

## **Logistics Business Briefing Q&A Session**

Date and time: Monday, February 20, 2023

Format: Held concurrently as Teams meeting and at the Nichirei  
Suidobashi Building

Presenters: (Nichirei Logistics Group Inc.)  
Kazuhiko Umezawa, Representative Director, President  
Kazunori Miki, Director, Senior Managing Executive Officer  
Kazunori Shimamoto, Executive Officer  
  
(Nichirei Corporation)  
Kenji Suzuki, Director, Executive Officer  
Yasunori Sato, General Manager of Business Management

### **Q. What are the reasons for the steady improvement in return on invested capital (ROIC) in Japan?**

A. There are three main reasons. The first is the high proportion of handling volume for processed foods, which have a high turnover rate. We see this as a successful reflection of our strategy to target frozen food producers as customers. The second reason is cross-selling. We have been gradually integrating the divisions handling regional storage and those handling transport and delivery on an area basis, allowing us to provide a seamless, integrated service from storage to delivery, which has led to an increase in the asset turnover rate. Of note, we are planning a final integration in the Kanto region in fiscal 2023. The third reason is the revision of storage fees to a more appropriate level, implemented under the previous business plan, which has contributed greatly to increased profitability. In addition, in recent years, along with investing in our own refrigerated warehouses, we have incorporated schemes utilizing assets of other companies, aiming for continued improvement in the asset turnover rate and operating margins.

### **Q. Some companies have announced increases in driver wages and price revisions in response to the new work regulations for drivers that will take effect in 2024. What is Nichirei's view, and how will you adapt?**

A. Changes in social rules will also change the cost structure, so we plan to make revisions to transport tariffs. For example, we will incorporate a concept similar to dynamic pricing, with a focus on revisions that lead to a greater evening out of freight, and more efficient transport and delivery for customers.

**Q. What is your view regarding the operating margin and capital investment during the “Benefit Period” from FY26/3?**

A. In the storage business, up to now we have made in-house investments and taken on a certain degree of risk, maintaining a structure in which profitability rises with depreciation. The transportation business, however, is primarily dependent on usage, so while the risk has been comparatively small, profit margins have also remained low. By acquiring detachable trailers that will be owned by the corporate group, and taking on a certain degree of risk, we will be able to provide a high volume, high turnover service. As a result, along with an increase in transport handling volume supported by a combination of tariff revisions, a frozen foods delivery platform, and other measures, we believe that we can improve operating margins. Combining the storage business and the transport and delivery business, we aim to achieve an operating profit margin of around 7% by FY28/3.

Under the current business plan, we plan to make large-scale capital investments for the Japan business that will allow us to meet needs for decentralization of customer inventory and greater efficiency in the transport and delivery network in order to adapt to the changes in working conditions for truck drivers from 2024, while also serving to help attract potential customers. The actual investments will be settled during the plan period. Up to now, we have always carefully selected the necessary capital investments in Japan, and going forward we plan to focus on investments to renovate aging facilities, and enhance the EBITDA margin.

**Q. What are the prospects for market growth and increasing Nichirei’s market share?**

A. The scale of the temperature-controlled logistics market in Japan is estimated at around ¥2 trillion (US\$15 billion). Nichirei’s share of total refrigerated warehouse capacity in Japan is around 10%. Going forward, we think that demand for temperature-controlled logistics will continue to rise along with the increase in usage frequency and amount for frozen and processed foods, and that our market share will expand to more than 10%.

**Q. What is the current status of efforts to eliminate the use of CFCs?**

A. Because of the semiconductor shortage a little more time will be required, but we have taken steps such as placing advanced orders with manufacturers for the necessary equipment, and our plan to eliminate CFCs by switching to natural refrigerants remains on schedule. There is also the additional step of confirming the selection for government subsidies before placing orders, but we consider the elimination of CFCs to be important, and have adopted a policy that prioritizes implementation in line with plan.

END

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