Message from the CFO

We will continue to maintain an optimal debt-to-equity ratio to ensure preparedness for rapid changes in the business environment, and to support sustainable growth through the optimization of our business portfolio.

Masahito Kataoka
Director and Executive Officer

Financial overview of the first year of the Medium-Term Management Plan

The fiscal year ended March 2022 was the first year of the Group's Medium-Term Management Plan 2023. While the business environment remained extremely challenging due to the prolonged effects of the COVID-19 pandemic, as well as surging raw material costs, our FY2021 results were mostly in line with our targets for that year. Particularly significant is the fact our return on equity (ROE), which is considered a key indicator of capital efficiency, reached 10.5% in the first year of Medium-Term Management Plan 2023. This is substantially higher than our target figure of 8.0% for the final year of the plan.

However, we attribute this result primarily to extraordinary factors, including the sale of a business in March 2022, as well as strong performance by equity-method affiliates in the United States, which led to a significant increase in net profit. Based purely on business profit, which at ¥48.1 billion was very close to the target figure of ¥48.0 billion, we believe that our capital efficiency has not yet reached a level at which ROE can be reliably maintained at 8.0% or higher. We will therefore keep the Medium-Term Management Plan targets at their present levels and continue to work towards the achievement of a situation in which ROE can be consistently maintained at 8.0% or higher.

Another indicator of capital efficiency is ROIC. While our investment turnover rate was higher than the target figure, the business profit margin was only 3.9%, which is slightly below our target of 4.1%, due to cost increases caused by soaring raw material and fuel costs. As a result, ROIC was slightly below the target figure of 5.1% at 5.0%.

At ¥33.4 billion, our operating cash flow was significantly lower than our initial target of ¥76.0 billion. This can be attributed to an increase in working capital due to cost increases, including soaring raw material prices. Despite this setback, we were still able to achieve free cash flow in line with our plans, thanks in part to proceeds from the sale of a business.

Approach to financial strategy

The current business environment is extremely challenging from a cost perspective due to factors that include soaring raw material and fuel prices, as well as a weaker yen.
I therefore believe that for the time being we need to focus all of our efforts on securing profits by ensuring that price revisions permeate through the market, while also accelerating efficiency improvements. We have revised our management targets for fiscal 2022, but we have not modified our initial targets for fisical 2023 onwards, since it is currently difficult to predict developments beyond that point.

Medium-Term Management Plan 2023 has a total capital investment budget of ¥248.0 billion for the three-year period. While maintaining financial discipline, we will move forward as planned with investments designed to ensure future business sustainability and create new value, including investment by the Fresh Meats Business Division to enhance infrastructure for the farming business and production operations, as well as investment in the new stadium, and DX investment.

In fiscal 2022, we will take effective action to address surging costs. However, we expect the Group's business profit margin to decline. We also anticipate a decline in ROIC due to a lower investment turnover rate resulting from an increase in fixed assets, especially the new stadium. Our priorities now are to expand sales to match the level of invested capital, and to manage invested capital efficiently.

We anticipate that cash flows from operating activities will continue to be affected by working capital. In addition, fixed asset acquisitions will peak in fiscal 2022. We plan to address any shortage of funds by drawing on cash and deposits, and by procuring interest-bearing debt, including sustainability bond issues.

Shareholder returns and balance sheet management

We regard shareholder returns as a vital aspect of management policy and part of a capital policy designed to enhance our medium- to long-term corporate value by ensuring an optimal capital-liability structure.

Our basic policy on the distribution of the surplus calls for efforts to maintain steady, consistent dividend growth. Our guideline for dividends is a dividend-on-equity (DOE) ratio of 2.3%. In fiscal 2021, we increased the cash dividend by ¥8 over the previous year's level, resulting in a dividend of ¥102 per share. In fiscal 2022, we are planning to increase the dividend by another ¥8 to ¥110 per share. Our capital policy will include a flexible approach to share buybacks with the aim of achieving an optimal capital position.

Company policy calls for avoidance of cross-shareholdings in principle, and we are working to reduce the number of such shareholdings in line with this policy. Because of major changes in the external environment, we believe that the environment now is conducive to further reductions, and we will accelerate our efforts in this area. We are working to reduce the level of invested capital through measures that include the appropriate management of cash and deposits.

One of the most important aspects of balance sheet management is the appropriate management of the ratio of interest-bearing debt to shareholders' equity at a level that minimizes WACC. As of March 2022, our debt-to-equity (D/E) ratio stood at 0.44, compared with our guideline of 0.4 to 0.5. We aim to maintain the D/E ratio at an appropriate level.

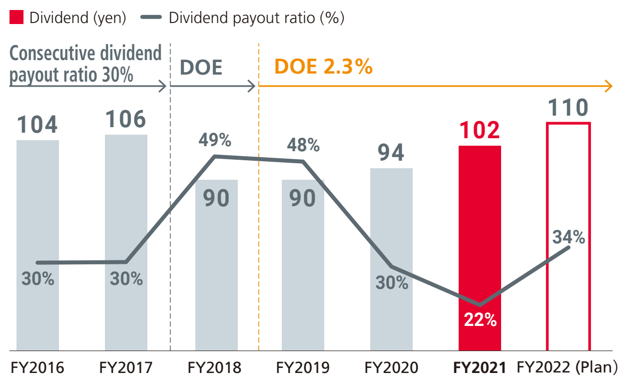
Reducing WACC and achieving sustainable growth

The reduction of WACC is essential for the achievement of continual improvement in corporate value. We are working toward this goal through long-term initiatives. We believe that the cost of shareholders' equity can be reduced by mitigating business risks, enhancing dialogue with investors, and steadily pursuing a sustainability strategy that includes measures to address climate change risks.

We envisaged Medium-Term Management Plan 2023 as a program for pursuing improvements in profitability and capital efficiency in order to build a solid foundation for our next phase. That commitment has not changed. We did not anticipate the current surge in costs. However, we will work steadily to address these cost increases and accelerate internal efficiency improvements. Ultimately, we will need to maintain a good balance among indicators in the five areas of growth potential, profitability, efficiency, cash flows, and optimal capital.

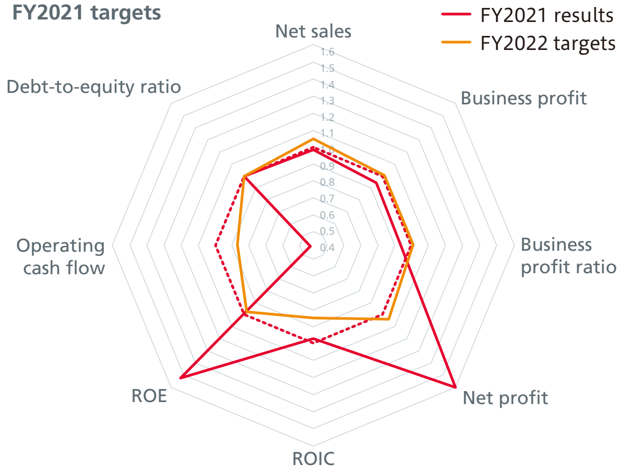
The NH Foods Group will continue to optimize its business portfolio through asset recycling, while steadily implementing measures that will lead to sustainable growth in our next phase of development.

Changes in dividends and payout ratio



Note: Dividend amounts through the fiscal year ended March 31, 2018 have been retroactively adjusted to reflect the absorption-type stock split.

Main indicators – comparison with FY2021 targets



Note: The business profit ratio for the fiscal year ended March 2022 was calculated using business profit after adjustment for non-continuous businesses. Business profit, the business profit ratio, net profit, and operating cash flow for the fiscal year ending March 2023 were adjusted in August 2022.