to enter the market. Because the production function is currently insufficient for the realization of market entry, we will consider owning production functions in the current plan.

End

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