

Focus 3: Governance discussion

Focus 3

The NH Foods Group's proposals for the future
Realizing Vision2030 "unleash new potentials for protein"

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Chairperson of the Board of Directors

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Review of fiscal 2022

Question 1 Please review the past year from your perspectives as outside directors and executives.

Yamasaki • In last year's integrated report, I raised five management issues to be addressed. Namely, is the Company moving quickly enough toward the realization of its management policies? How are materiality-related initiatives being quantified and linked specifically and logically to the improvement of corporate value? How effectively are human and financial resources being utilized? How is brand value being enhanced? And is risk being managed adequately on a company-wide basis? I feel that the speed of management's handling of these is still a little slow. In particular, structural reforms, including portfolio revisions that are a key concern for investors and analysts, are a core part of our management direction and I think we need to further raise the speed at which they are being implemented.

Arase • One point I recognized as an issue was the growth strategies for overseas businesses. I previously worked for a medical devices manufacturer. While stationed in Europe, I experience things like discrepancies between the information I was given in Japan and the actual situation on the ground, and a gap in the way things were interpreted by head office and the frontline businesses. In order to build a competitive position in this kind of situation, we had to repeatedly use our wisdom and knowledge to come up with creative solutions. To build such a position within a different cultural environment, you need a process in which you go to the actual location, analyze the situation, take action, and then learn from the results. I think it will still take time to achieve this. If managers cultivate future leaders who possess a mix of idealism, logic, and patience, and who can implement future overseas strategy, then we should continue to grow.

Additionally, ensuring that governance is carried out on a Group-wide basis is extremely important. As the Hokkaido Nippon-Ham Fighters baseball team has a particularly big effect on the Group, I would like to make sure that proper governance is being practiced there, considering the shift to the new structure and opening of the new ballpark.

Yamasaki • Speaking of governance, we have been thoroughly discussing overall risk management and I think the content of these discussions is getting deeper. In the

2022 evaluation of the effectiveness of the Board of Directors, the evaluation of protective governance by both inside and outside officers produced good results, which is a positive development.

Arase • In fiscal 2022, one of our focuses was diversity, equity and inclusion (DE&I). An organization that has diversity produces innovation, which leads to long-term growth and an increase in corporate value. We have repeatedly told the Board of Directors that we want this to stimulate management thinking in terms of mindset and organizational culture and that we expect changes in behavior. Also, I have shared examples from other companies and my own views with the Human Resources Department, which considers diversity initiatives and human resource systems, and appealed to each committee about the importance of DE&I.

The Group decided that its first step toward realizing diversity management is to promote career development for women. We set the percentage of female executives as a KPI and this has been gradually improving, reaching 8.5% in fiscal 2021 and 9.8% in fiscal 2022. It is forecast to surpass the 10% mark during fiscal 2023. We are also encouraging the recruitment of mid-career employees for management positions. As an industry leader, we need to further accelerate these efforts.

Another focus was the evolving and deepening governance. An example of this was in risk management, where we expanded our discussion of cyber security measures to include considerations of how frontline workplaces should respond to a systems failure.

Kito • Looking back over fiscal 2022, there has been a significant change in our expense framework, including costs directly connected to our business such as electricity costs, and the prices of feedstuff, raw materials, and fuel. This has made the business environment harsher than ever before. Within this, we have been promoting ROIC management and although we failed to meet our targets, awareness has been spreading within the Company. This was demonstrated in the way our executive officers pursued the KPIs. I think that improvements in specific KPIs will accelerate management speed.

On the other hand, efforts to optimize our business

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portfolio are still underway, and I think that from a perspective of overall optimization, our portfolio needs to be more deeply tied to our business strategies.

I recognize that progress has been made on the

discussion of risk and that the Board of Directors has matured to a point where it can sufficiently fulfill its functions.

New Leadership Structure

Question 2 Please share your expectations of the new leadership structure.

Arase • Chairperson Kito has a wealth of experience in the Fresh Meats, Processed Foods, and Overseas business divisions, a deep understanding of the Group’s business, and he is very empathetic. President Ikawa has plenty of vitality and a willingness to take on challenges. Therefore, we expect great things from the new leadership structure. First, I would like them to demonstrate leadership that uses the lessons learnt in fiscal 2022 to improve business performance in fiscal 2023 and that also starts reforms with a long-term perspective, including efforts to improve competitiveness by providing customers with unique value, strengthening human resources strategy, and enhancing capital strategy in a way that will raise share price.

Having Board of Directors meetings chaired by a non-executive chairperson also facilitates a smoother exchange of questions and answers. Although we still

need to come up with ways to realize long-term growth and an optimal approach in terms of management, I feel that Mr. Kito has found a good balance and often brings broad vision and a long-term perspective into discussions.

Yamasaki • Under the previous structure, we made progress on raising the effectiveness of the Board of Directors and improving internal control functions and coordination between businesses. I would like these kinds of efforts for strengthening our management foundation continue under the new structure. Furthermore, I also expect to see initiatives for increasing management speed and dramatically raising corporate value. Regarding the setting of agendas for Board of Directors meetings, I expect the focus to be on evolving and deepening discussions, as mentioned by Mr. Arase, while at the same time, I think that we outside directors should make it our role to propose agenda items and enhance discussions.

Arase • If I could add one more point, my expectation of Mr. Kito as chairperson is that he will leverage his non-executive position to act as an industry leader and to connect with public agencies.

Yamasaki • I agree with Mr. Arase. I want us to implement that kind of proactive communication with parties outside the Group to enhance brand value and contribute to solutions to social issues facing the industry.

Kito • I have experience of working in nearly all of our business areas so I have built a network that includes various industry organizations and public agencies. I will use my non-executive position to build a closer affinity between our business and various organizations through exchange and to start conversations about environmental improvement, including matters such as Japan’s food self-sufficiency and food security. I recognize that there are high expectations for me in this regard and I will work to fulfill them.



Evaluation of the Governance System

Question 3 What are your thoughts on the issues concerning oversight, execution of duties, and evaluations of effectiveness?

Yamasaki • My evaluation of the current governance system is roughly the same as the general overview of the evaluation of the effectiveness of the Board of Directors. It is sufficiently effective. Regarding the issue of separating oversight and the execution of duties, this is something that involves both inside and outside officers, so we need to organize ourselves, including setting agendas and delegating authority for reporting items.

In regard to organizational structure, more and more companies are choosing to become a company with an audit and supervisory committee, as defined in the Companies Act. Although we are a company with an audit and supervisory board, this is not through choice of an organizational structure. I think we should discuss how we can use our organizational structure to facilitate faster management.

Arase • I feel there are some issues regarding the operation of the Board of Directors, deepening of discussions, and the handling of the execution of duties.

Firstly, looking at the operation of the Board of Directors, like Mr. Yamasaki said, when selecting agenda items for meetings, we should delegate authority for procedural items to the Management Strategy Committee so that we can deepen discussion of management issues. Also, issues concerning sustainability are being discussed by the Sustainability Committee but I feel these discussions are not sufficiently deep, so I think it would be better if the Board of Directors were to decide which direction conversations should take.

Secondly, on deepening discussions, we tend to have a lot of discussions about policy and management direction. I would like to hear more discussion and exchanges of opinion about strategies for actually implementing these. We probably also need to deepen discussion about the current situation concerning competition and the markets in order to properly evaluate these strategies.

Thirdly, regarding handling by executives, as outside directors we need to advise the executives of what the role of an executive officer should be. I also expect them to take this advice and turn it into executable wisdom, even if it is just a single idea. Also, once these ideas have been put into practice, I would like to hear the results so that they can be used in future discussions.



Kito • Until fiscal 2022, I was also on the executive side, so I understand the kinds of issues faced by executives and the business frontlines. Outside directors also have knowledge that we do not. Mr. Arase has a wealth of overseas experience, Mr. Yamasaki has experience as an analyst, while Ms. Kono brings a consumer organization perspective. Having access to this experience and these perspectives is invaluable for the executive side. As chairperson of Board of Directors meetings, I would like to enrich meetings by incorporating the opinions of outside directors, while ensuring that the choice of agenda items and time allocated to each item are appropriate. I feel that experiments like making a nomination and then asking everyone’s opinions, regardless of whether hands are raised or not, are realizing more dynamic discussions on deeper topics.

One area where we need to further deepen discussions is medium- to long-term strategy, or in other words, our next medium-term management plan and the achievement of Vision2030. We will have more in-depth conversations about topics including restructuring our business portfolio and linking materialities to corporate value. I also think it is important that we disclose the content of these kinds of discussions to investors.

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Question 4 What are your expectations of Mr. Kito as chairperson of Board of Directors meetings?

Arase • I have three requests. The first is that you select and prepare agenda items, which means arranging and clarifying discussion points as the facilitator. The second is that you take a long-term perspective. Ultimately, the executive side tends to focus on the short term, so I would like to see more balance. Thirdly, I think there are cases where it would be better if outside directors submitted agenda item proposals, such as for non-financial issues.

Kito • In regard to selecting agenda items, I will do my best to solve operational issues and facilitate in a way that enables thorough discussion. I also agree that discussions

should include a long-term perspective. Regarding non-financial matters, if the outside directors can propose agenda items, I think it will lead to dynamic discussions.

Yamasaki • Since Mr. Kito started chairing Board of Directors meetings, I feel that the handling of reporting items has become more compact, the materials provided for each agenda item are easier to understand, and there is an environment that is more conducive to discussion. I agree with Mr. Arase in that I would like to see agenda items that draw more on the perspectives of outside directors.

Realizing Vision2030

Question 5 What initiatives should the NH Foods Group be advancing and what role should the Board of Directors play in order to realize Vision2030?

Arase • Innovation will be essential for realizing Vision2030. I want to see each business division coordinating with the Research and Development Center and interacting with customers in order to create new products and services that can compete at an international level. In order to raise our competitiveness overseas, we especially need to build a foundation of diverse creativity, flexibility, and resilience. When I served as president of the holding company for the Americas business in the U.S., I was able to witness how U.S. companies embrace diversity, not only in terms of different genders, ages, races, and nationalities, but also in terms of different cultures, values, and ways of thinking. This gave me firsthand experience of how this diversity accelerates innovation. I strongly feel that Japanese companies also need the vitality that comes from changing values by embracing the differences of each individual. I want to work with the Human Resources Department to increase the number of personnel we have who can create change by advancing human resource development focused on nurturing each individual's abilities.

I also expect to see innovation in terms of organization and management. Our Board of Directors already has a management element which focuses on the decision-making function regarding the execution of business, but I think we also need to further develop a

monitoring element more focused on the oversight function. The fundamentals of this monitoring element are 1) deciding management direction, 2) entrusting the execution of business to the management team, and 3) evaluating the results of this execution and then reflecting this in the handling of management personnel matters. Monitoring the execution of business by the management team is an important responsibility of Board of Directors. If we understand the thinking of influential overseas institutional investors and act accordingly, I think it will be recognized in the stock market, leading to an increase in corporate value.

Yamasaki • Realizing Vision2030 is inextricably linked to "strive for a highly functional organization," one of our Management Principles. At present, I think we have yet to achieve organic connections between the Group's most promising management resources. As Mr. Kito mentioned earlier, it is essential that we restructure our portfolio, and if we are to hold discussions at Board of Directors meetings that envision as far ahead as 2050, then we must do so with our purpose firmly in mind. I think that this will lead to organic connections between various resources and businesses.

Kito • I think that the most important role of the Board of Directors is to achieve both social value with economic value.

Our mission is to provide stable supplies of safe, dependable, and delicious foods with a focus on protein. This helps to solve social issues, including food security and self-sufficiency in Japan. Therefore, you could say that steadily growing our business will create both social and economic value. However, to realize Vision2030, I feel it will be essential to

accelerate portfolio restructuring, overcome the 2024 problem facing Japan in the logistics industry, and free ourselves from the tendency to keep everything inhouse. I recognize that there are questions to be addressed regarding further enhancing the functions of the Board of Directors and carrying out appropriate risk management.

Future Aims and Objectives

Question 6 What are your future aims and objectives toward increasing corporate value?

Yamasaki • I'm sure you are aware that since fiscal 2022, our price to book value ratio (PBV ratio) has been trending at the low level of less than one. In other words, our evaluation by the stock market has fallen, as the market thinks we are not effectively using the funds we have procured from our shareholders. The management team must address this issue with sincerity. Against the backdrop of this low PBV ratio, it is important that we move proactively and swiftly to solve medium- to long-term financial and non-financial management issues.

Specifically, financial issues include significantly raising ROIC and ROE levels, while non-financial issues include building ESG and brand strategies that will raise corporate value in a way that is unique to the Group. In my opinion, I will work to tackle these important issues by actively giving opinions and repeatedly advancing discussions at Board of Directors meetings and other meetings in a way that increases management speed. This will include addressing matters such as restructuring our business portfolio and how we can link our sustainability initiatives to the enhancement of corporate value.

Arase • I think the role of the outside director is to provide an objective, external perspective to make discussions more dynamic and to manage risk. Within this, I recognize that it is my role to analyze the risks involved in both aggressive and defensive management and ensure these are reflected in strategies. To put it another way, my challenge is to work out how we should approach the future. Social value is important, but financial value is crucial. I will continue to tackle questions such as how we should respond to great change in the external environment and how we should transform in terms of competitiveness and profitability from a medium- to long-term perspective.

Kito • We are a corporate group that is responsible for food supply infrastructure. For the longest time we focused on keeping all development inhouse, but now we are rethinking our approach and we intend to focus on co-creating with partners who hold diverse views of what challenges should be addressed. Going forward, we will fulfill our responsibility by solving issues together with a wide range of partners so that we can raise corporate value and realize the sustainable growth of the Group.

