

President's Investor Meeting – Q&A Session

Date and time: December 8, 2022 (Thursday), 15:00-16:10

Venue: Online format

Presenters: Kenya Okushi, Representative Director & President,
Kenji Suzuki, Director, Executive Officer
Yasunori Sato, General Manager, Business Management

Progress during the second half

Q. What is the status of price revisions in Processed Foods? Also, what are the factors that have allowed price revisions to be implemented so quickly, and the difference from previous circumstances?

A. Price revisions are being implemented as planned for both household-use and commercial-use products. The difference now is that a process has been established for decision-making regarding price revisions. Along with the rapid fluctuations in exchange rates and rising prices for food material, we continue to face a wide range of cost increases, including power and fuel costs. On the premise that further price revisions will be necessary going forward, we have incorporated a review process that frees us from having to respond to each new development. This is a major difference.

Q. What is the status of the electricity fee surcharge in the Logistics Business?

A. Electricity costs in Japan have risen 50-60% overall. Since we are unable to absorb the entire amount on our own, in October we began applying a surcharge with the aim of maintaining logistics quality and ensuring stable business operations. With understanding from customers, the surcharge is being implemented as planned. We are also pursuing measures for expanded cargo collections and greater operational efficiency, and expect to meet our full-year earnings forecasts.

Thinking regarding FY24/3 business results

Q. What is your thinking regarding FY24/3 business results for the mainstay businesses of Processed Foods and Logistics?

A. We are formulating a strategy to achieve the initial figures for operating profit in the second year of the medium-term business plan, and are currently holding discussions internally for next year's budget.

In Processed Foods, the main factors weighing on earnings will be the same as this year, including the impact from the weak yen, rising food material and procurement costs, and increases in power, fuel, and logistics expenditures. The yen has depreciated by more than 20 yen to the U.S. dollar since the start of the year, while costs for food material such as cooking oil and meat are expected to continue to rise from the second half. The impact from these factors is likely to persist in FY24/3. In addition to these negative factors

stemming from the business environment, we are also anticipating an increase in depreciation expense for the new rice products plant scheduled to begin operations in April 2023. Nevertheless, we are aiming for an earnings gain from the continued effect from price revisions implemented in the previous fiscal year, along with an increase in sales, improved productivity, and greater profitability from North American business operations.

For the Logistics Business, we anticipate the main factors for earnings decline to be an increase in depreciation expense for the new Kobe Rokko Distribution Center (provisional name) scheduled to begin operations in January 2024, along with greater expenditures for environmental measures, and the rollout of systems for operational reform. The main positive factors for earnings will be expanded handling volume for frozen foods, including third-party logistics, and imports.

We expect electricity costs to rise further both in Japan and overseas during the next fiscal year, but since the effect of surcharges will be realized throughout the period, we anticipate the impact from the year-on-year cost increase to narrow.

The operating profit figures for the second year of the business plan factored in an expectation of higher costs from the beginning, but we will take into account positive factors, and adjust our profit planning.

Longer term growth strategy

Q. Regarding resource allocation for ROIC management, what is your timeline for allocating resources in the Marine Products, Meat and Poultry, and Bioscience businesses, which have lower capital efficiency compared to mainstay businesses?

A. ROIC (return on invested capital) is one of the management indices we use to determine future business continuity. We have set targets in the medium-term management plan, and should we fail to meet those targets, or judge that we are likely to fall short of those targets in the future, it becomes necessary to make a determination regarding business continuity. However, from a long-term perspective, considering that food material procurement risk continues to grow, along with capital efficiency, we consider it necessary to also give serious consideration to the business synergy aspect. For example, considering the procurement risk for chicken in the Processed Foods business, the ability to utilize the highly reliable suppliers in the Meat and Poultry business, both in Japan and overseas, becomes an important factor. This is a somewhat different discussion than the business portfolio, but even if we withdraw from areas where capital efficiency is not rising, if we determine that synergies can be expected, then we want to utilize that business as a corporate group, and will take such factors into account along with capital efficiency.

Q. What is your assessment of the current state of the source of competitiveness in the Processed Foods business, and outlook for the future?

A. For mainstay processed chicken and rice items, along with such factors as product development capabilities, production capacity, and sales channels, we consider our firm

hold on the mass-market segment to be a strength. In addition, in the relatively new field of “personal use” (individual meals), Nichirei’s strengths lie in development of “items that should be available but aren’t” as well as marketing capabilities to open new sales channels.

Going forward, we think that one of the factors consumers will consider when deciding which items to purchase will be the extent to which a product reflects the concepts of sustainability. We will need to consider how well this is incorporated into products, and the extent to which consumers recognize it. As such, we feel that marketing and design will be key resources to prevail over the competition.

Q. What business opportunities do you envision as a result of the labor shortage?

A. It’s our understanding that the strain on business operations due to the labor shortage is particularly severe in the restaurant industry, as well as meal service and elderly care facilities. The particulars vary depending on the scale of the customer, but there is demand for products and meal kits to accommodate any number of people, including servings for one, two, or three people. We consider this to be a business opportunity.

Q. Please explain the course for improving profitability in the North American business.

A. InnovAsian Cuisine is a sales and marketing company, but with the recent acquisition of a production company for rice products, we aim to expand revenue and earnings for production and sales overall. There are companies in this industry with operating profit margins of 10% or higher, so this is the business model we aim to achieve.

Q. Will Nichirei be able to take advantage of the new work regulations taking effect in the logistics business in 2024 to create business opportunities?

A. We think that from 2024 there will be a definite risk of companies being unable to transport items, and that some operators that will be unable to adapt, including on price. We consider it important to take advantage of these opportunities. There are many comparatively small companies in the temperature-controlled warehouse and transport industry, and we anticipate that they will struggle to renovate aging facilities and adapt to the labor shortage. We plan to make the most of these industry trends to achieve growth.

Q. Despite the continued growth of the frozen foods market, no corporate brands seem to have really emerged. What is your current view regarding corporate branding?

A. We feel that while recognition of the Nichirei brand is still somewhat weak in the Japanese market, in terms of such aspects as new business deals and recruiting, we have an appropriate level of brand awareness. I think that brand building is an important point, and we have begun to consider the status of the brand going forward.

End

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