

# NH Foods Group Medium-Term Management Plan 2020

## — Progress at the End of FY2019/3

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NH Foods Ltd.

President and Representative Director

Yoshihide Hata

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1. Review and Forecast
2. Progress in Each Business Division
3. Management Strategies from a Medium- and Long-term Perspective  
(Business Policies (2) (3) (4))
4. Shareholder Returns and Capital Expenditures
5. Financial Strategy and Capital Policy

\* The year displayed in these documents corresponds to the fiscal year from April to March.

Example: 2019 = April 2018 to March 2019

\* Due to rounding, tallies may not match totals.

# Executive Summary

- Medium-Term Management Plan 2020
    - Seriously accept two downward revisions
    - While greatly affected by the external environment, challenges were made clear
    - Enhance foundation for medium- and long-term growth
    - Follow through with Medium-Term Management Plan 2020
  
  - Vision for the Company in the medium- and long-term
    - Pursue our corporate philosophies
- ⇒ Create new food cultures and fields, maximize brand value
- Reach an operating income ratio of 5% or more, ROE of 9% or more

To achieve this we will...

- Reform our business model
- Pursue optimal business portfolio
- Challenge new fields
- Become a strong organization (an advanced, functional organic body)
- Plan to rebuild systems

# Medium-Term Management Plan 2020: Review and Forecast

**Theme**

**Building systems that pave the way to the future**

**Management Strategies**

**Business policies**

- (1) Strengthen profitability by improving the efficiency of existing businesses
- (2) Create value through dialog with consumers
- (3) Enhance and develop technological capabilities for conceptualizing and realizing the future of food
- (4) Change gears in overseas market deployment
- (5) Pursue sustainability

**Functional Strategies**

**(1) Strategy formulation and promotion**

**(2) Business segment sustainability improvement**

**(3) Internal and external communications**

**Foundation**

**“High-level Management for No. 1 Quality”**

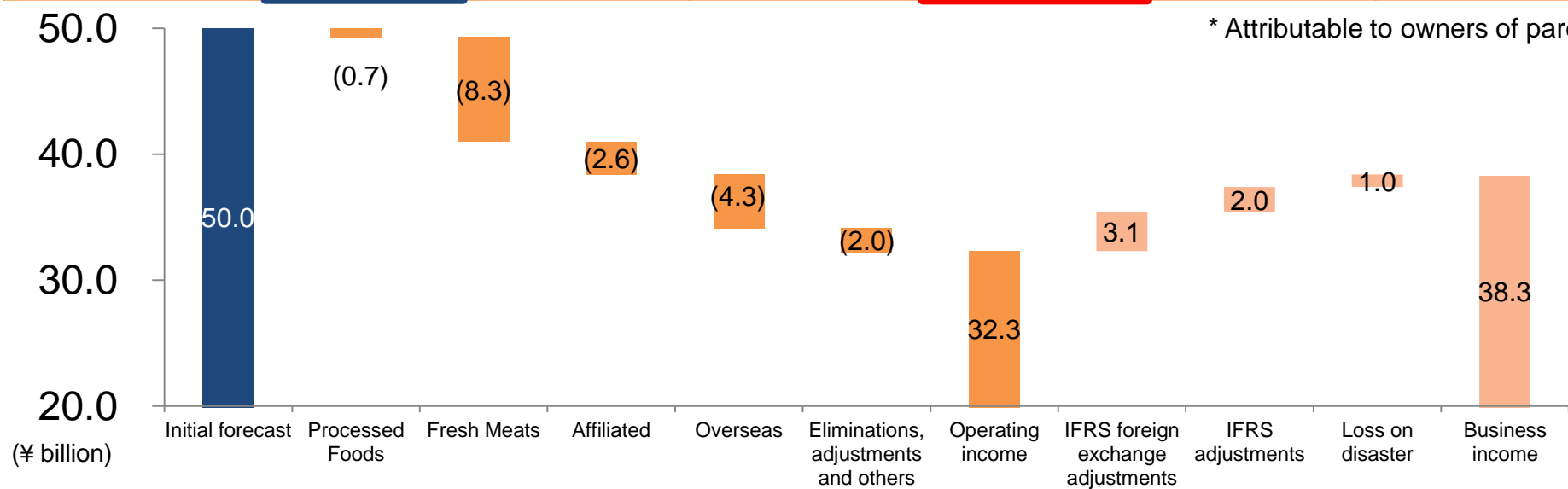
# 1. Medium-Term Management Plan 2020: Review and Forecast

FY2019/3: Operating income was ¥32.3 billion.

Business profit excluding IFRS adjustments and loss on disaster was ¥38.3 billion.

(¥ billion)

	Initial forecast	Forecast revised in 1st half	Forecast revised in 3Q	Results	Variance	Achievement
Net sales	1,310.0	1,260.0	1,250.0	1,234.2	(75.8)	94%
Operating income	50.0	36.0	30.0	32.3	(17.7)	65%
Business profit	-	-	-	38.3	-	-
Profit*	32.0	23.0	19.0	19.6	(12.4)	61%
ROE	7.5%	5.4%	4.6%	4.8%	(2.7)%	64%



\* Attributable to owners of parent

## ➤ FY2019/3: Income results by segment and factor analysis

Results by segment fell substantially below the forecast (¥ billion)

	Initial forecast	Full year Operating income	Full year Business profit	Variance
Processed Foods Business Division	8.5	7.8	7.8	(0.7)
Fresh Meats Business Division	44.0	35.7	35.7	(8.3)
Affiliated Business Division	3.0	0.4	0.4	(2.6)
Overseas Business Division	0.5	(3.8)	(3.8)	(4.3)
Eliminations, adjustments and others	(6.0)	(8.0)	(1.9)	+4.2
of which structural reform expenses	(2.0)	0.0	0.0	+2.0
of which value creation expenses	(2.0)	(0.0)	(0.0)	+2.0
of which profit or loss of baseball club	(2.2)	(1.7)	(1.7)	+0.5
of which loss on disaster	0.0	(1.0)	0.0	0.0
of which others	0.2	(5.3)	(0.2)	(0.4)
<b>Total</b>	<b>50.0</b>	<b>32.3</b>	<b>38.3</b>	<b>(11.7)</b>

➤ Variance from initial forecast (Reference)

- Processed Foods Business Division  
Logistics cost (1.0)
- Fresh Meats Business Division  
Domestic farm business (4.7)
- Affiliated Business Division  
Lactic acid probiotics / Yogurt (1.3)
- Overseas Business Division  
Uruguay BPU (2.0)

➤ Changes in the external environment and their impact on each business

**Macro external environment changes**

Recession in global business sentiments, climate change, rising labor and logistics costs, and changes in eating habits

**Changes in the environment surrounding our business**

Rising costs, degrading consumption environment, enactment of FTA, etc., unstable fresh meat market prices, disease

**Impact on NH Foods Group**

Major deviation from assumptions made when formulating the Medium-Term Management Plan

Processed Foods Business Division	Fresh Meats Business Division
<ul style="list-style-type: none"> <li>•Costs rise higher than production improvements</li> </ul>	<ul style="list-style-type: none"> <li>•Severely decreased earnings across the entire value chain</li> </ul>
Affiliated Business Division	Overseas Business Division
<ul style="list-style-type: none"> <li>•Intensified competition in lactic acid probiotic beverages</li> <li>•Contraction of the yogurt market</li> </ul>	<ul style="list-style-type: none"> <li>•Increased cost of procuring cattle (Uruguay)</li> <li>•Effects of weaker currencies in emerging nations (Turkey and Uruguay)</li> </ul>



# 1. Medium-Term Management Plan 2020: Review and Forecast

## ➤ Catch up starting with FY2019/3 as the bottom

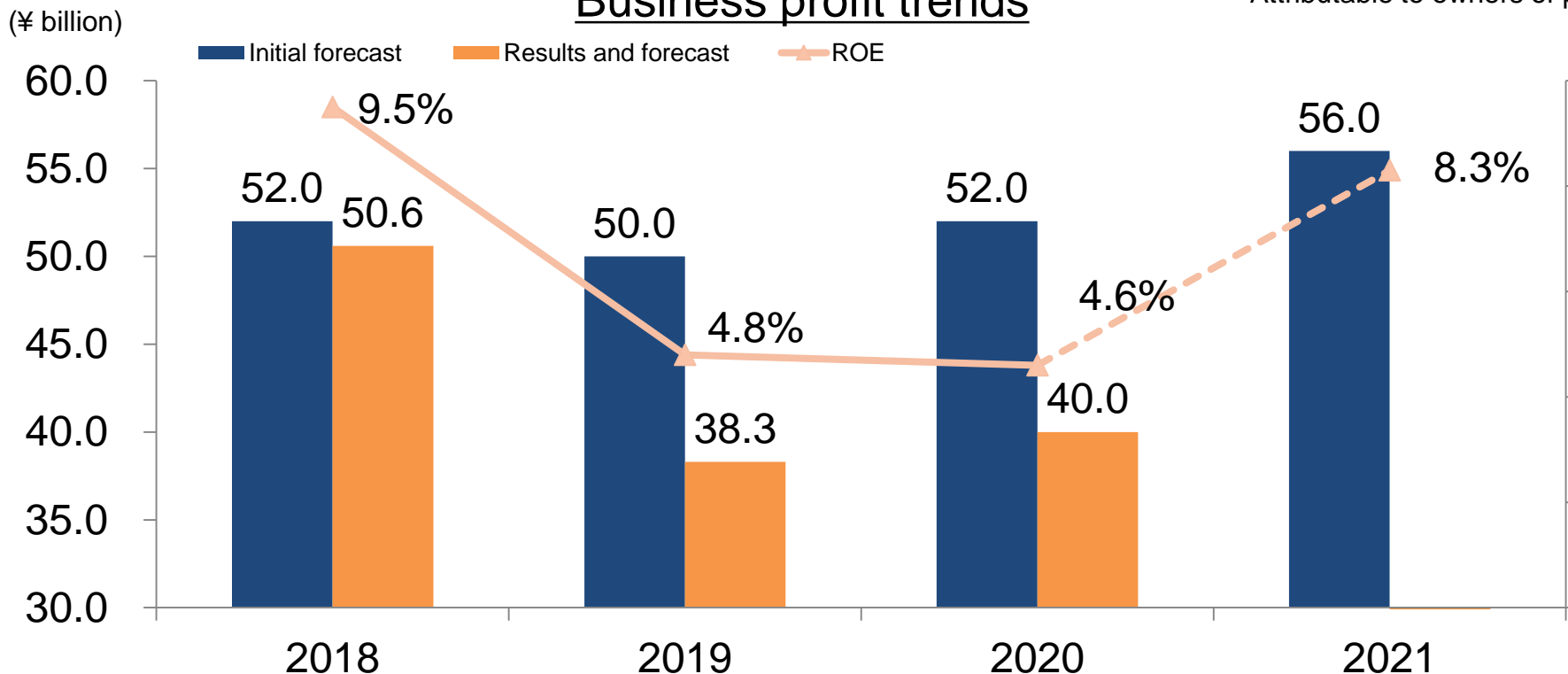
- Processed foods business: Consumer product growth
- Fresh meat market prices, especially chicken, hit bottom
- Australian operations will stabilize
- FY2020/3:  
Includes allowance for special retirement of ¥8.0 billion

(¥ billion)

	FY2020/3 forecast	FY2021/3 Initial forecast
Net sales	1,280.0	1,410.0
Business profit	40.0	56.0
Profit*	18.5	35.0
ROE	4.6%	8.3%
ROIC	4.7%	6.0%

## Business profit trends

\* Attributable to owners of parent



\* The year displayed in these documents corresponds to the fiscal year from April to March.

Example: 2019 = April 2018 to March 2019

## Business profit forecast by segment

(¥ billion)

	FY2019/3 Results	FY2020/3 Initial forecast	FY2020/3 Forecast	Variance	FY2021/3 Initial forecast
Processed Foods Business Division	7.8	11.0	8.5	(2.5)	14.0
Fresh Meats Business Division	35.7	46.5	38.0	(8.5)	47.0
Affiliated Business Division	0.4	4.5	1.5	(3.0)	6.0
Overseas Business Division	(3.8)	1.5	(2.0)	(3.5)	2.0
Eliminations, adjustments and others	(1.9)	(11.5)	(6.0)	5.5	(13.0)
Of which structural reform expenses	0.0	(4.0)	0.0*	-	(7.0)
of which value creation expenses	(0.0)	(5.0)	(2.0)	3.0	(4.0)
of which profit or loss of baseball club	(1.7)	(2.2)	(2.6)	(0.4)	(2.2)
Total	38.3	52.0	40.0	(12.0)	56.0

- Topics by segment
  - Processed Foods Business Division: Promote improvement of product mix and level out operations
  - Fresh Meats Business Division: Offset the cost increase by increasing earnings through a growth in sales volume
  - Affiliated Business Division: Build up profits by promoting restructuring
  - Overseas Business Division: Stabilization in Australia, shrinkage of losses in Uruguay
- \* Structural reform expenses of ¥(1.6) billion for FY2020/3 recorded in each segment

# Medium-Term Management Plan 2020: Progress in Each Business Division

➤ Themes for each business division toward sustainable growth

Processed Foods Business Division

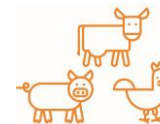


- Cast off from low profitability  
Enhance brand value and productivity

Fresh Meats Business Division

- Expand sales and enhance procurement capabilities  
Increase sales volume with profit

Sustainable Growth



Affiliated Business Division



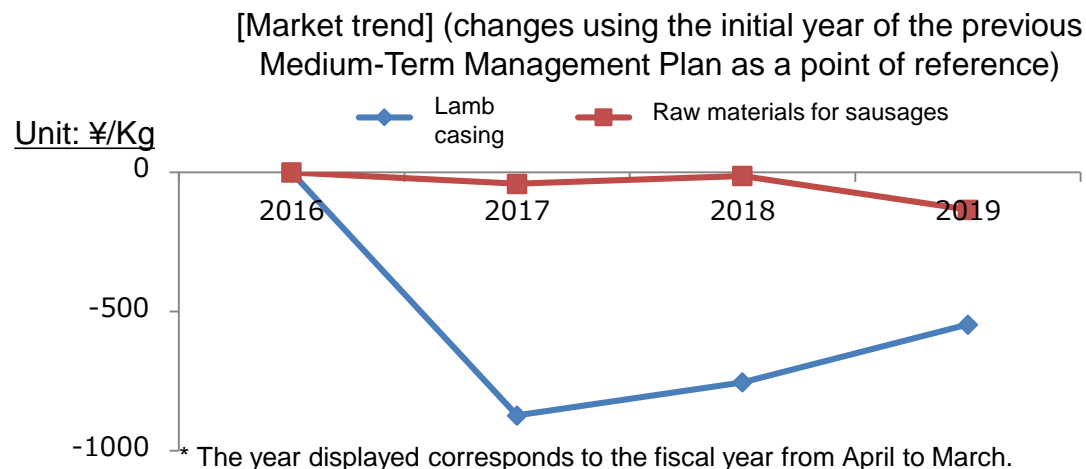
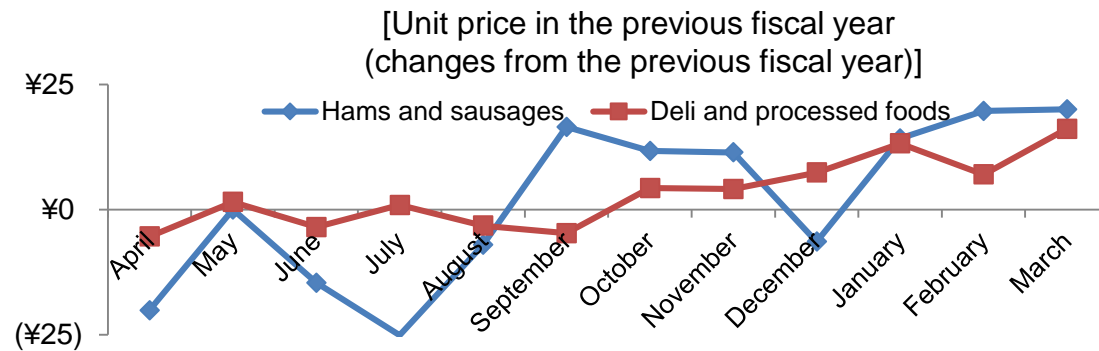
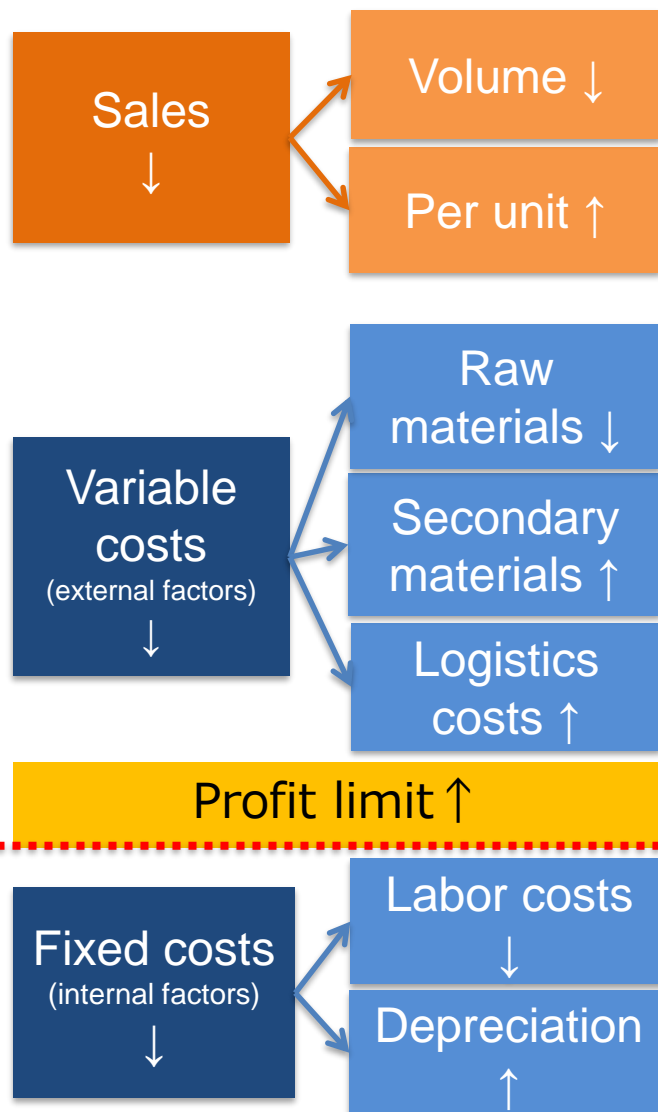
- Promote drastic reforms  
Strengthen overseas raw material procurement capabilities  
Strengthen manufacturing foundation  
Promote structural reform

Overseas Business Division



- Review beef business  
Stabilize profit in Australia  
Promote reform in Uruguay

- Cast off from low profitability: Review of previous fiscal year
- ✓ Focus sales of major brands and improve productivity



The year displayed corresponds to the fiscal year from April to March.

Example: 2019 = April 2018 to March 2019

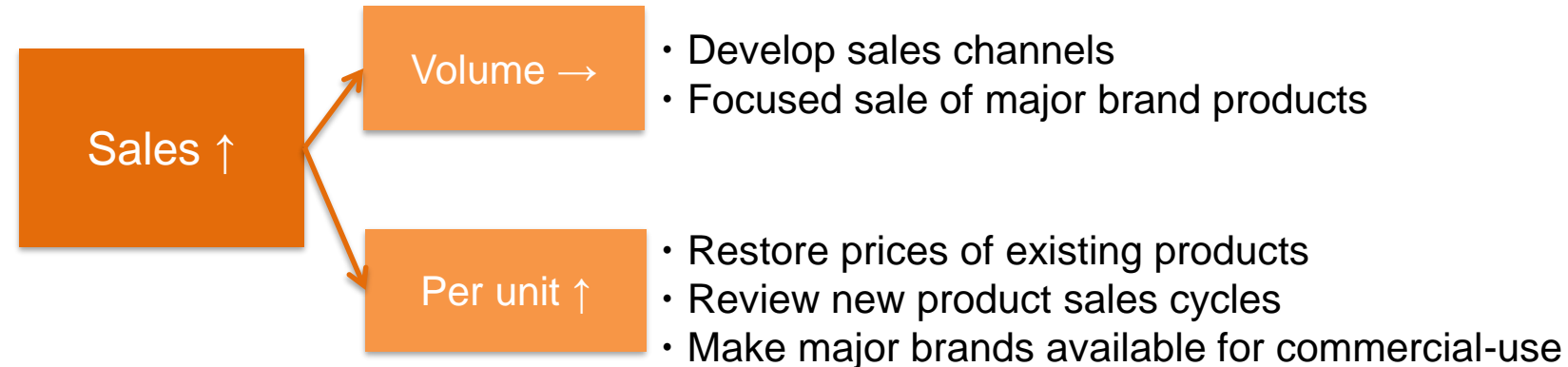
Source: Trade Statistics of Japan

[Fixed costs]

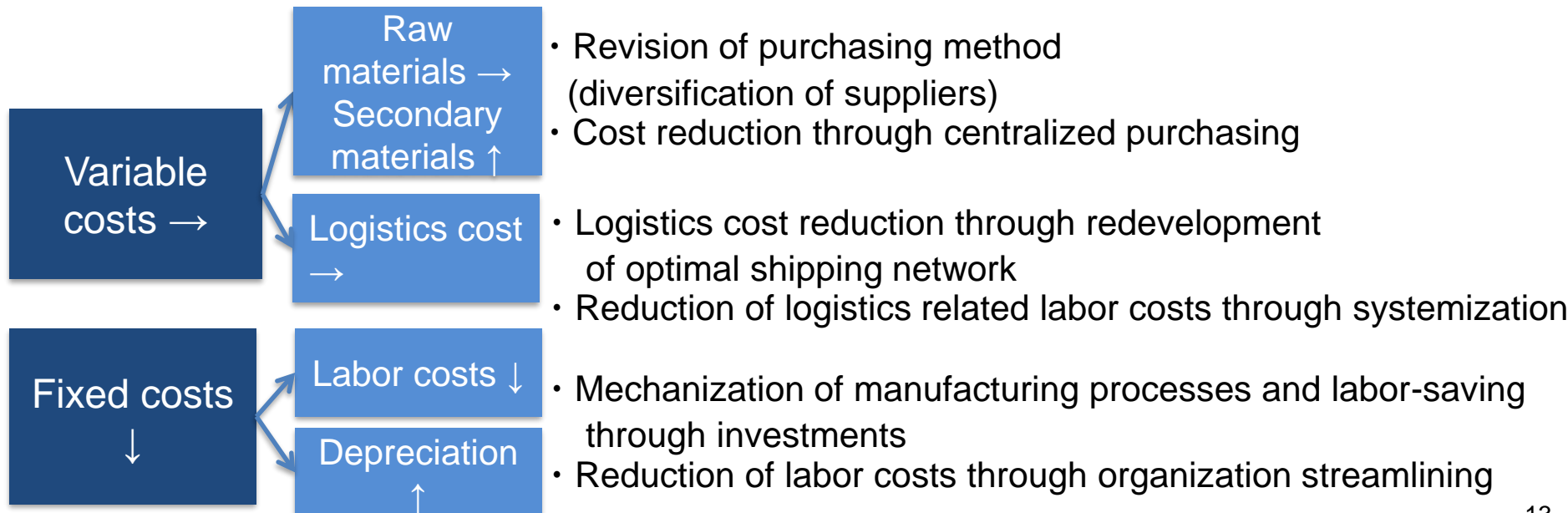
Although depreciation increased due to investments in labor-saving, fixed costs were reduced as a result of labor costs reduction through revision of plant operations and other efforts

## ➤ Cast off from low profitability

### ✓ Polish brand value and aim to increase revenue by securing gross profit



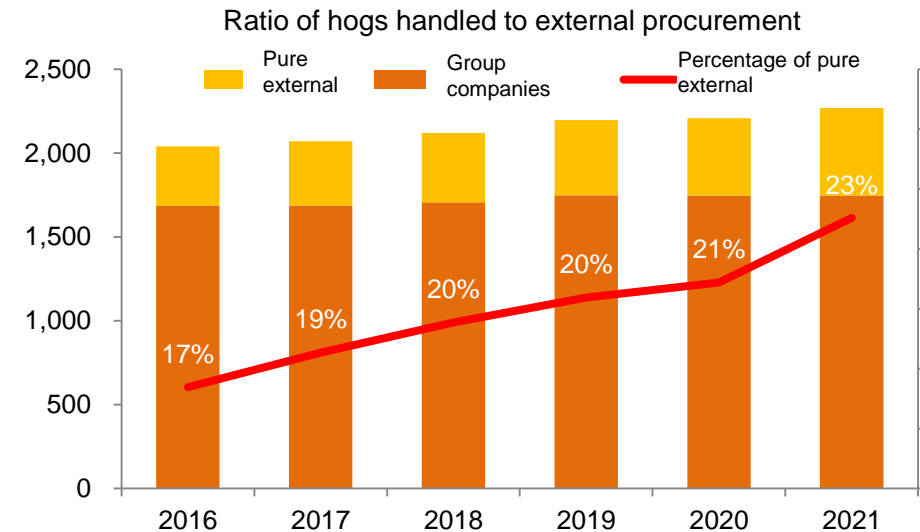
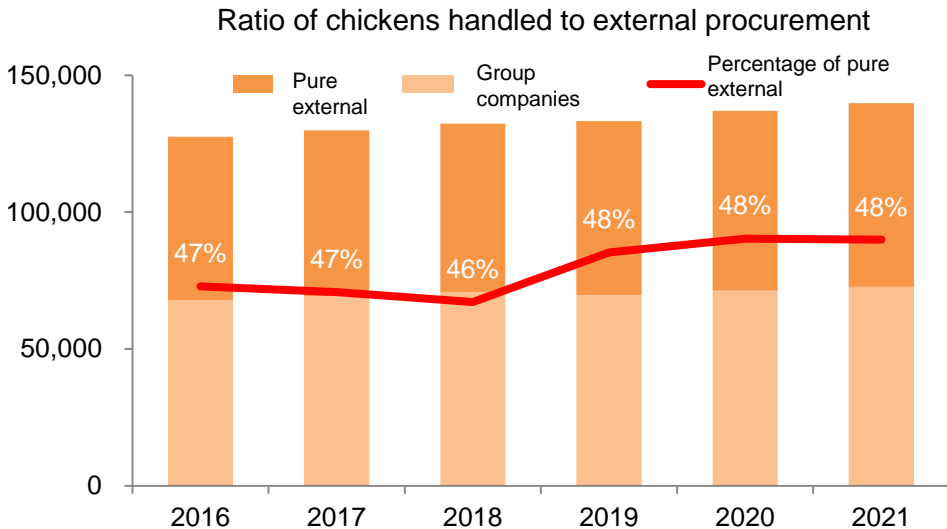
### ✓ Improve productivity through thorough cost management



➤ Aim for sustainable growth by improving sales and procurement capabilities

Domestic Fresh Meats: Balanced procurement of chicken and enhanced external procurement of pork

(1,000 chickens/hogs)



\* The year displayed corresponds to the fiscal year from April to March.

Example: 2019 = April 2018 to March 2019

(1,000 chickens/hogs)

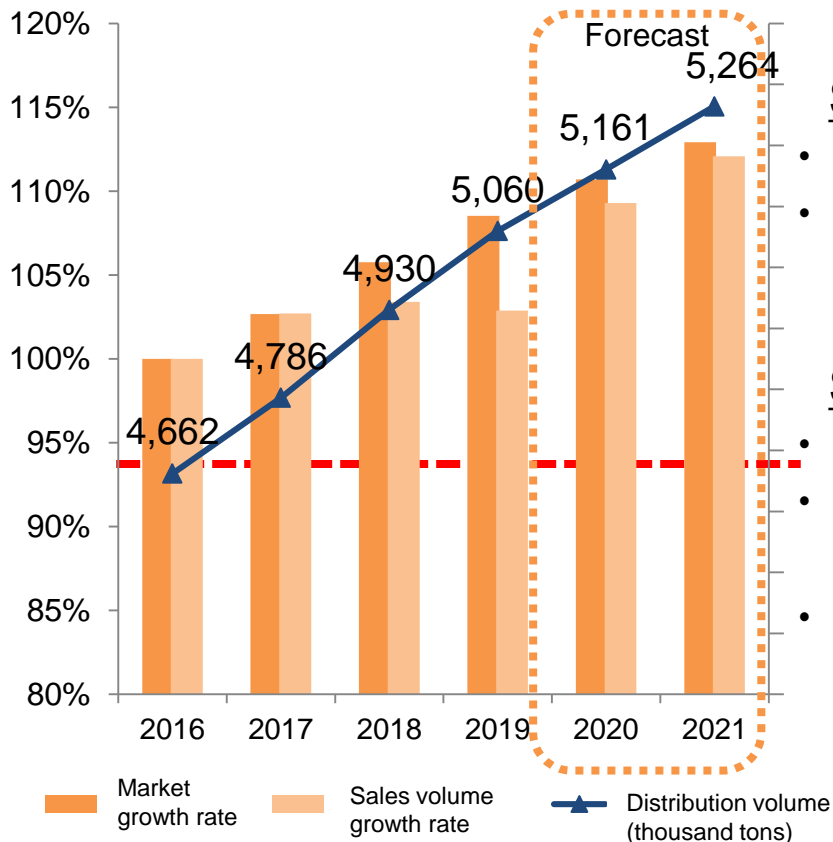
	Medium-Term Management Plan 2020 Initial forecast			Medium-Term Management Plan 2020 Results and forecast		
	2019	2020	2021	2019	2020	2021
Number of chickens shipped by the Company	71,000	72,200	72,700	69,697	71,366	72,708
Of which <i>Sakurahime</i>	27,500	28,300	29,000	27,259	28,263	29,000
Number of hogs processed by the Company	1,674	1,680	1,712	1,637	1,640	1,640
Shipped from the Company farms	679	716	724	650	650	650
Of which <i>Mugikomachi</i>	256	320	360	262	273	360

➤ Aim to achieve sustainable growth by enhancing sales and procurement capabilities

Assumptions: Market growth of 2%, equivalent to that of previous fiscal year, domestic production market equivalent to that of previous fiscal year

- Shift the rising labor and logistics cost
- Aim to increase revenue by expanding sales volume in key channels

Growth rate and market trend using the initial year of the previous Medium-Term Management Plan as a point of reference



Sales conditions

- Sales volume growth rates are slowing
- There is room for imported fresh meat volume growth

Sales volume expansion measures

- Enhance collaboration with packers overseas
- Strengthen sales of brand fresh meat and popularize them
- Channel-specific strategic approach



➤ Promote drastic reforms

Develop a foundation to turn the Company into a model manufacturer

(1) Strengthening overseas raw materials procurement capabilities

- Started purchasing Turkish farm-raised salmon
- Opened an office in Russia (Vladivostok)
- Launched shrimp farm-raising business in Thailand in FY2019/3



(2) Strengthening manufacturing foundation

- Increased operation ratio at Nippon Luna, Inc.'s Takasaki plant that possess cutting edge facilities
- Newly added baby cheese production lines at Hoko Co., Ltd.'s Rolf Yamato plant are now in full operation
- Built a sushi ingredients processing plant in Vietnam



(3) Promotion of structural reform

- Cut down unprofitable items and consolidated suppliers
- Enhanced efficiency by transferring part of fisheries and frozen foods businesses of Hoko Co., Ltd. to Marine Foods Corporation

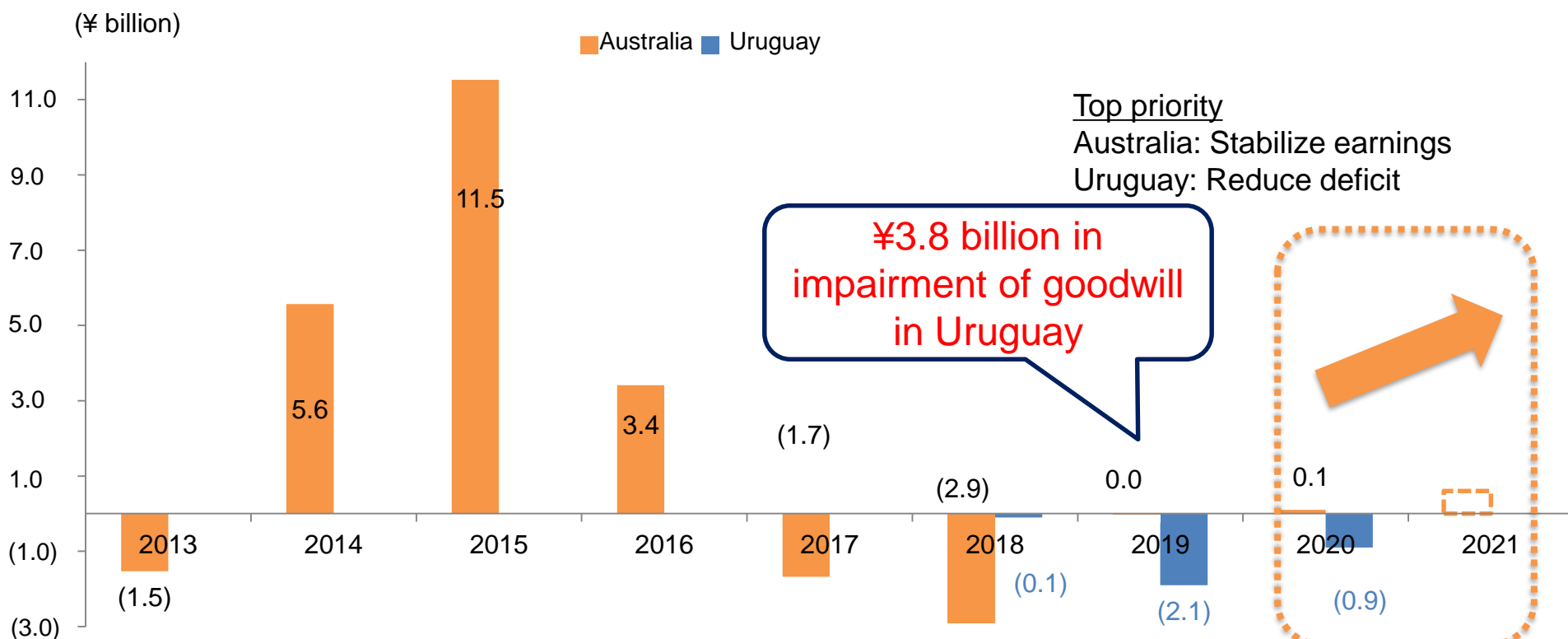


➤ Rebuild beef business and stabilize earnings

Australian business: Business operations are starting to stabilize with elimination of deficit

Uruguay: Earnings are deteriorating due to drought and other external conditions

### Operating income trends in Australian business and BPU in Uruguay



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\* Uruguay has been included in the scope of consolidation since 2018/3

➤ Rebuild businesses and concentrate management resources to stabilize earnings

**Australia: Secure stable profit with project effects**

**Profit improvement during FY2019/3:  
Approx. ¥2.8 billion**

- Farms: Invest in improved fattening environment  
Cattle collection in coordination with sales
- Production: Enhance cattle collection system  
Implement optimal production system
- Sales: Enhance and promote branding

External environmental effects ¥0.9 billion
<ul style="list-style-type: none"> <li>• World-wide rise in price of beef</li> <li>• Foreign exchange (weaker Australian dollar)</li> </ul>

Internal improvement effects ¥1.9 billion
<ul style="list-style-type: none"> <li>• Productivity improvement in fattening business</li> <li>• Productivity improvement in processing business</li> </ul>

Expect further improvement through investment in efficiency improvement

⇒ Uruguay: Horizontal expansion to BPU beef business

**Start BPU improvement project**

- (1) Stabilize the cattle collection ⇒ Enhance sales-linked procurement
- (2) Reduce processing and manufacturing costs ⇒ Reinforce management by introducing KPI
- (3) Rebuild sales strategies ⇒ Leverage group synergy and enhance sale of added-value products



# Medium-Term Management Plan 2020: Management Strategies from Medium- and Long-term Perspective

➤ Medium- and long-term perspective - Building systems that pave the way to the future  
Progress in building systems that pave the way to the future

Management strategy	Details of efforts	Future development
Dialog with consumers	Dining marketing by the Lifestyle Research Office	Application to product development and sales promotion activities
Realizing the future of food	Development of foot-and-mouth disease detection kits	Sale planned upon issuance of national guidelines
	Smart hog farming project	Gradually deploy in Interfarm, which is responsible for hog farming business
Sustainability	Promotion of CSR procurement	Hold briefings for roughly top 60% of primary suppliers and secure their agreement



“FOOD STYLE LABO” published by the Lifestyle Research Office



Pilot test of smart hog farming by Interfarm



“NH Immunostic Foot-and-Mouth Disease” for detecting foot-and-mouth disease virus antigens in cattle

In order to pursue corporate and social sustainability, the NH Foods Group is using its business strengths to tackle five material issues and contribute to SDGs, international goals for achieving a better society.



The five CSR material issues are linked to their core SDG targets

# Medium-Term Management Plan 2020: Shareholder Returns and Capital Expenditures

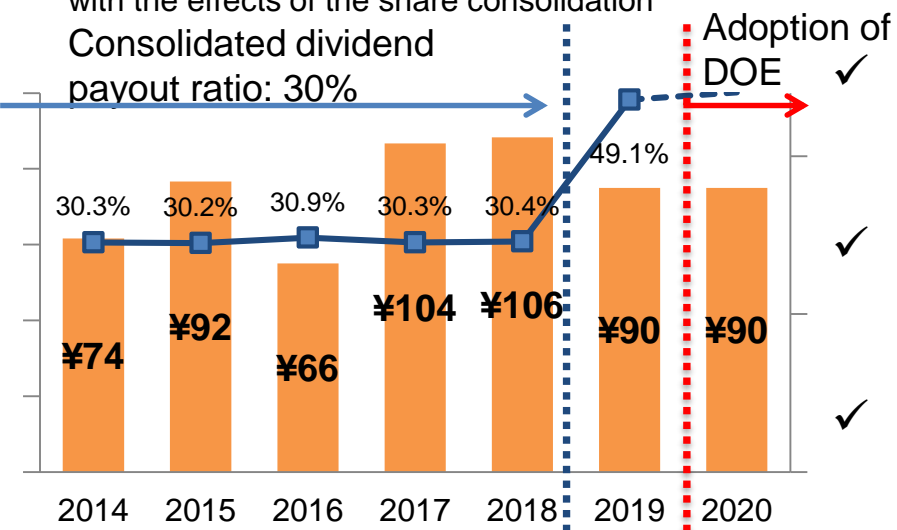


## ➤ Revise dividend policies: Realize dividend stability by adopting DOE

### Dividends (¥) and dividend payout ratio (%) trends

\* Figures for 2018 and before are adjusted with the effects of the share consolidation

Consolidated dividend payout ratio: 30%



### <Changes in the dividend policy>

- ✓ FY2018/3: Consolidated dividend payout ratio was 30%
- ✓ FY2019/3: ¥90, in accordance with initial forecast
- ✓ FY2020/3: Adoption of DOE

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 Example: 2019 = April 2018 to March 2019

- ✓ Aims for adopting DOE (Dividend on Equity)
  - Achieve stable dividend payment with growth potential by referencing DOE
  - As part of the capital policy aiming at developing optimal asset and liability structures

## ➤ Acquisition of treasury stock

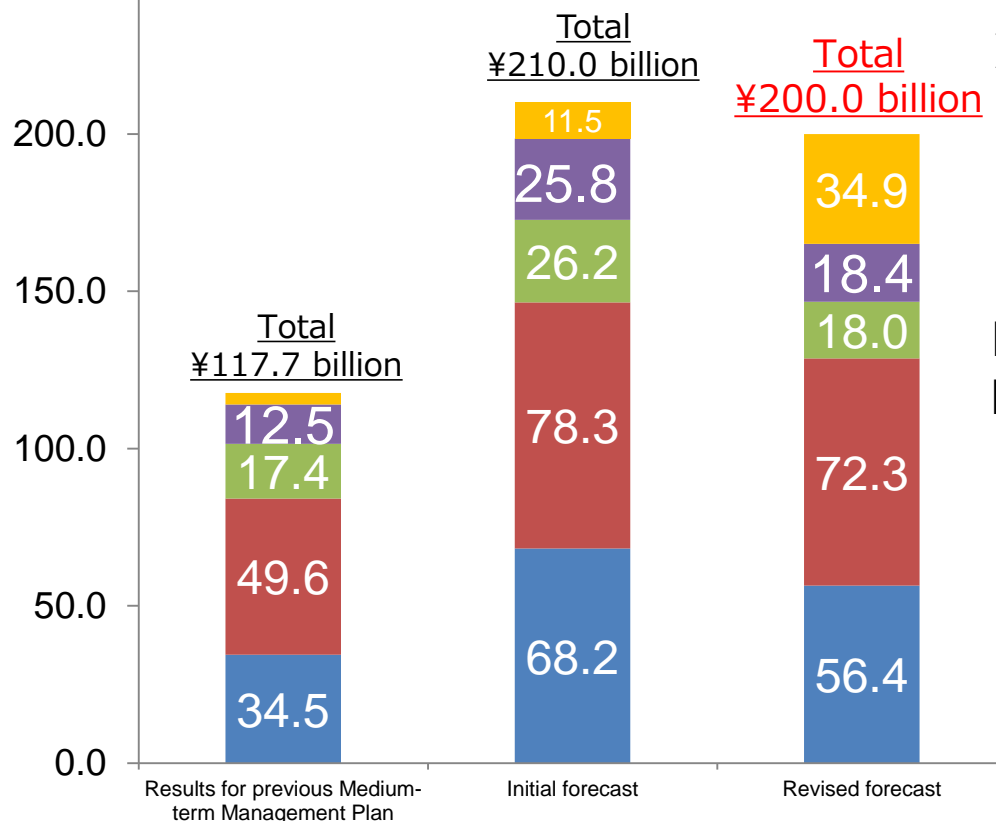
- Implement the acquisition flexibly with the objective of improving per share shareholder value and ROE while taking into account investments to drive future growth and financial position



## ➤ Revision to the amount of capital investments: Examined projects and revised capital investments

(¥ billion)

### Planned amount of capital investment for 3 years



### ➤ Key factors

- Detailed examination by each segment reduced capital investments by approx. ¥37.0 billion

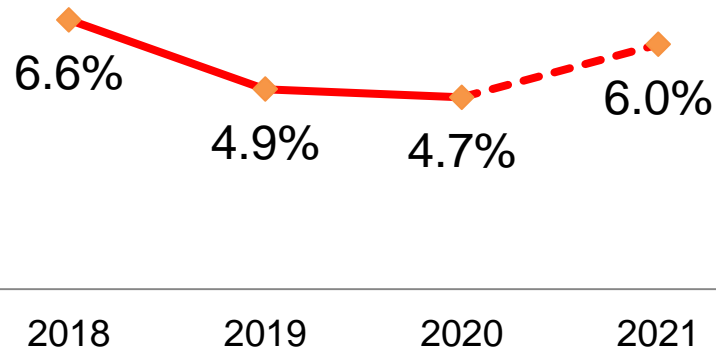
However, an increase of approx. ¥27.0 billion included:

- Increase by approx. ¥12.0 billion due to changes to the accounting standards for lease transactions
- Approx. ¥15.0 billion for the construction of a new baseball stadium

The above led to the revision of the total amount of capital investment for a period of three years to ¥200.0 billion

➤ From the progress and plan of ROIC ✓ Be conscious of capital efficiency using ROIC as a reference

## ROIC



	ROIC	Business profit ratio	Invested capital turnover	After deduction of tax
2018 Results	6.6%	4.0%	2.39	0.69
2019 Results	4.9%	3.1%	2.29	0.69
2020 Forecast	4.7%	3.1%	2.20	0.69
2021 Initial forecast	6.0%	4.0%	2.17	0.69

- ✓ Drop in ROIC mainly due to a decline in profit margins
- ✓ Invested capital turnover was lower than forecast sales due to capital expenditures
- ✓ Manage the progress by allocating invested amount by segment
  - Sales growth by ensuring return on investment is an urgent task
  - Replace capital assets with ones that generate more profits

Aim to “develop an optimal business portfolio”

\* The year displayed corresponds to the fiscal year from April to March.  
 Example: 2019 = April 2018 to March 2019

# Medium-Term Management Plan 2020: Financial Strategy and Capital Policy

- Cash flows: Revised the initial plan for each cash flows
- ✓ Capital expenditures were carefully examined, but the decrease in operating cash flows was significant and negative free cash flows are expected

(¥ billion)

	Medium-Term Management Plan 2020 initial cumulative forecasts	Medium-Term Management Plan 2020 cumulative forecasts	Variance
Operating cash flows	179.5	143.5	(36.0)
Investment cash flows	(198.6)	(176.5)	22.1
Free cash flows	(19.1)	(33.0)	(13.9)

- Financial strategy and capital policy: BS management aimed at minimizing WACC
- ✓ Implement financial strategies with capital costs in mind

## Invested capital

Interest-  
bearing debt

D/E Ratio  
0.4-0.5

FY2019/3 result: 0.37  
FY2021/3 forecast: 0.50

Shareholders'  
equity

Stable  
dividend  
DOE

Acquisition of  
treasury stock

- Cut back invested capital through examination of investments and management of operating capital
- Achieve optimum debt and capital structures  
⇒ reduce WACC

## Contact

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### Forward-looking statements

This presentation includes forecasts regarding targets, strategies and earnings. These forecasts are based on information available at the current time and contain certain assumptions about the future. They are subject to numerous external uncertainties in areas such as economic environment, market trends and exchange rates.

Actual performance may differ significantly from the targets in this presentation, and investment decisions should not be based exclusively on them.