

FY25/3 President's Investor Meeting – Q&A Session

Date & Time / Target Audience: Dec. 19, 2024 (Thurs.) 13:30–14:30 Sell Side
15:30–16:30 Buy Side

Format: In-person event held 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 Feeling of the Next Medium-term Business Plan

Cash allocation

- Q. You stated that in the next medium-term business plan (MTMP), operating cash flow will be ¥160 billion, capital expenditure will be between ¥100 billion and ¥120 billion, and the total amount to be used for M&A will be approximately ¥30 billion. In that case, it seems that there will be almost no free cash flow. Are you foregoing any consideration of strengthening shareholder returns?**
- A. Rather than using operating cash flow to cover the entire amount, we plan to raise funds strategically through borrowings, especially for M&A. Our priority for cash allocation will be growth investments that drive organic growth, followed by dividends, and then M&A deals.

M&A

- Q. Please review once more your plan regarding the sense of scale for M&A.**
- A. Our image for the framework is about ¥30 billion. We plan to only pursue deals that align with our strategy and can be expected to drive growth.
- Q. Are there any investments that you would like to prioritize for M&A?**
- A. At present, the majority of prospects are in the Logistics business in Europe, but we also think that there is room for consideration of deals in the Processed Foods business in Europe, and are exploring that option as well.
- In Japan, we have established base cargo for temperature-controlled logistics through the handling of frozen processed foods, which has generated synergies, and we believe that we can build a similar system in Europe. The current customer

base for temperature-controlled logistics also includes retailers, so if there is a frozen food manufacturer that delivers a high percentage of products to a particular retailer, we believe that this could form the basis for creating synergies as base cargo. There are many manufacturers in every country in Europe, and if there is a local manufacturer that seems capable of generating synergies with logistics in the future, we plan to consider it as a target for M&A.

Q. When you say that you are considering M&A in the processed foods business in Europe, does that mean specifically food manufacturers or factories?

A. That's correct. Many overseas food producers make and sell private-label brands in a one-to-one relationship with a major retailer. While this entails a certain amount of risk, we believe that if the relationship is strong, the concern is minor. For example, if there is a manufacturer that deals in products related to the technologies of our processed food business in Japan, such as chicken, we feel that we can create synergies in Europe in terms of food processing technology as well as logistics.

Synergies between the Processed Foods and Logistics businesses

Q. What do you think are the synergies between the two businesses, focusing mainly on Japan?

A. In Logistics business, it is possible to enhance logistics efficiency by considering products from Nichirei Foods, which account for less than 10% of total sales, as base cargo for storage and delivery in a region.

Q. Please explain once more the investments in Japan that you believe produce synergies between the businesses.

A. To generate synergies between businesses, it is important to establish assets in places where logistics can be arranged with the greatest efficiency. If we build a warehouse in a location far from Nichirei Foods' production facility, that would be inefficient from the standpoint of Nichirei Foods' product distribution, so setting up a logistics center adjacent to the production base is a major advantage for us, and is difficult for other companies to imitate. Going forward, when we establish a production facility or a new warehouse, we will consider the Processed Foods and Logistics businesses as a set, and give priority to whether we can achieve the most efficient logistics.

Overseas business development

Q. At many Japanese companies, the overseas business generates higher profit margins than the domestic business, but in Nichirei's case, both the Processed Foods and Logistics businesses have lower profit margins overseas. As future investment allocation is weighted more heavily overseas, how do you expect to exceed the level of domestic earnings?

A. If we consider the time horizon in terms of the next MTMP (2027) and the year for achieving our long-term vision (2030), the overall driving force will be our domestic business. We plan to use cash generated in Japan for overseas investments, and in the future, when the rate of return overseas increases, direct the cash generated overseas toward investments in growth fields. Therefore, for the next six years or so, we expect that the Japan business will continue to contribute to higher profit margins, while overseas M&A will serve to expand the scale of revenue and earnings.

In the North American processed foods business, in addition to our rice products facility, we are considering acquiring a chicken production plant, either through M&A or on our own, in order to gain production earnings. In the Logistics business, in Europe we plan to drive growth through a balance of the storage and transportation businesses, which have different profit margins, and in ASEAN owing to the double-digit profit margins, by expanding the scale of the business.

Direction for business segments

Processed Foods business

Q. I feel that under the current MTMP, sales growth and ROIC management have become established, and Nichirei's dominance in the industry has increased. What are the current challenges, and your growth strategy for the next MTMP?

A. Under the current MTMP, we have increased marginal profit through new and expanded production lines in Funabashi, Takatsuki, and Fukuoka (all of which are production bases for rice and processed chicken products), which handle our mainstay categories and are located along main transport lines. Sales of processed chicken and rice products will continue to expand, but we will need to set priorities for domestic investments from the standpoint of selecting categories that are expected to grow in the future, and production capacity at existing facilities. We think that demand for standalone, mass-produced products will continue, but we also feel that personal use (single-serving) items, which are

made in a completely different way, will account for a larger share of the market going forward, so we will need to be able to grasp market needs, develop products in a short period of time, and get them to market quickly. For example, the Nichirei Group R&D Center only conducts applied research, not basic research. Since we are unable to conduct genetic or other basic research with the current setup, we are considering forming alliances with other companies, and incorporating the research results into our products. We believe that we can continue to sustain growth over the next two to three years with the current framework, but beyond that, we will need to start reorganizing functions from the next MTMP.

Logistics business

Q. Regarding the domestic transport business, what is your assessment of the results from the current MTMP, and the outlook for the next plan?

- A. Overall, we feel that performance has been in line with plan. We are expanding the coverage area for our next-generation transportation and delivery system SULS to Tohoku and Kyushu, building on the base established for the Tokyo metropolitan area and Chubu and Kansai regions. In the next MTMP, it will be even more important to strengthen the transport and delivery business, including more widespread expansion of SULS, and increasing the number of routes.

At the same time, the NL+LiNk service* for retail businesses has grown more than we expected, and demand is increasing substantially due to the shortage of truck drivers.

* NL+LiNk is a service that allows a vendor to deliver products to a nearby transfer center (TC), which are then forwarded to other Nichirei TCs.

Nichirei Logistics Group press release: “Notice of Full-Scale Operation of NL+LiNk”

<https://www.nichirei-logi.co.jp/news/2024/20240910.html> (Japanese)

Q. Regarding the ASEAN business, what are the differences with Europe, and the prospects for the future?

- A. With the rapid development of the ASEAN economy, the need for cold chains is growing quickly, and we have been receiving an increasing number of inquiries regarding alliances. A difference with Europe is that, since we are dealing with emerging countries, when considering alliances, we take additional time to examine and analyze governance. In addition, since market growth is much faster

in ASEAN, we would like to further pursue M&A in regions where we already have a business presence, such as Malaysia, Thailand, and Vietnam. Further, we are focusing on the characteristics of companies, such as those engaged in cross-border business, or with refrigerated warehouses of a certain size in particular regions, with the aim of establishing a scheme for intra-regional logistics like that in Europe.

End

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