

## Minutes of the Analyst Briefing for the First Half of the Fiscal Year Ending March 31, 2016

NH Foods Ltd.

Date & Time: November 4, 2015 (Wednesday)10:00-11:30

Attendees: President and Representative Director (President and CEO):*Juichi Suezawa*

Vice President and Representative Director,

General Manager of Corporate Management Division:*Yoshihide Hata*

Representative Director and Senior Managing Executive Officer,

General Manager of Processed Foods Business Division:*Koji Kawamura*

Director and Senior Managing Executive Officer,

General Manager of Fresh Meats Business Division:*Katsumi Inoue*

Director and Executive Officer,

General Manager of Affiliated Business Division:*Kazunori Shinohara*

[Supplemental Explanation on Business Results Overview]

### **Factor analysis: changes in operating income for FY2016/3 1st half**

Processed Foods Business

Gross profit ratio dropped. Operating income decreased partly due to the delayed recovery in sales volume of commercial-use products.

- Cost-cutting effect: ¥3.0 billion (Variance from the forecast announced at 1Q: ¥(0.1) billion)  
The effect was achieved almost as forecasted.  
Breakdown: ¥2.8 billion improvement in gross profit (including products renewal and among others); ¥0.1 billion from effects of cost-cutting and SCM, etc. and ¥0.1 billion from overseas.
- Changes in sales volume: ¥(1.5) billion (Variance from the forecast announced at 1Q: ¥(0.6) billion)  
Sales volume resulted in variance of ¥(2.0) billion from the initial forecast.  
The improvement of the production department delayed due to the delayed recovery of sales volume.
- Principal raw/other material prices: ¥(2.9) billion (Variance from the forecast announced at 1Q: ¥0.5 billion)  
Despite rising costs of beef and chicken, pork prices have been getting lower since 2Q.
- Other factors: ¥(0.2) billion (Variance from the forecast: ¥(0.2) billion)  
Other factors of ¥(0.2) billion due to the impact of the flood in Ibaraki.

## Fresh Meats Business

Operating income increased by ¥0.4 billion year-on-year partly due to an increase in sales volume.

Sales volume growth rate: 7% for overall fresh meats; 4% for Japan; and 21% for overseas.

- Imported fresh meat market: ¥0.8 billion (Variance from the forecast announced at 1Q: ¥1.3 billion)
- Changes in farming operations in Japan: ¥2.4 billion (Variance from the forecast announced at 1Q: ¥0.7 billion)
- Domestic fresh meat market: ¥0.7 billion (Variance from the forecast announced at 1Q: ¥0.2 billion)

It is due to strong sales of chicken.

- Growth in Nippon Food Group: ¥1.0 billion (Variance from the forecast announced at 1Q: ¥0.5 billion)

Sales volume grew at every channel including volume retailers, restaurant chains and retail stores with growth rate at 4%.

- Changes in overseas business: ¥(4.5) billion (Variance from the forecast announced at 1Q: ¥(0.9) billion)

Australia: Variance from last year ¥(1.7) billion (Variance from the forecast: ¥(0.2) billion)

Americas: Variance from last year ¥(2.9) billion (Variance from the forecast: ¥(0.6) billion)

Asia and others: Variance from last year ¥0.1 billion

## Affiliated Business

Operating income increased by ¥0.5 billion as a result of effect of revenue increase and improved gross profit ratio.

Marine products business: Sales grew mainly in volume retailers.

Dairy products business: Solid sales of *vanilla yogurt* and *TOP CUP* products were seen.

## Business results in overseas

Australia: Operating income decreased by ¥1.7 billion.

Gross profit was ¥(5.1) billion due to the rising procurement costs, despite of foreign exchange gains of ¥3.4 billion.

Americas: Operating income decreased by ¥2.7 billion.

An increase in the number of hogs bred across the United States triggered a fall in pork prices, which was followed by the slump in the hog-raising business.

Currently, cost-cutting measures are taken such as cutting the number of sows and cutting down the weight of hogs.

## Outlook for FY2016/3 2nd half

### Factor analysis: changes in operating income

#### Processed Foods Business

- Cost-cutting effect: for the 2nd half ¥1.7billion  
A total of ¥1.2 billion improvement on a gross profit basis, including ¥0.6 billion from the improvement of SCM, etc. and ¥(0.1) billion from overseas business.  
(Products renewal: ¥0.3 billion, Premium Kitchen: ¥0.8 billion)
- Changes in sales volume: for the 2nd half ¥0.5 billion
- Principal raw/other material prices: for the 2nd half ¥0.9 billion  
An effect of ¥1.0 billion from raw material price improvement is projected for 2nd half. Raw material prices of pork are expected to continue downward trend since 2Q. Beef and chicken prices are expected to become slightly higher year-on-year.

#### Fresh Meats Business

- Changes in farming operations in Japan: for the 2nd half ¥(0.6) billion  
Chicken is expected to remain strong while the environment surrounding of pork becomes tougher.
- Imported fresh meat market: for the 2nd half ¥(0.1) billion  
Although conditions of beef were tough, these conditions will be improved by chicken and pork.
- Changes in overseas business: for the 2nd half ¥(5.6) billion  
Australia: ¥(5.1) billion, Americas: ¥(0.9) billion, Asia: ¥0.6 billion.
- Domestic fresh meat market: for the 2nd half ¥(0.7) billion  
All of the three types of livestock are expected to decline year-on-year.
- Growth in Nippon Food Group : for the 2nd half ¥(0.3) billion

#### Outlook for full year business results overview

Effective tax rate: 28.2% in the previous period→25.2%

Down 3 points as a result of a reduction in statutory tax rate from 36% to 33%.

Projected tax rate for FY2016/3 is 31% (30.3% for the previous year).

#### By geographical area

Total operating income is projected at ¥43.0 billion: ¥40.0 billion in Japan and ¥3.0 billion from overseas.

Breakdown of overseas operating income: ¥4.5 billion from Australia, ¥(2.1) billion from the

Americas, and ¥0.6 billion from Asia and Europe.

#### Forecast of capital expenditures

Initially, ¥59.1 billion out of ¥147.0 billion under the 3-year plan was planned for this fiscal year, which is now revised to ¥52.2 billion due to slight delay in the schedule of capital expenditures.

#### Q&A

##### **Overall**

Q) What is your projected operating income for the next fiscal year?

A) Our projected operating income for the next fiscal year is ¥46.0 billion as a whole (¥37.0 billion in Japan and ¥9.0 billion from overseas).

(Processed Foods Business: ¥6.5 billion, Fresh Meats Business: ¥38.0 billion, Affiliated Business: ¥1.5 billion)

Q) What is your view on shareholder returns?

A) To enhance shareholder returns and ROE is a fundamental theme to us. As we also put stress on growth strategies under the current Mid-term Plan, we will decide the acquisition of treasury stock considering the situation of funds.

##### **Fresh Meats Business**

Q) What is the outlook for the Australian business?

A) For the current fiscal year, we project operating income to be ¥4.5 billion (1st half: ¥3.8 billion, 2nd half: ¥0.7 billion). We will strengthen marketing activities for export destinations as well as sales of our branded fresh meats at overseas. For FY2017/3 and FY2018/3, we project operating income of ¥5.0 billion each.

Q) What are the proportions of exports and internal sales in Australia?

A) Internal sales account for about 12%. In the future, we will enhance sales mainly to leading volume retailers and expand the proportion to around 20% .

Q) What is the outlook for the hog-raising business in the Americas?

A) Last year pork prices surged in the wake of a decrease in the number of hogs due to the impact of PED but recovered in this year. The pork prices fell due to the recovery of the number of hogs bred, which consequently deteriorated revenue from farm business. At the moment, the prices are coming back up and we can expect a certain level of improvement.

Q) Why do you forecast operating income for Nippon Food Group in 2nd half at ¥(0.3) billion?

A) The business performed well last year.

## **Processed Foods Business**

Q) What is the future direction of the Processed Foods Business?

A) We will implement “selectivity and focus” in full swing from the next year onwards. For product development, we will shift from product-out concept and consider dilapidated production facilities for a time span of five to ten years. We will also consider group-wide approach to human resources.

Q) What do you think about future profitability of the Processed Foods Business?

A) For consumer-use products, from 2nd half onwards, we will change product specifications ( increasing quantity) to regain product competitiveness, launch TV commercials, and reinforce seasonal sales promotion. For commercial-use products, we will explore new demand through making proposals from a market-in point of view and presenting enhanced menu proposals.

Q) You project principal raw material price for 2nd half to be decreased by ¥1.0 billion; do you expect that to continue from the next fiscal year onwards?

A) We cannot make a comment about the forecasts for the next fiscal year onwards as a lot of aspects of raw material prices are uncertain.

Q) As for trends of prices, unit prices seem to be on a downward trend every year; what is your outlook for them?

A) We believe we can maintain consumer-use product prices as we revised unit prices (changed product specifications) in July of last year and have continued to raise them of consumer-use products. However, we should continue to have severe price competition over commercial-use products.

Q) What is the profit of Premium Kitchen Co., Ltd.?

A) The company was in a deficit of ¥1.3 billion for the previous fiscal year. For this fiscal year, we project a total of ¥0.5 billion improvement at Kansai Factory and Chubu Factory (in operation from June) on an annual basis.