

Value creation process

# VALUE CREATION

Sharing the *Joy of Eating* through the pursuit of improvement in social value and business value

- Changes in food demand due to Japan's falling birthrate and demographic aging  
→ Japan's population of children aged under 15 has been falling continuously for **41 years**.<sup>\*1</sup>  
\*1 Based on a May 2022 press release by the Ministry of Internal Affairs and Communications

- Changes in the supply-demand balance for food driven by global population growth  
→ World population: **7.954 billion**  
Increase of **79 million** compared with 2021<sup>\*2</sup>  
\*2 From The State of World Population (2022)

- Intensification of competition with other companies as trade agreements come into force

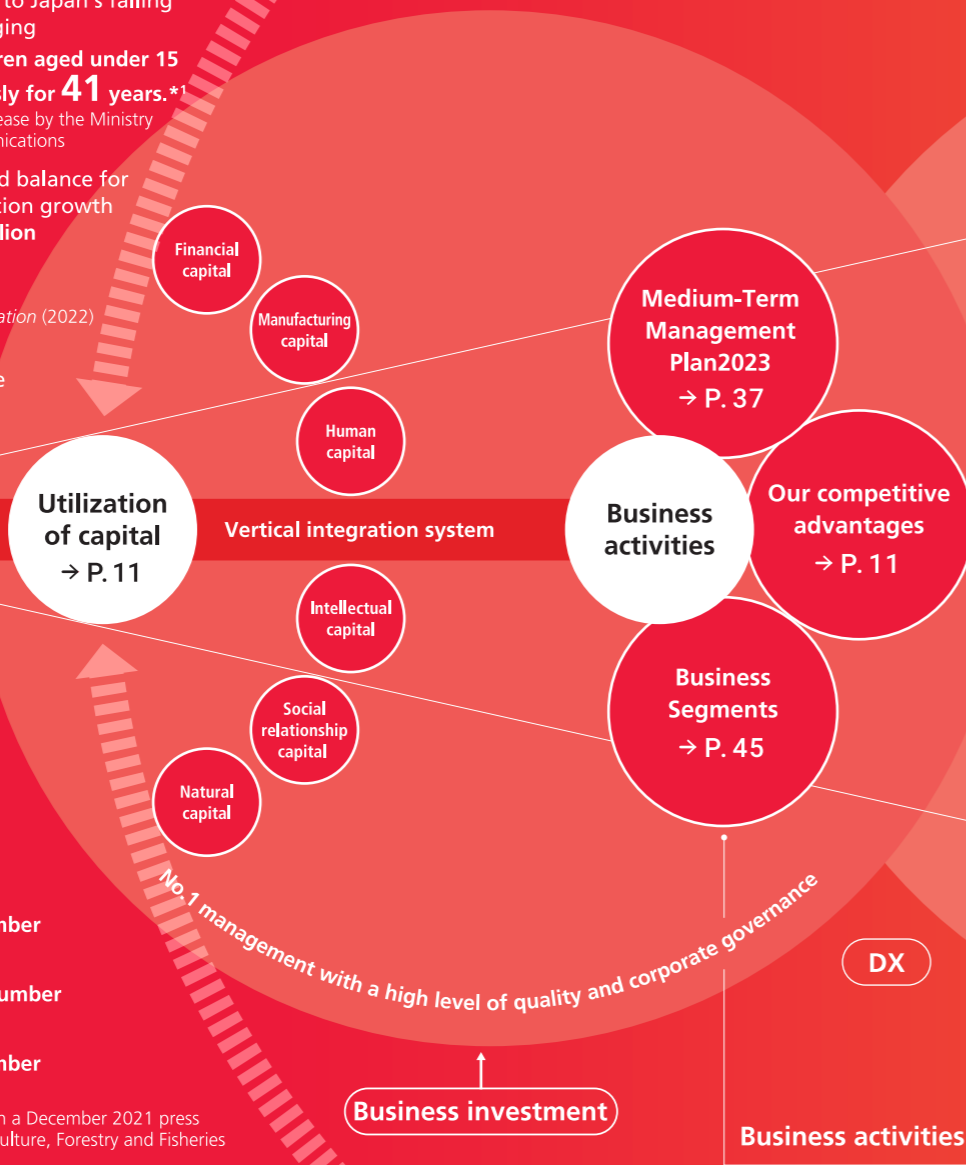
External environment (risks and opportunities)  
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- Environmental risks, including climate change risks and water risks
- Food safety risks
- Diversification of food needs due to lifestyle diversification
- Decrease in the number of domestic livestock farmers<sup>\*3</sup>

- **4.1%** decline in the number of cattle farmers
- **10.9%** decline in the number of pig farmers
- **4.0%** decline in the number of broiler chicken farmers

\*3 Compared with 2020, based on a December 2021 press release by the Ministry of Agriculture, Forestry and Fisheries

- Soaring resource prices (grain, crude oil, etc.)
- Changes in consumer behavior due to the global pandemic
- Increasing focus on work style modification



Business activities

Medium-Term Management Plan 2023 Management Policies

- Shift to a sustainable business model with profitability
- Establish a growth model for Overseas Business
- Provide new value through new products and services
- Strengthen corporate functions to achieve the Vision

Solve social issues  
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ESG investment

Our competitive advantages

1. Procurement and production networks that support safe, secure, and reliable supply
2. Developing products from a customer perspective
3. Nationwide sales and distribution network
4. Strong supply capacity and advanced processing technology re-ected in high market share
5. Management commitment to leadership in quality backed by highly effective quality assurance structures

Business Segments

- Processed Foods Business Division
- Fresh Meats Business Division
- Overseas Business Division
- Baseball Club and Other Business

Defining Our Five Materialities

After reviewing issues in the social environment, the NH Foods Group defined the Five Materialities in April 2021 as a framework for our efforts to realize our Medium-Term Management Plan and reach our medium- to long-term targets for 2030.

The NH Foods Group will continue to contribute to the creation of a sustainable society through efforts focused on the Five Materialities.

Link for more details:

<https://www.nipponham.co.jp/eng/csr/nhgroup/process/>

Our Five Materialities

- Stable procurement and supply of proteins
- Food diversification and health
- Contributing to a sustainable environment
- Co-creation and shared prosperity with local communities and society as a whole through food and sports
- Employee development and respect for diversity

Gaining new strengths and value  
**Increase business value**

**Vision2030**

Solution of social issues  
**Increase social value**

Corporate philosophy

**Joy of Eating**



# Using and enhancing six types of capital to support value creation

## The unique value chains of the NH Foods Group



Protein provides the energy for life, and value chains that reliably supply protein are key to the value creation capacity of the NH Foods Group. We are able to supply safe, dependable products reliably thanks to our global procurement and production structures, our nationwide sales and distribution network, and our quality assurance systems. In the area of processed foods, our advanced product development systems and processing technologies enable us to create delicious new products, while our vertical integration system for fresh meats provides a framework for dependable and highly efficient production structures. These systems and structures allow us to reliably supply high-value-added products that match market needs, while also eliminating disease risks and other risk factors.

### Manufacturing capital

#### Strong supply capacity and advanced processing technology reflected in high market share

The NH Foods Group manufactures ham, sausages, processed foods, processed seafood products, lactic acid probiotic beverages, dairy products, and other items at 92 production facilities in Japan and overseas. In the fresh meats category, our involvement in the breeding and production of pork and chicken in Japan, together with reliable access to supplies from our partners in Japan and overseas, enables us to supply high-quality branded meats and other products reliably, and we have built a market share of around 20%. Many of our processed foods are number one in their categories thanks to our nation-wide supply structures.

One of our goals under Medium-Term Management Plan 2023 is to optimize our manufacturing base by reassessing its functionality and organization from an overall optimization perspective.

All NH Foods Group production facilities have obtained HACCP and ISO certification and maintain effective quality control regimes.



### Social relationship capital

#### Nationwide marketing and distribution networks, unique quality assurance structure

We have developed regional food infrastructure in the form of highly responsive supply structures with direct links to production facilities and a strong focus on the needs of customers in various industries. Our comprehensive strengths, including these extensive logistics and marketing structures, have further enhanced our market competitiveness through the development of stronger relationships with raw material suppliers. However, we also recognize the need to improve efficiency by resolving issues in our logistics operations, and we have already launched initiatives for this purpose.

We have created quality audit, safety assessment, and safety inspection systems to support our management commitment to being No. 1 in quality. The unique monitoring structure that we introduced in 1969 was updated in 2022 as the Consumer Delegate Committee. Input from various perspectives is used in product enhancement and development.



### Natural capital

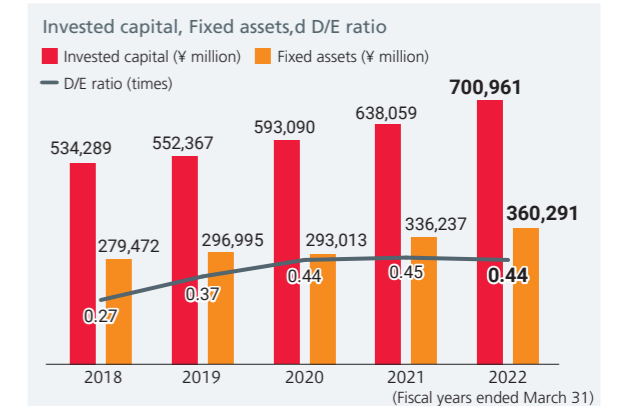
#### Production and breeding facilities—the source for reliable meat supplies in Japan and overseas

The NH Foods Group produces and breeds cattle, pigs and chickens mainly in Japan, but we also have cattle breeding operations in Australia and chicken production and breeding operations in Turkey. Our natural capital includes 128 company-owned farms in Japan and 23 overseas.

### Financial capital

#### Achieving a healthy balance between debt and equity while investing in growth

In the fiscal year ended March 2022, invested capital increased by ¥62.9 billion to ¥701.0 billion. This amount represents the difference between total assets of ¥909.2 billion and total interest-free debt of ¥208.2 billion. Fixed assets, including intangible fixed assets, which make up approximately 40% of total assets, increased by ¥24.1 billion year on year to ¥360.3 billion. Under Medium-Term Management Plan 2023, we will invest ¥248.0 billion in business infrastructure enhancement, the construction of a ballpark, DX initiatives, and other projects. The fixed asset balance is expected to increase further as this investment peaks in fiscal 2022. At the same time, we will take steps to improve the efficiency of our fixed assets, including the recycling of assets with profitability issues, and the improvement of profit margins. These measures will lead to the improvement of ROIC. The Group's debt-to-equity ratio, which we consider a primary financial indicator, reached 0.44 in fiscal 2021. This figure falls within the 0.4 to 0.5 range, which we see as indicative of a debt-equity structure that will enable us to minimize WACC.



### Human capital

#### Driving force for the realization of Vision2030

Our recognition that our employees are the driving force for these efforts is reflected in the adoption of "employee development and respect for diversity" as one of our Five Materialities. We will ensure that every individual employee can reach his or her full potential and achieve growth, by reforming our systems and improving working environments. We are also promoting health management under our Health and Safety Declaration.

We are training specialist personnel through training initiatives, including rank-based training programs designed to raise the overall level of IT literacy. We also provide advanced technical training with the aim of enhancing quality control in our manufacturing facilities. As of March 31, 2021, a total of 62 NH Foods Group employees had passed exams to qualify as specialist technicians.



### Intellectual capital

#### R&D capabilities vital to business development and the solution of social issues

We engage in research and development from a number of perspectives, including the fulfillment of our long-term responsibilities as a supplier of animal protein, the future development of the livestock industry, health promotion and the mitigation of allergy problems, and responses to environmental problems.

Our R&D efforts in relation to the reliable supply of protein are focusing on development of new protein sources based on microorganisms, and the use of animal cells to produce cultured meat for use as food. In December 2021 we obtained a patent for our research concerning the use of imidazole dipeptide to alleviate cognitive impairment. This work also resulted in the development of *IMIDEA*, a food with functional claims, which contains imidazole dipeptide.

