

## A Message to Stakeholders



**Yoshihide Hata**  
President and Representative Director

**By accomplishing the underlying objective of  
Medium-Term Management Plan 2020  
—Building systems that pave the way to the future—  
we will cultivate new possibilities in food culture.**

In April 2018, the NH Foods Group embarked on a new journey—Medium-Term Management Plan 2020—  
Building systems that pave the way to the future.

Fiscal 2018, ended March 31, 2019, was the first year of this management plan, and it was marked by a challenging external environment characterized by sluggish market prices for fresh meats and the appearance of disaster-related losses. While the processed foods business returned to a profit position, reflecting a shift toward a manufacturing and sales structure with a profit emphasis, consolidated sales and income retreated because of issues still requiring attention to strengthen profitability in existing businesses at home and abroad.

In fiscal 2019, we strive to build the optimal business portfolio by prioritizing measures to enhance profitability in existing businesses. In addition, looking to address issues from a medium- to long-term perspective, we will raise the quality of our products, our management, and our human resources and realize our objective to build systems that pave the way to the future in the pursuit of new possibilities in food culture. This will underpin sustainable growth.

## Looking back on fiscal 2018 and steps for the future

### Net sales of ¥1,234.2 billion and business profit of ¥38.3 billion—both lower year on year

In fiscal 2018, our business performance was impacted by fluctuating market prices for fresh meats, particularly chicken, higher-than-expected personnel expenses and distribution costs, typhoons, and earthquakes. As a result, net sales decreased ¥24.3 billion year on year, to ¥1,234.2 billion, and business profit fell ¥12.3 billion, to ¥38.3 billion. The business profit ratio was 3.1%, ROE was 4.8%, and ROIC was 4.9%.

The Processed Foods Business Division recorded lower segment sales, due to a major course change toward a profit emphasis, which included steps to eliminate unprofitable products, especially products for commercial use. However, the segment was able to record higher profit mainly due to mitigating the rise in distribution costs and personnel expenses by standardizing the number of operating days at plants, evening out production levels, raising sales unit prices in conjunction with the vigorous introduction of new products, and improving its sales mix by expanding the lineups under mainstay brands. Seeking to streamline the Processed Foods Business Division and enhance the segment's marketing capabilities, we reorganized sales companies and merged them into a newly established company, Nipponham Marketing, Ltd., in fiscal 2019. We will expand the content of mainstay brands, such as *SCHAU ESSEN*<sup>TM</sup>, and, through speedy, customer-oriented product development, we will strive to turn changes in the demand environment into opportunities for growth with better proposal-based marketing geared to customers.

#### QUANTITATIVE TARGETS

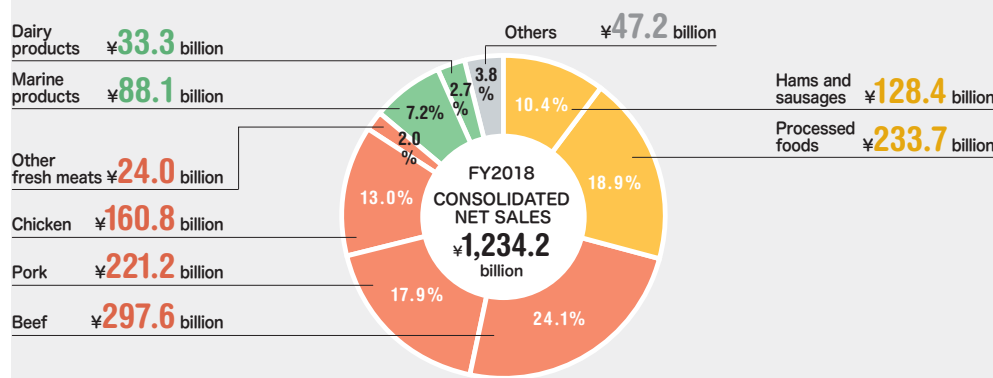
|   | FY2018 results   | FY2019 forecast             | FY2020 plan <sup>*3</sup> |
|---|------------------|-----------------------------|---------------------------|
| Net sales                                   | ¥1,234.2 billion | ¥1,280.0 billion            | ¥1,410.0 billion          |
| Business profit <sup>*1</sup>               | ¥38.3 billion    | ¥40.0 billion               | ¥56.0 billion             |
| Profit attributable to owners of the parent | ¥19.6 billion    | ¥18.5 billion <sup>*2</sup> | ¥35.0 billion             |
| ROE   | 4.8%             | 4.6%                        | 8.3%                      |
| ROIC  | 4.9%             | 4.7%                        | 6.0%                      |

<sup>\*1</sup> To more clearly present income derived from business activities, the Group uses business profit instead of operating income, effective from fiscal 2019. Business profit is calculated by deducting cost of goods sold and selling, general and administrative expenses from net sales and then reconciling foreign exchange gains and losses, adjustments in accordance with IFRS and adjustments of non-recurring items.

<sup>\*2</sup> The impact of additional special payments as noted in "Notice of Expansion of the Optional Retirement System as a Temporary Measure," dated October 31, 2018, has not been determined because of unknown factors, such as the number of retiring employees. However, management has set an upper limit on the number of employees applying for this system and has, based on this number, calculated an estimate of about ¥8 billion for the forecast for fiscal 2019.

<sup>\*3</sup> Net sales, business profit, and profit attributable to owners of the parent are unchanged from initial targets.

#### NET SALES BY PRODUCT CATEGORY





The Fresh Meats Business Division posted a drop in profit, reflecting low-trending market prices on domestic meats compared with fiscal 2017. In addition, unanticipated challenges arose, including damage to chicken houses caused by the Hokkaido Eastern Iburi earthquake and damage to refrigerators and logistics networks caused by Typhoon No. 21. This segment will enhance its production structure and expand volume by promoting branded fresh meats, such as *Sakurahime*<sup>TM</sup> domestic chicken, to soften the impact of fluctuations due to external factors. Also, by reinforcing sales along the restaurant channel, this segment will aim to reach its Medium-Term

Management Plan's target—a 25% share of domestic sales of fresh meats—and ensure stable profit.

The Affiliated Business Division continued to face high market prices for marine and dairy product ingredients, prompting price revisions as well as a reorganization of products, especially marine products. Despite these steps, sales of smoothies and other lactic acid probiotic beverages fell, leading to lower segment profit. The segment will implement drastic structural improvements to reflect the ideal image for each business as a manufacturer.

In the Overseas Business Division, sales by the Australian cattle business, which had been characterized by a persistently challenging environment over the past few years, were up, reflecting progress on reforms designed to promote internal improvements along with a favorable turn in the external environment. Meanwhile, sales by the Uruguay cattle business deteriorated, mainly because the weakening of neighboring currencies eroded price competitiveness and because drought pushed up costs associated with cattle procurement. From a medium- to long-term perspective, demand for beef is expanding worldwide, and NH Foods' overseas cattle operations will play a key role in future business expansion. In February 2019, the ban on exports of Uruguay beef to Japan was lifted. We will seek out new possibilities while working to boost sales and ensure stable operations.

## Building the optimal business portfolio based on ROIC

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For the NH Foods Group, the top priority in fiscal 2019 is to enhance the profitability of existing businesses. Thus, we seek to build the perfect business portfolio by clarifying the issues for each business based on ROIC. In fiscal 2018, our profit margin was squeezed, and we were unable to maintain sales growth matched to higher capital expenditures. This prompted a decrease in invested capital turnover, which caused ROIC to drop to 4.9%. The performance forecast for fiscal 2019 calls for net sales of ¥1,280 billion, business profit of ¥40 billion, a business profit margin of 3.1%, ROE of 4.6%, and ROIC of 4.7%.

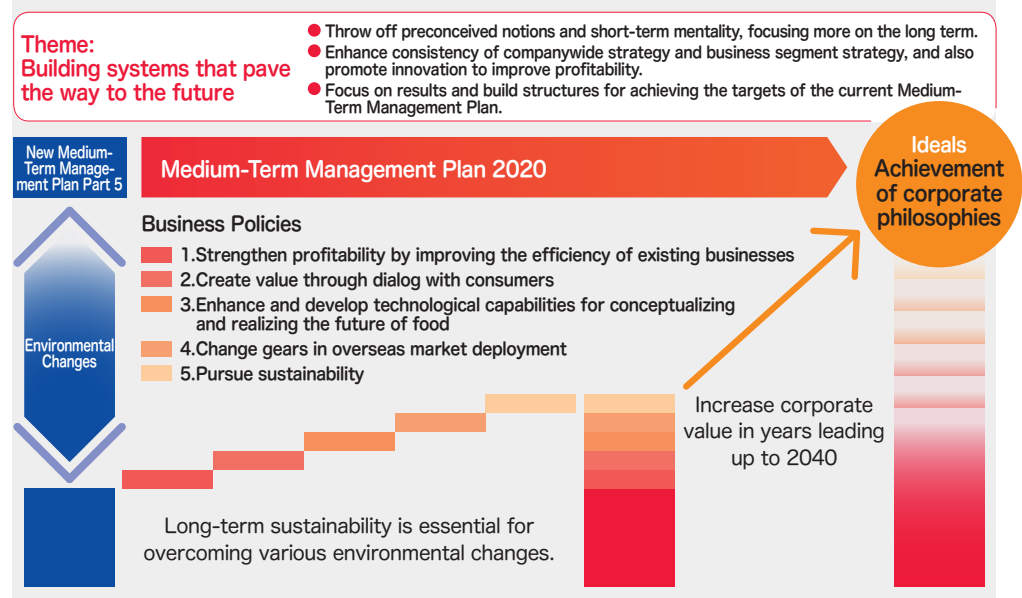
Our goal for fiscal 2020, which is the final year of the current Medium-Term Management Plan, is ROIC above 6.0%, and we will promote asset replacement that is advantageous to the establishment of the perfect business portfolio. For existing businesses in Japan, we aim to improve invested capital turnover through net sales growth matched to an expense ratio and investment effect, and for overseas businesses, we aim to raise the profit margin with investments that are quick to turn a profit and will strive to turn loss-making subsidiaries around. The end result will be a higher ROIC overall. At the same time, in reviewing our portfolio, we will not simply do a clean sweep. Instead, if a business is currently in a low-profit position but there is potential for improvement, we will look at progress to realize such improvement through, for example, efforts to utilize Group synergies, and base our decision on that progress.

Ideal image for long term

## Becoming a company chosen by customers and society because of our corporate philosophies and management principles

From a long-term perspective looking ahead to our 100th anniversary in 2042, we are already promoting activities to become the *ideals* we aspire to be by that corporate milestone. The global population is increasing and climate change is accelerating. Against this backdrop, various social issues have appeared, including a heightened sense of crisis over the stable supply of food. To achieve continuous growth amid such changes in the natural environment, we must eschew short-term thinking and conventional concepts in favor of long-term thinking to extend our strengths and contribute to solving social issues. This multiangled approach will fuel improvement in terms of financial value as well as non-financial value and certainly lead to the greatest level of corporate value possible.

### OUTLINE OF MEDIUM-TERM MANAGEMENT PLAN 2020



### ROIC = RETURN ON INVESTED CAPITAL

Return on invested capital (Total Equity + Interest-Bearing Debt)

| ROIC                           | = | Net sales<br>Invested capital | × | Business profit<br>Net sales | × | After tax    |
|--------------------------------|---|-------------------------------|---|------------------------------|---|--------------|
|                                |   | [ Invested capital turnover ] |   | [ Business profit ratio ]    |   | [ Tax rate ] |
| FY2017 results<br><b>6.6%</b>  | = | <b>2.39</b> (times)           | × | <b>4.0%</b>                  | × | <b>0.69</b>  |
| FY2018 results<br><b>4.9%</b>  | = | <b>2.29</b> (times)           | × | <b>3.1%</b>                  | × | <b>0.69</b>  |
| FY2019 forecast<br><b>4.7%</b> | = | <b>2.20</b> (times)           | × | <b>3.1%</b>                  | × | <b>0.69</b>  |
| FY2020 plan<br><b>6.0%</b>     | = | <b>2.17</b> (times)           | × | <b>4.0%</b>                  | × | <b>0.69</b>  |

Our picture of the *ideals* sees the Group sharing the pleasures of good eating and the joys of health with people around the world. In this picture, our employees will fully demonstrate their capabilities, encouraging them to feel that they are fulfilling a service to society, and we will be a company that enjoys the enduring support of stakeholders, including customers, as well as society as a whole. Our medium- to long-term strategy is to turn key businesses into revenue drivers and contribute to the creation of a sustainable society.

**Medium-Term  
Management Plan  
2020—Building  
systems that  
pave the way to  
the future**

Building systems that pave the way to the future—the theme of Medium-Term Management Plan 2020—is the anchor point for achieving our ideal image, and we will focus on this theme. Of our five business policies, we have set two—as referenced above, strengthening profitability by improving the efficiency of existing businesses and changing gears in overseas market deployment—as top priorities in fiscal 2019. In parallel, we will push ahead on forward-looking initiatives.

### **Create value through dialogue with consumers**

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To strengthen marketing with a dining table focus, marketing divisions from all business segments work with the Lifestyle Research Office, which was established in April 2018, to analyze consumer trends, preferences, and demand, and undertake activities that lead to suggestions for customers. At the NH Foods Group Exhibition, held in January 2019, we created dining table scenarios characteristic of millennials, families, and seniors, and presented products for each customer category. The ideas were well-received. We are also involved in the Dining Table Forecast Report Project, which draws on future research covering the years 2020 to 2025, and we will apply insights to product development and promotional activities from a medium- to long-term perspective.

### **Enhance and develop technological capabilities for conceptualizing and realizing the future of food**

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We launched the Future Conference, hinging on the R&D, marketing, IT strategy, and systems divisions, to facilitate the collection and analysis of the latest technologies and research information. The conference is an opportunity for participants to gauge the influence of technology and research not only on NH Foods but on food in general, which is indispensable for life, and to select themes and then discuss actions. We teamed up with ventures in Japan and overseas to provide a sustainable source of protein, and we also began projects to enhance the efficiency of ingredient research and product development utilizing artificial intelligence (AI) and the Internet of Things (IoT) and to **promote practical application of smart pig farming** using AI and IoT. [→ details on page 18](#)

NH Foods was involved in the development of **an antigen detection kit for foot-and-mouth disease** [→ details on page 21](#) and marked a first in Japan when it obtained permission in December 2018 to manufacture and sell this kit as a veterinary-use external diagnostic. Through the sale and supply of this kit, we will promote the development of the livestock industry by preventing the outbreak and spread of livestock diseases and, at the same time, ensure a stable supply of fresh meats.

## Pursue sustainability

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We recognize that efforts to address CSR and SDGs (Sustainable Development Goals) reflect on a company's raison d'être, and we are actively engaged in approaches based on **five CSR material issues**. [→ details on page 56](#)

In producing food that is safe and reliable, we must be conscious of such factors as the natural environment and the labor environment as well as human rights to ensure sustainable procurement of raw materials. Against this backdrop, about 60% of our suppliers of ingredients in the fresh meats business and processed foods business accept our position—a common understanding—in line with the NH Foods Group's **CSR Procurement Policy**. [→ details on page 57](#) Going forward, we will expand these guidelines to cover our suppliers of packaging materials and indirect materials as well, and we will strive to have 80% of them on board with us.



To maintain workplaces that motivate employees, we will raise the basic wage, especially for young employees, and also shorten scheduled working hours conditioned upon the progress on workstyle reform. We will continue to review working conditions and implement changes, but the real purpose behind these efforts is not simply to deal with rising costs but to boost productivity and innovation and to train human resources and build an organization with the capacity to respond quickly to changes in the operating environment through the effective use of AI, IoT, and other leading-edge technologies. By focusing on efforts to keep and train human resources who support corporate and social sustainability, we will achieve our objective of building systems that pave the way to the future and ensuring sustainable development.

To preserve the natural environment, we will prioritize issues and promote appropriate actions, such as switching to LEDs for office lighting and hybrid vehicles for business use, based on an understanding of environmental load, such as CO<sub>2</sub> emissions, to boost our environmental performance.

## To strengthen the management foundation

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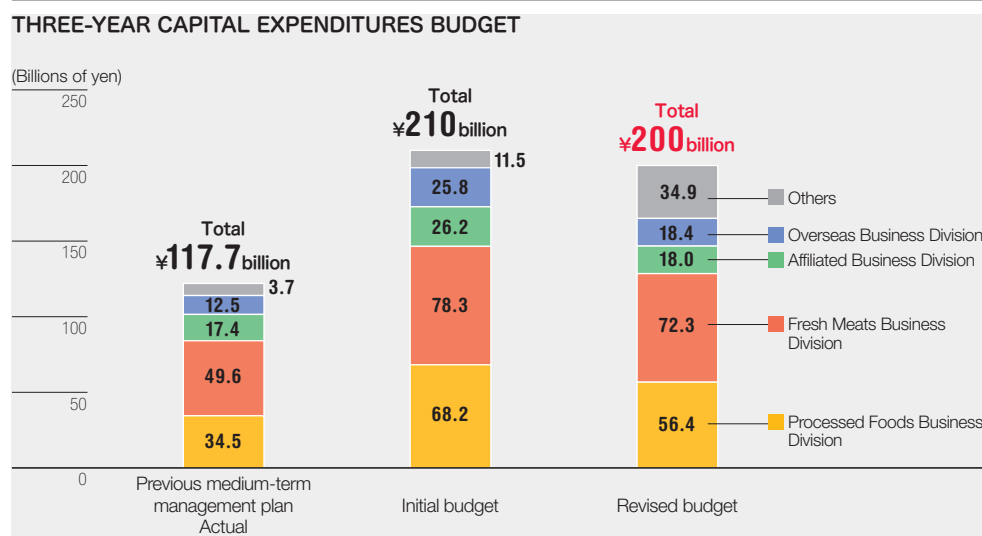
The NH Foods Group's management foundation is based on the concept of "high-level management for No. 1 quality," and we strive to improve the quality of products, management and human resources in addition to compliance and corporate governance practices. Efforts to strengthen corporate governance highlight an internal to outside director ratio of 3:1, effective from fiscal 2019, with three of our nine directors from outside the Company. Yasuko Kono, who has been an Outside Director since June 2018, has extensive knowledge and insights on consumer issues, and we continue to benefit from her comments, particularly in regard to creating value through dialog with consumers and pursuing sustainability—two of our business policies of Medium-Term Management Plan 2020. Atsushi Iwasaki, in serving as an Outside Audit & Supervisory Board Member for several years, has acquired a deep understanding of NH Foods' businesses. From fiscal 2019, as an Outside Director, he will make proposals mainly on ways to strengthen profitability by improving the efficiency of existing businesses—another business policy. And Hideo Arase has global corporate management experience and insights acquired through his position as the director in charge of overseas operations at a major medical equipment manufacturer. His expertise applies to overall corporate management but will be particularly valuable with regard to changing gears in overseas market deployment—another business policy.

## Capital expenditures

Capital expenditures during Medium-Term Management Plan 2020 were initially budgeted at ¥210 billion over the three years of the plan. However, we reviewed factors that might increase or decrease this amount, including prevailing conditions and changes in accounting treatment for leases, and revised the budget downward to ¥200 billion. Investments aimed at raising productivity amid challenges caused by a shrinking workforce and improving quality, which is the lifeblood of any manufacturer, are urgent. Under our investment policy, such investments rank as priorities, and we remain committed to the proactive allocation of capital to achieve our aims.

**The tentatively named Hokkaido Ballpark—scheduled to open in March 2023**—is the home ground to the Hokkaido Nippon-Ham Fighters professional baseball team. [→ details on page 59](#)

The new stadium will make fans and spectators happy, but it will also let the Company promote its CSR activities with an original food-and-sports focus and provide advantages from a business perspective as well. It will expand opportunities to capture box office receipts and offer a chance to create new businesses. This will contribute to higher corporate value.



## Optimizing quality assurance system

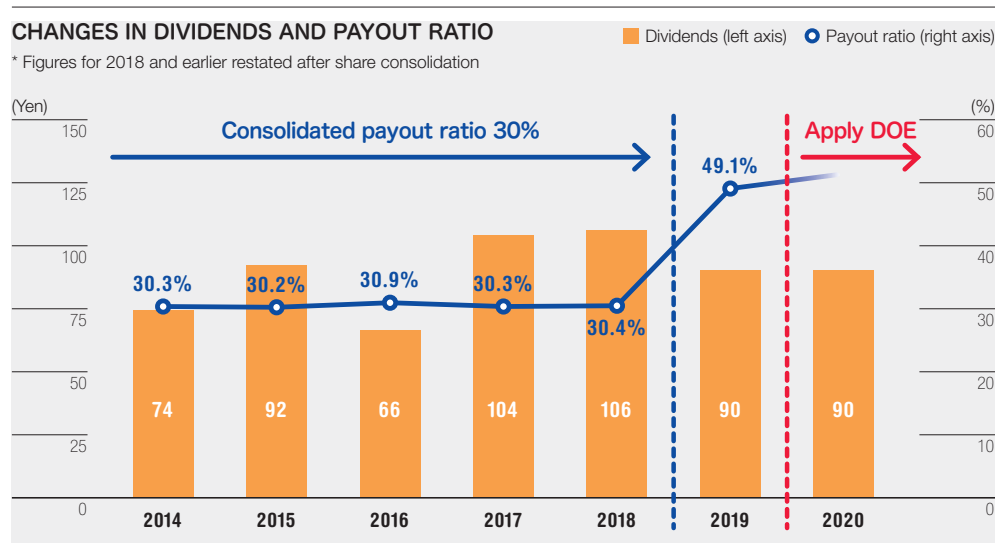
Today, amid greater globalization of products and services, quality assurance must go global as well. On a groupwide basis, efforts are being directed toward acquiring international-standard FSSC22000, SQF, and JFS-C qualifications and building a quality assurance structure compliant with CODEX guidelines for a HACCP system by 2020. In addition, we are working to ensure a fast and no-omission response to changes in the operating environment, including steps to address recent changes to the Food Labeling Act and the system for listing the area where product ingredients were produced.

## Enhanced financial strategies and capital policy

Toward achieving an optimal asset structure, we executed an acquisition and cancellation of treasury stock in fiscal 2018. Going forward, we may repeat this step, if the situation is right, given such factors as growth investments and financial status. Seeking to minimize weighted average capital cost, management determined that a debt/equity ratio between 0.4 and 0.5 would be most appropriate, and we will continue working to build the best capital/debt mix through careful balance sheet management.

## Revise dividend policy seeking stable dividends through application of DOE

On the topic of return to shareholders, dividends for fiscal 2018 were paid out at ¥90 per share, as initially planned. From fiscal 2019, we will apply a different policy, opting for a dividend on equity (DOE) ratio instead of a consolidated payout ratio—with a 30% benchmark—to provide a stable and continuous return to shareholders over the long term.



### Message to stakeholders

## Realize objective to build systems that pave the way to the future, and establish stronger foundation for sustainable growth

Our forecast for fiscal 2020—the final year of Medium-Term Management Plan 2020—highlights net sales of ¥1,410 billion, business profit of ¥56 billion, profit attributable to owners of the parent of ¥35 billion, ROE at 8.3%, and ROIC of at least 6%.

We will accomplish our objective to build systems that pave the way to the future—a theme that is designed to open up new possibilities in food culture while spurring sustainable corporate growth—and this will lead to the creation of social value. On behalf of management at NH Foods, I ask shareholders and investors to maintain support for the Company with a long-term perspective.