

Fresh Meats Business Division

To capture 25% of the domestic fresh meat market, we are focusing on establishing a business structure that customers and consumers support by building a value chain that continuously and stably supplies fresh meat.



Katsumi Inoue

Vice President and Representative Director and General Manager of Fresh Meat Business Division

Reflecting on the Previous Medium-Term Management Plan

During the three years of the previous Medium-Term Plan (New Medium-Term Management Plan Part 5), the fresh meats business posted record earnings by enhancing upstream through downstream profitability, especially for the domestic poultry business, against a backdrop of solid demand for fresh meats. As well as reinforcing production procurement capabilities with strengthened products such as branded fresh meats, our more specific achievements include expanding profitable sales volumes. We have done this by more regularly making our products standard items at bulk sales stores and reinforcing sales measures per channel. Reducing production costs and rationalizing the distribution structure were also achieved. As a result of these efforts, fresh meat sales volumes during the plan's three years rose 8% for the Fresh Meats

Business Division and 9% for the four Nippon Food companies. In the year ended March 31, 2018, net sales and operating income increased to ¥778.4 billion and ¥46.2 billion, respectively.

Toward Sustainable Growth (Risks and Opportunities)

By 2042, when we celebrate our centennial, the Company expects the Japanese population to have shrunk by 20% from today, with the working population decreasing 30% and the domestic fresh meat market declining by 15%. To plan for sustainable business growth, we need to turn changes in the business environment into opportunities. Such transformations include a rising labor shortage in Japan, soaring feedstuff and other raw materials costs owing to climate change, and higher imported fresh meat prices because of climbing global demand for these meats.

Positive changes are also afoot for the Group. These include a rising consumer need for quality, especially in terms of safety and reliability, as well as increasing fresh meat consumption among elderly individuals. There is growth in the restaurant and ready-made meal markets, reflecting labor shortages and work practice reforms.

We are also experiencing food globalization due to increased foreign visitors and advancements in the Internet of Things and artificial intelligence.

To attain sustainable growth in a diminishing domestic fresh meat market, we need to further expand our market share in Japan.

● Expanding Market Share

The fresh meats business endeavors to provide products and services that surpass customers' expectations through collaboration between production, consignment and sales units upstream through downstream under our vertical integration system. By enhancing our ability to accurately predict product demand, quantities, and timing, and by benefiting our customers, we will further expand market share.

● Reinforcing Our Business Structure for Consistently Stable Supplies

We also need to procure more reliably to expand our share of the domestic fresh meat market.

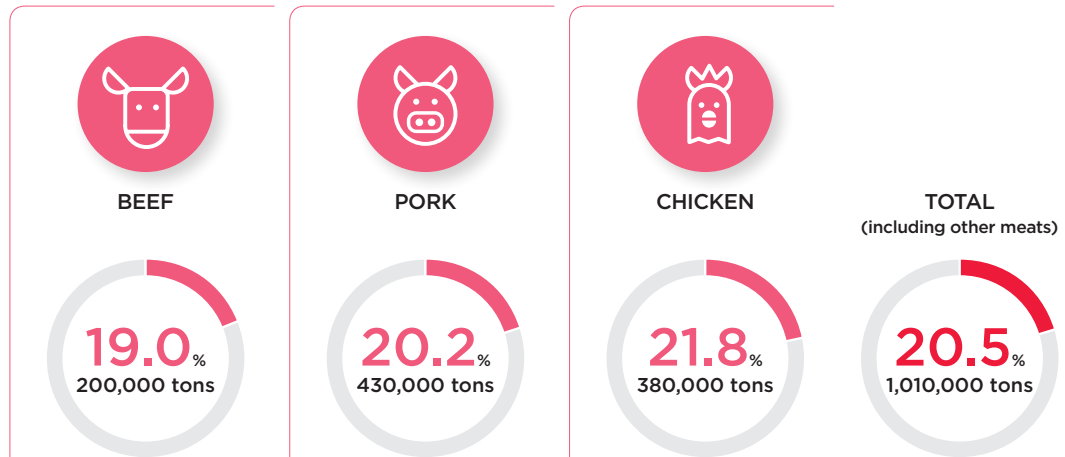
At this juncture, the Japanese fresh meat market depends heavily on imported supplies. It is crucial for us to secure and reinforce our procurement capabilities for imports. We will generate benefits and incentives for overseas packers to sell to

RELATIONSHIP BETWEEN FRESH MEAT MARKET SCALE AND SHARES (as of March 31, 2018)

SHARE OF FRESH MEATS SALES

No. 1
domestic share

Domestic market share by sales volume in our Group's fresh meats (domestic and imported) (based on NH Foods data)



us, notably by strengthening strategic partnerships with overseas packers, lowering costs through stable, long-term purchasing, and by developing proprietary products so we can build a purchasing edge over other countries.

Because of a growing interest in health and safety, customers prize domestic offerings, for which demand should remain solid. Nonetheless, we expect the number of livestock farmers to decline in Japan. For domestic offerings, we will establish production and supply structures that balance future demand and supply. We plan to reinforce our upstream businesses, targeting shipment volume of 720,000 hogs and 72.7 million chickens by the fiscal year ending March 31, 2021.

At the same time, we will reinforce the entire value chain through collaboration with suppliers to ensure safer and more reliable food production while promoting CSR procurement that fulfills the Group's corporate social responsibilities.

Medium-Term Management Plan 2020 Initiatives

● Reinforcing Integration

The Group will undertake measures to reinforce the value chain for its entire integration system.

We will mechanize in production operations to save on labor and streamline logistics by separating distribution and sales. We will improve relay points and deploy joint deliveries with other companies and other measures. We will make sales units more efficient and improve sales offices and harness information technologies. We will consistently increase supplies of fresh meat by reinforcing initiatives to provide products and services that improve convenience for customers in view of a shrinking working population.

● Creating Customer-Centric Value

Even in the fresh meats business, engaging with consumers is essential for us to nurture attractive products and brands. Partly by collaborating with the new Communication Strategy Division, we will research attractive products for consumers through needs studies and analysis, improving feeding, standards, and other techniques. We will drive sales of fresh meat brands such as of *Sakurahime* chicken, to enhance our reputation for quality meats through effective promotions.

We will tackle changes in the social environment, technological advances in the fresh meat business, and other changes,

cultivating our responses by looking ahead. A good example of this is promoting healthy menus and ingredients for the elderly while educating people about the health benefits of fresh meats. We will also collaborate with certified Halal plants to take advantage of demand among inbound tourists.

We will reinforce our export structure for Japanese offerings to take advantage of the increasing international interest in Japanese food. We will secure packers with export licenses and expand sales channels in export countries in collaboration with the Overseas Business Division.

● Achieving Sustainable Growth through Extensive Investments

To pave the operating environment for growth, during the three years of the Medium-Term Management Plan 2020, we plan to undertake capital investments totaling around ¥78 billion, including approximately ¥39 billion in growth investments in production operations. We will rigorously make investments to achieve productivity improvement, labor-saving and customer problem resolution so as to ensure sustainable growth. These investments include new farm construction and processing line streamlining, new sales site construction and relocation, and new processed product and extract plant construction and streamlining.