

Processed Foods Business Division

We will strengthen our product development capabilities, reform our cost structure to cast off low profitability, and build foundations for growth.



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Reflecting on the Previous Medium-Term Management Plan

During the three-year New Medium-Term Management Plan Part 5, the Processed Foods Business Division focused on expanding sales volume and reinforcing cost-competitiveness to rebuild its competitive edge. Nonetheless, various factors drove costs up, and conditions remained adverse.

In the year under review, we enjoyed solid sales of *SCHAU ESSEN*® and *Hojun*® *Arabiki Wiener*. On the downside, growth languished in demand for roast hams and bacon. Sales of consumer products were thus, basically unchanged. For commercial-use products, sales of overseas offerings decreased, offsetting the impact of deployments of mainstay items for large restaurant chains. Ham and sausage sales therefore declined slightly.

Owing to the intense price competition, demand recovered from the second half of the year for the core *Chuka Meisai*® series, but sales of consumer deli and processed foods were down from a year earlier owing to sluggish demand growth for *Ishigama Kobo*® series pizzas. Sales of commercial-use products were up from the previous term on rollouts of new products at convenience stores and large restaurant chains. Overall sales of deli and processed foods thus rose for the year.

Operating income for the year were down. This was because cost reductions from structural improvements in sales units were insufficient to offset labor cost hikes stemming from personnel shortages and high logistics expenses. As a result of these factors, segment sales rose to ¥355.5 billion, while operating income was down to ¥5.9 billion.

Toward Sustainable Growth (Risks and Opportunities)

Japanese society is changing rapidly amid higher personnel costs stemming from labor shortages, increased raw materials prices, and diversifying consumer needs. Other factors include a rising interest in health and food safety

and reliability and responses to imported merchandise amid free trade trends. The NH Foods Group aims to turn these changes into growth opportunities by developing hit products and allocating capital expenditures to streamline production, thereby expanding sales with profit.

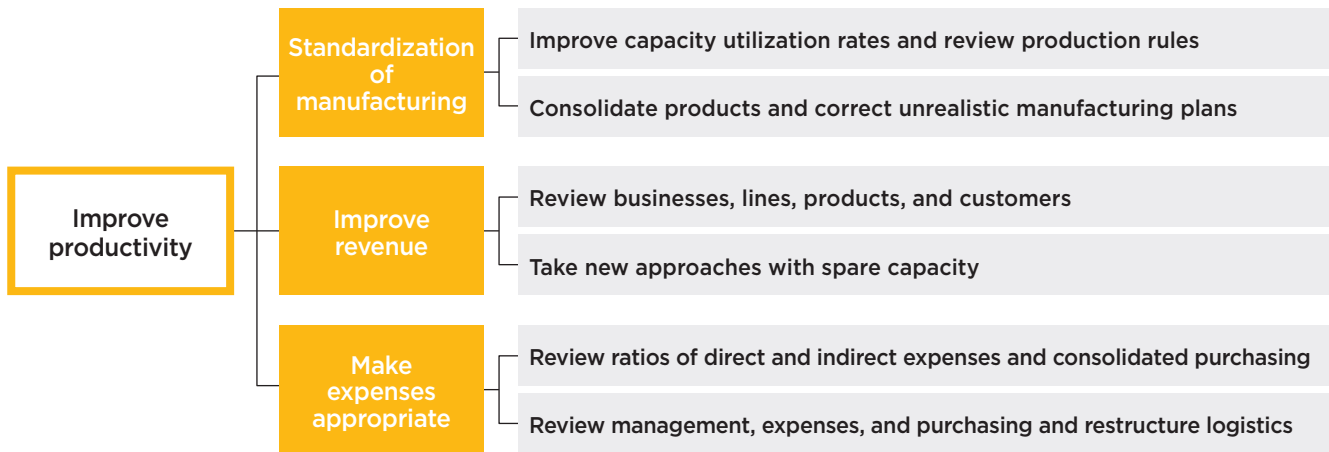
Medium-Term Management Plan 2020 Initiatives

Under Medium-Term Management Plan 2020, we will focus on casting off low profitability by reinforcing our ability to develop and cultivate hit products, and reforming our cost structure. To accelerate decision-making, we flattened the organization in the year under review and created a marketing department that handles everything from new product planning to sales. We allocated capital investments to cost structure reforms and integrated our ham and sausage and deli and processed foods production units to share human resources and technologies and cut costs by consolidating purchasing of raw materials and supplies.

● Newly Emphasize Profitability

To date, the Processed Foods Business Division has focused largely on quantity and market share. It looks to make profitability central to decision-making. By

SYSTEMATICALLY REDUCING COSTS THROUGH OVERALL OPTIMIZATION OF MANUFACTURING, SALES, LOGISTICS AND MANAGEMENT UNITS



strengthening manufacturing and sales teamwork and thereby enhancing our control of supply and demand, we will improve plant line capacity utilization rates and level out production. Other measures will include consolidating major product categories at key factories and reviewing unprofitable categories, lines and merchandise.

● Reinforcing Product Development Based on Our Commitment to High-Level Management for No. 1 Quality

The Processed Foods Business Division has generated strong growth by developing *SCHAU ESSEN*® and other hit products while creating semi-processed foods merchandise, chilled pizza, and other categories. We will regain our product development capabilities based on our commitment to high-level management for No. 1 quality that will lead sustainable growth. We will push ahead with organizational and mindset reforms by accelerating decision-making, reinforcing information collection and our ability to identify needs, leverage market-oriented ideas to create new categories and products, and create a framework for cultivating development mindsets.

● Cost Structure Reforms

To date, much of the impact of improvements has resulted from the perspectives of our manufacturing and sales operations. To attain more effective results, it will be essential to employ purchasing methods that are common for both manufacturing and sales and review our product mix. We will enhance productivity in the manufacturing sector through capital expenditures, primarily in key plants for deli and processed foods business offerings, and plan to install high-productivity lines to build a centralized production structure.

● Achieving Sustainable Growth through Extensive Investments

For three years under Medium-Term

Management Plan 2020, we plan to undertake around ¥68.0 billion in capital expenditures, including about ¥50.0 billion to drive growth. For the deli and processed foods business, we will spend ¥21.5 billion on business expansion and streamlining investment. For ham and sausage operations, we will spend around ¥10.0 billion on enhancing productivity by rebuilding outdated plants. In the logistics business, we plan to spend ¥10.8 billion on developing new sites to improve profitability.

We have positioned Medium-Term Management Plan 2020 as a phase for investing in business infrastructure. Under the successor plan beginning in March 2022, we target an operating margin of 5%.

CREATING HIT PRODUCTS THROUGH FRONTLINE MARKETING

