

FY24/3 H2 President's Small Meeting – Main Q&A

Date & Time, Target Audience: December 7, 2023 (Thursday) 13:30-14:30, Buy side
15:30-16:30, Sell side

Venue: In-person meeting at the Nichirei Higashi-Ginza Building

Presenters: Kenya Okushi, Representative Director, President & Chief Executive Officer
Kenji Suzuki, Director, Senior Executive Officer, Chief Financial Officer
Yasushi Miyakoshi, General Manager, Public Relations & Investor Relations

General

Approach to capital expenditure in the next medium-term business plan (FY2025 – FY2027)

Q. It's my understanding capital expenditure in the next medium-term business plan will be around ¥100 billion, and that overseas investment will be prioritized? Is this correct?

A. In the business plans up to now, the weight has been on domestic investment, but going forward we plan to increase investment overseas. The figure of "around ¥100 billion" is still in the consideration stage, so keep in mind that the proportion of overseas investment in the next business plan could increase significantly. Also, apart from capital expenditures, we hope to make investments of more than ¥10 billion overseas, including business alliances.

Plan for the next fiscal year (FY2024)

Q. Do you expect to exceed the corporate group's FY2025 operating profit target of ¥37 billion?

A. The drivers for achieving the plan in the next fiscal year remain the mainstay Processed Foods and Logistics businesses, but other business segments have deviated from plan. After reviewing our business portfolio, we are currently making adjustments based on our initial plan of ¥37 billion.

Stance regarding management indicators

Q. If you manage to achieve the current plan target ROE of 10% or higher, do you intend to aim for even higher ROE?

A. ROE of 10% is the minimum, but since 10% ROE is insufficient to increase the overseas ratio, we are discussing the target value to set for the future. In addition, I believe that along with ROE, targets for other management indicators, such as ROIC, need to be evaluated in each process and utilized in management decisions, rather than just making determinations based on results alone.

Processed Foods

Q. Please tell us about any issues you've had as a result of price revisions, and your thoughts on profit margins in the future.

A. The problem that we found in this round of price revisions is that, although the situation has improved compared to the past, it still takes time to negotiate the revisions, during which time the next risk arises, making negotiations even more difficult. Should we need to revise our prices further in the future, we will consider ways to negotiate more efficiently.

As for measures to improve profit margins, we believe that we can improve our margin in Japan to 7%-8% if we continue to pursue pricing initiatives in response to changes in the business environment, and enhance productivity with a focus on categories that are expected to grow in the future, while also scaling back aging facilities and delivering high-value products to customers. Concerns have raised about the risk of customers switching to private store brands because of price revisions, but we scrutinize each private brand project based on whether it will improve profitability, and respond accordingly. Overseas, especially in North America, we believe that we can boost profitability by improving sales in conjunction with our production functions.

Q. If costs go down, how will you respond in terms of product pricing strategy?

A. We want to avoid price wars if possible. These recent price revisions have taught us that if we concede to a price reduction, and then face a difficult situation in which we need to raise prices again, it will take a considerable amount of effort to make that happen. Fundamentally, sales work is about making proposals and exchanging opinions regarding appealing products and selling methods. When too much time is spent negotiating prices, and customers are unable to improve their sales floors, both sides lose. To preclude such a situation, we want to avoid lowering prices.

Q. In today's explanation, you stated that the sales volume for commercial-use products has now recovered, when at the time of the first half results announcement this been a factor for decline due to cutbacks in low-margin items. Would you elaborate?

A. In our presentation of first half results, we stated that sales volume for commercial-use products, especially prepared foods, was down sharply in the first half due to deliberate consolidation of less-profitable products. However, volume began to recover in October and November with the introduction of products to major customers, and the launch of new products to mass retailers.

Similarly, since October, the sales volume for household-use items has exceed that of a year earlier, mainly because of successful sales promotions.

Q. What is your assessment of entering the North American appetizer market?

A. In addition to appetizers, the fact that the North American food market is not shrinking is extremely appealing, and the many growth opportunities in that market is a factor that by its very nature promotes growth. As of this year, Nichirei has increased the number of appetizer items it offers to five products, and the response has been positive.

As for the future direction, we were considering an in-house production function for appetizers, but at present, in terms of time and cost, our focus is on establishing a system to supply products by prioritizing alliances with OEM firms. For rice products, we will increase the operating rate at our in-house production plant, and strengthen the coordination between manufacturing and sales, aiming for a profit margin of 10% in the North American business over the long term.

Logistics

Q. Please elaborate on the new contracts stemming from the regulatory changes that will come into effect in 2024. Also, do you expect the changes to further accelerate joint delivery?

A. The number of customer inquiries has risen sharply. We evaluate each of them carefully from the standpoint of efficiency before concluding a contract. We expect the number of inquiries and new contracts to increase further from January 2024.

Joint delivery has also expanded significantly in the past few years, and we cooperate with several companies for joint delivery services. However, even if companies are willing to work together for joint delivery, the fact remains that finalizing such arrangements can be difficult in terms of asset utilization and IT systems, and negotiations with certain parties has been prolonged for some time now.

Nichirei has gained a competitive advantage by having a certain amount of owned assets, base cargo volume beyond a certain level, and the ability to coordinate transportation functions. At present, in some cases it may be difficult to acquire land for owned assets due to price constraints, but in such cases, we believe that we will be able to utilize the assets of other companies to adapt to the changes in the industry in 2024, and expand the scope of joint logistics.

Q. What is your policy regarding overseas profit margins going forward?

A. In Europe, we have reached our current profit margin through a process of continued M&A that began in the 1980s, acquiring transportation companies with relatively large sales volumes. As such, we believe that we can raise profit margins further going forward by increasing coordination between transportation and storage.

At the same time, we do not have sufficient assets to support expansion of a

combined cross-border transport and storage business, so we would like to establish bases in port areas, along with bases in inland areas to transport goods from ports to the whole of Europe. We will consider the best method for developing such bases, whether to build our own facilities or form alliances, and allocate investments for the development of overseas facilities.

Q. How do you plan to leverage the company's strengths to expand business in Southeast Asia?

- A. Cold chain services in Southeast Asia are less developed than in Japan, but demand for frozen foods is increasing rapidly with the improvement in living standards. We believe that the key to gaining an advantage in Southeast Asia is the extent to which we can develop our business ahead of the competition.

Nichirei's strength lies not only in the provision of storage and transportation, but our ability to combine these services with the strengths and customer bases of our alliance partners to provide logistics services to further meet customer needs. We will consider such factors as the location of our bases, efficient transportation routes, and reduction of environmental impact, to meet the needs of our customers.

Management Decision-Making

Long-term management vision

Q. What is your long-term vision for the business?

- A. In terms of the overall direction, we need to shift the drivers for business growth to fast-growing overseas markets. Increasing the speed of this shift is important.

At present, the foundation for overseas business growth is the European temperature-controlled logistics business. We recognize that as in Japan, our strength lies in our ability to both transport and store goods at the same time, so going forward we will aim for further growth by addressing human resources and IT system issues, and making investments. We also consider Southeast Asia as a potential source of future earnings, considering the economic development in the region. For the processed foods business, however, we will focus on North America. We have mainly dealt with household-use products up to now, but in the future, we would like to focus on commercial-use items as well.

The biggest challenge for overseas business development is human resources. At present, we are selecting candidates who can effectively implement governance in areas such as finance, legal affairs, and sustainability, and have begun implementing practical measures such as language education. In the next medium-term business plan, we plan to increase the number of overseas personnel by 7 to 8 persons from the current level.

The length of overseas assignments has also become longer in recent years as employees become more immersed in the local business, so we feel that it's necessary to reconsider the salary level of expatriates from the standpoint of supporting their standard of living.

Change in stance towards the stock market

Q. I get the sense that the speed of management decision-making has increased, and there have been positive changes in dialogue with investors. What prompted these changes in the management stance?

A. When I became president, I received several harsh comments during talks with investors, and that offset to my thinking up to that point is one of the reasons for the change in our management stance. That is why over the last couple of years we have been working to reflect this feedback on our management by changing our IR system to be more responsive, expanding disclosure in areas that had been lacking, and actively engaging in dialogue with investors.

End

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