

## Segment data

# Processed Foods Business Division



## Establish a lean manufacturing profit structure and expand business from a marketing perspective

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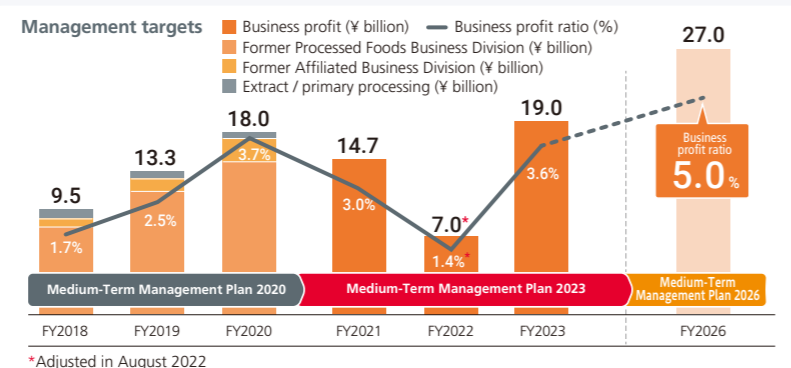
Director and Managing Executive Officer,  
General Manager of Processed Foods Business Division

Risks	Opportunities	Responses
<ul style="list-style-type: none"> <li>Growing concern regarding food safety</li> <li>Diversification of food needs due to lifestyle diversification</li> <li>Market shrinkage due to a falling birthrate and demographic aging</li> <li>Rising personnel expenses and labor costs due to a falling working-age population</li> <li>Raw material cost increases due to shifts in the global supply-demand balance</li> <li>Human rights issues</li> <li>Procurement risks from climate change</li> </ul>	<ul style="list-style-type: none"> <li>Expanding demand for products that match the consumer focus on health</li> <li>Lifestyle changes generating increased demand for simple, time-saving products</li> <li>Creation of new markets through the emergence of diverse food cultures, such as veganism</li> <li>Market expansion through growth in demand for meat substitutes</li> <li>Growth in demand for eco-friendly products</li> <li>Increased demand for reserve and emergency supplies that can be stored at room temperature</li> <li>Improvement of productivity</li> </ul>	<ul style="list-style-type: none"> <li>Expand lineup of food allergy-friendly products</li> <li>Develop and sell microwaveable products</li> <li>Develop products for younger consumers and single-person households</li> <li>Develop meat substitutes</li> <li>Reduce resources used in packaging</li> <li>Diversify resource procurement sources</li> <li>Develop new products that can be stored at room temperature</li> <li>Promote labor savings and mechanization of production lines</li> </ul>

### Overview of Medium-Term Management Plan 2023

#### Increased focus on customer-centered product development, further improvement of profitability

- Strengthen existing areas and take on challenges in new areas
- Enhance productivity in manufacturing plants
- Solve social issues and improve profitability



## Review of fiscal 2021

### Increased focus on customer-centered product development, further improvement of profitability

In fiscal 2021, our efforts under Medium-term Management Plan 2023 focused on the establishment of a lean manufacturing profit structure from a company-wide optimization perspective, and business expansion from a marketing perspective.

We tackled the first of these goals by creating manufacturing structures and automating and leveling lines on a company-wide basis. A key priority was the centralization of production of flagship brands, including *Schau Essen*, at locations with highly productive lines. This initiative yielded the benefits targeted in the plan. Other initiatives to improve profit margins included fuel conversion projects.

We approached business expansion from a marketing perspective by creating consumer-centered marketing structures through a shift from product-centered thinking toward a market-focused approach. Initiatives included the Young Employees' New Product Proposal Forum, which represents a totally new approach to product development.

Our priorities for consumer products were the expansion and consolidation of sales of flagship brands, especially *Schau Essen*, *Ishigama Kobo*, and *Chuka Meisai*, as well as brands targeted for prioritized nurturing, including *Kiwami-yaki Hamburg* and *NatuMeat*. We prioritized the expansion of sales to key customers, and the development of

new sales channels.

In the area of commercial products, we worked to improve profitability by pursuing cost competitiveness and added value through the improvement of profit margins for key products and intensive marketing of high-margin items. We also applied our expertise to the development of unique new products, such as *Fibermeat*, while also taking up the challenge of new product domains, including not only products suitable for room-temperature storage, but also extract seasonings, plant-based proteins, and foods for the elderly.

One of the priorities brought forward from the previous fiscal year was the creation of hit products. We launched two new room-temperature brands: *Hoguseru Oniku* and *Ajiwai Range*. However, neither reached their sales targets. We will resume marketing efforts after identifying issues and making improvements based on the results of consumer research.

We also made good progress on initiatives to tackle material issues through our activities. Initiatives relating to "food diversification and health" included the expansion of our range of products for people with food allergies. We also continued to contribute to a sustainable environment by switching to environmentally responsible products and implementing plans to reduce CO<sub>2</sub> emissions, water use, and waste in our factories and improve recycling ratios.

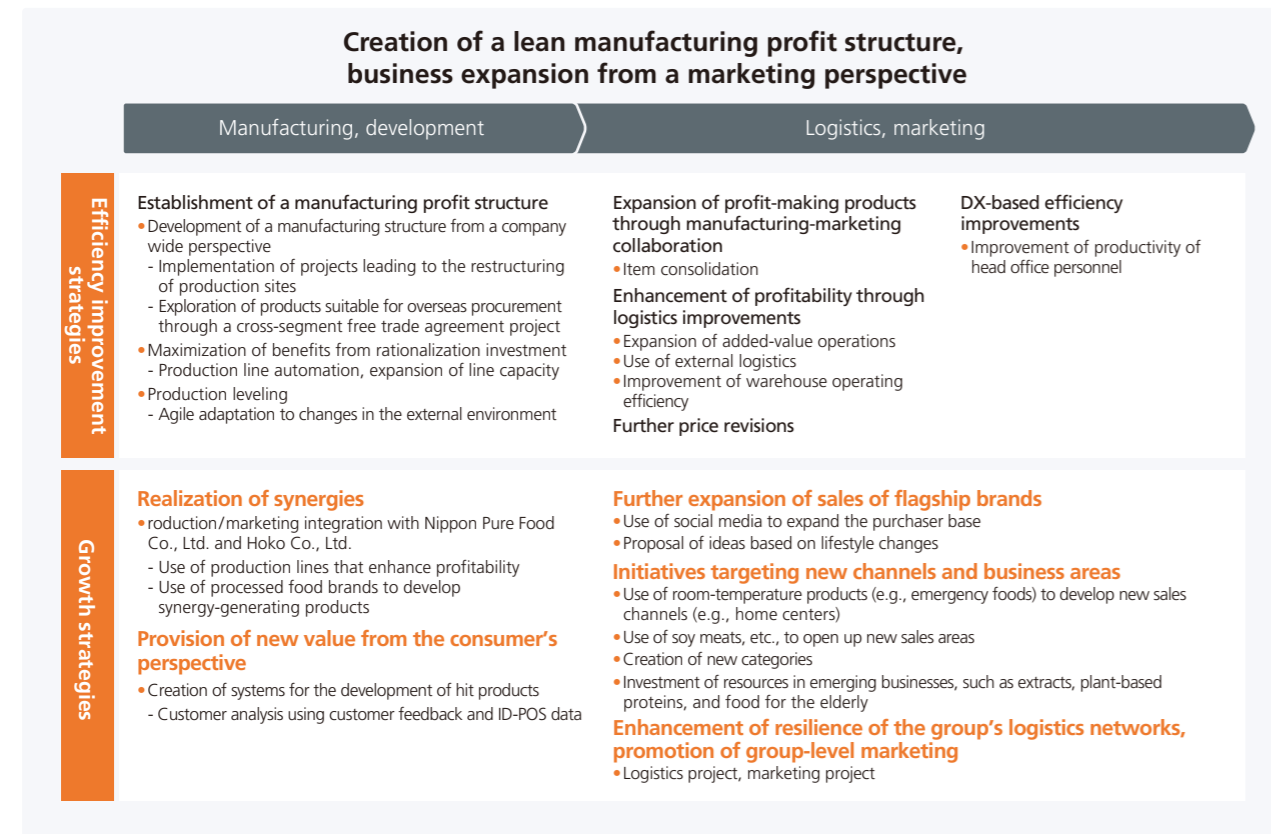
### Results for fiscal 2021, initiatives going forward

Results	Future measures
<ul style="list-style-type: none"> <li>Price revisions</li> <li>Concentration on <i>Schau Essen</i> and high-productivity lines</li> <li>Expansion of sales through synergies within the Processed Foods Business Division</li> <li>Development of products for new areas</li> <li>Shift to environment-friendly packaging designed to reduce the use of packaging materials (<i>Schau Essen</i>)</li> <li>Climate change prevention initiatives (installation of waste oil boilers, solar panels)</li> <li>Expansion of food education areas</li> </ul>	<ul style="list-style-type: none"> <li>Effective countermeasures against increases in raw material/energy costs due to the rapid weakening of the yen and procurement competition</li> <li>Recovery of sales volumes after price revisions</li> <li>Improvement of productivity and reduction of costs in the area of deli and processed foods</li> <li>Realization of additional synergies</li> <li>Expansion of priority brand products in existing areas</li> <li>Nurturing of new areas</li> <li>Further reduction of packaging quantities</li> <li>Contributions to global environmental sustainability</li> </ul>

## Segment data / Processed Foods Business Division

### Future policies and plans

#### Business value improvement initiatives by the Processed Foods Business Division



#### Pursuing food safety and security through proteins as the key to a new era in food culture

In fiscal 2022, we will continue to prioritize the establishment of a lean manufacturing profit structure and business expansion from a marketing perspective.

#### Establishment of a lean manufacturing profit structure

We will continue to optimize our production structures from a company-wide perspective, including projects to optimize production sites, as well as the achievement of profit targets for the newly merged Nipponham Hokkaido Factory Ltd., Japan Assorted Business Services Co., Ltd., and Hakodate Carl Raymon Co., Ltd., and the optimization of our product portfolio. We will move decisively to eliminate some items with the aim of achieving a recovery in business earnings, improving factory productivity, and leveling logistics operations. We will continue to pursue initiatives, including DX measures, designed to bring further improvements in the next fiscal year and beyond.

Another ongoing priority will be the improvement of profitability through systematic investment targeted toward the automation of production lines, the expansion of line

capacity, and production leveling.

#### Business expansion from a marketing perspective

##### -Creation of mechanisms for the development of hit products

Our most important priority is the development of hit products through the realization of marketing processes from a consumer perspective. We will achieve this by modifying the roles of factories and divisions, by introducing a shorter product update cycle, and by enhancing test sales structures, including the creation of area marketing groups. The tasks of the marketing groups will include the collection of area information, the sharing of success stories, and the implementation and verification of test sales.

We will link customer feedback and purchase behavior monitoring systems to facilitate the monitoring of customer changes and the capture of new customers through surveys and analyses. The resulting data will be used to achieve further improvements in product taste and convenience, and to expand the range of eco-friendly products. Customer feedback will also be used to enhance the value of the NH Foods Group, including the proposal of new products that will help to solve issues affecting major customers, such as convenience stores and chain outlets.

Our priorities for consumer products are to improve profitability through intensive marketing of flagship brands, to revise prices to reflect cost increases, and to build and maintain reliable supply structures. We will also consolidate a market position for the newly developed eco-friendly *Schau Essen* range, which uses 28% less packaging by weight, and expand the chilled pizza series and *Minna no Shokutaku* range. Other initiatives will include the use of social media to capture young consumers, the proposal of products and experiences that match lifestyle changes, and the development of new sales areas.

Initiatives relating to commercial products will include the development of chilled distribution systems for hybrid meats and primary processed products, the introduction of the Joule Heating System for use in extract production, and the development of new products based on newly developed technologies, such as Jewelee.

#### -Focusing our technologies and strengths toward challenges in new areas

Products resulting from challenges in new areas include foods suitable for room-temperature storage, and flavoring extracts. The Processed Foods Division aims to expand sales channels for these products by strengthening collaboration between our manufacturing and marketing organizations, and by making reciprocal use of channels in which group companies have built an advantage. We will also work to develop new sales channels by marketing room-temperature products as emergency foods through home centers, and by establishing a position for flavoring extracts as problem-solving products for restaurants and convenience stores.

There are also plans for investment in emerging businesses. The Processed Foods Division is actively developing plant-based

proteins and also aims to develop superior ingredients and raw materials for sale in overseas markets. In addition, it is working with an outside research organization to explore customer needs in the area of foods for the elderly. Other initiatives designed to maximize earnings include the realization of synergy benefits through the reciprocal use of value chains, and the leveraging of our advantages in the areas of raw materials, production systems, and marketing to develop new products.

The Processed Foods Division recognizes the need for improvement in ROIC and profit margins. We also face exchange rate risks due to the rapid weakening of the yen, as well as procurement risks, including fluctuations in the market prices of livestock products. We will work to overcome issues in these areas by creating new product categories, developing new flagship brands, and improving profitability through line rationalization and other measures. At the same time, we will target efficiency improvements through cross-divisional initiatives to consolidate sites from a company-wide optimization perspective.

#### Business-based materiality initiatives

Food diversification and health—The Processed Foods Division will continue to tackle the food allergy problem. In addition to the use of existing ingredient-type products to expand our range of pre-prepared menu items, for which there is strong demand, we will also export sweets made from gluten-free rice flour. In addition, we will help the New Business Promotion Department to create a new platform. Contributing to a sustainable environment—We will accelerate the transition to environment-friendly products and reduce CO<sub>2</sub> emissions from factories and other facilities.

#### Segment focus

##### Young Employees' New Product Proposal Forum

First held in 2018, the Young Employees' New Product Proposal Forum was established to create new value by thinking beyond established concepts, to enhance the product development capabilities of next-generation leaders, and to foster a culture in which people will be encouraged to take up new challenges for the future. The best ideas are launched as new products. The most significant of the products that have been commercialized so far is the *NatuMeat* series.

The fiscal 2022 Young Employees' New Product Proposal Forum was held in July. Products proposed by the 24 young developers selected through area preliminaries included a snack food with the emphasis on health and the global environment, breakfast food ingredients designed to provide an easy way to obtain protein, and convenient lunchbox ingredients.

#### Segment focus

##### Business portfolio optimization targeted toward a 5% business profit ratio by FY2026

In addition to our ongoing problem-solving initiatives since the previous fiscal year, we also need to tackle challenges, including rising raw material and energy costs resulting from rapid changes in the external environment. In fiscal 2022 we took the unprecedented step of implementing price revisions twice in one year. The entire NH Foods Group is working to improve profitability by achieving further synergies, while providing new value to customers through a variety of protein-based products.

Our top line results have not expanded for several years, in part because of reforms affecting our commercial products and the sale of Marine Foods Corporation. Going forward, in addition to our efficiency improvement efforts, we will target business expansion, not only through increased sales of existing products, but also through the development of new brands.