Minutes of the Analyst Briefing for the First Quarter of the Fiscal Year Ending March 31, 2017

Date & Time: August 2, 2016 (Tuesday) 10:00-11:00

Venue: Room 605, STATION CONFERENCE TOKYO

Attendees from the Company:

Vice President and Representative Director:
Yoshihide Hata
Executive Officer and General Manager of Public and Investor Relations Department:
Masahito Kataoka

Number of attendees: 89

Financial Results Overview for FY 2017/3 1Q (Apr.-Jun.) (Yoshihide Hata, Vice President)

・Company-wide net sales and operating income for FY 2017/3 1Q

Consolidated net sales: ¥294.6 billion (a decrease of 3.6% or ¥10.9 billion year on year)

Consolidated operating income: ¥9.5 billion (a decrease of ¥2.4 billion year on year)

Net sales

Increases of 6.1% in processed foods and 4.0% in dairy products, and decreases of 2.0% in hams and sausages, 6.8% in fresh meat and 3.3% in marine foods

The impact of increases in sales volume (increases of 0.5% in hams and sausages, 6.2% in processed foods, and 3.2% in fresh meat year on year), were offset by the impact of decreases in unit prices.

・Review of FY 2017/3 1Q

<Processed Foods Business Division>

Increases in both revenue and operating income

Net sales: ¥81.4 billion (an increase of 2.2% or ¥1.8 billion year on year)

Revenues from hams and sausages decreased by 1% year on year, due to stagnant sales of NB and PB other than *SCHAU ESSEN*, while deli and processed foods increased both in consumer and commercial-use.

Operating income: ¥1.1 billion (an increase of ¥1.1 billion year on year)

- Factor analysis: changes in operating income

Volume expansion: Efforts towards volume expansion resulted in a ¥0.1 billion increase in operating income, failing to achieve the forecast.

Hams and sausages as well as deli and processed foods underperformed the forecast (in sales volume) by 4% and 3%, respectively.

Introduction of products exclusively sold by distributors is being advanced.

Product mix: Product mix (commercial-use, PB, increased volume) registered performance of ¥0.7 billion against the forecast of ¥1.0 billion decrease.

Hams and sausages - Delayed introduction of products to meet demand in area

Improvement of production and sales operations: Achieved only ¥0.4 billion, versus the forecast of

¥0.5 billion.
Make efforts to increase overall sales volume in processed foods.

- Consumer products
Hams and sausages:
SCHAU ESSEN registered an increase of 104%, while other products struggled.
Products exclusively sold by distributors will contribute to the increase in sales volume in the future.
Deli and processed foods: Achieved an year-on-year performance of 104% in volume and 102% in amount, meeting the forecasted performance of 104% in volume and 105% in amount.

- Commercial-use
The 1Q forecast for hams and sausages: 106% in volume and 109% in amount
⇒Actual performance reached the forecast in volume, while slightly falling short of the forecast in amount, with certain growth in restaurant channels.

The 1Q forecast for deli and processed foods: 112% both in volume and amount
⇒Performance fell short of the forecast in both volume (105%) and amount (104%), with certain growth in CVS channels and bread production channels

<Fresh Meats Business Division>
Decrease in both revenue and operating income
Net sales: ¥184.3 billion (a decrease of 1.5% or ¥2.9 billion year on year)
Operating income: ¥8.3 billion (a decrease of 8.5% or ¥0.8 billion year on year)

- Factor analysis: changes in operating income
1Q actual performance of ¥(0.8) billion:

Violent fluctuations in the market condition of domestic pork were observed after the Golden Week.

Affected by an excessive inventory of imported chicken triggered generally weak market conditions including domestic chicken.

Imported fresh meat market: ¥0 billion (Variance from the forecast: ¥0.4 billion)
Domestic fresh meat market: ¥0.4 billion (Variance from the forecast: ¥(0.3) billion)
Changes in farming operations in Japan: ¥0.1 billion (Variance from the forecast: ¥0.6 billion)
Growth in Nippon Food Group: ¥0.5 billion (Variance from the forecast: ¥0.2 billion)

⇒Achieved an increase in sales volume, mainly at volume retailers through a brand merchandising strategy, while development of new markets contributed to enhance the profit margin.

Other factors: ¥1.0 billion decrease is due to unrealized foreign exchange loss.

<Affiliated Business Division>

Increase in both revenue and operating income

Net sales: ¥37.7 billion (an increase of 2.2% or ¥0.8 billion year on year)

Dairy products: There was a growth in *Vanilla Yogurt* and chilled-cup drinks, while cheese registered growth in restaurant channels.

Operating income: ¥0.58 billion (an increase of 206.8% or ¥0.4 billion year on year)

In-house manufactured products registered growth.

<Overseas Business Division>

Decrease in both revenue and operating income

- Australia ⇒Experienced quite challenging business condition

1) The historic surge in cattle procurement prices was too sharp to be shifted to sales prices.

2) Difficulties in collecting cattle due to the short supply (25% year-on-year decrease in Australia overall) pushed down the plant operation.

⇒ There was expansion for branded beef that are mainly grain-fed.

The initial forecast was a decline of ¥0.8 billion in operating income, based on an estimated 10% reduction in the number of processed cattle. However, a larger decline in operating income is now expected.

- Americas:

Actual performance was an increase of ¥0.4 billion year on year, exceeding the forecast by ¥0.2 billion.

The processed foods business remained strong, while the hog-raising business was positively affected by the recovery in the market condition and the improvement in productivity.

- Asia & Europe:

Actual performance was a decrease of ¥0.2 billion year on year, underperforming the forecast by ¥0.3 billion.

The main factor is the soaring price of pork which is the principal raw material in plants in China.

・Full year forecast for FY 2017/3

Operating income forecast:

¥49.0 billion (an increase of ¥2.7 billion year on year)

The targets announced under the New Medium-Term Management Plan Part 5:

¥46.0 billion (exceeding the forecast by ¥3.0 billion)

While business outlook is tough at Overseas Business Division, no adjustment is made to the existing forecast on an overall basis.

The currently strong Fresh Meats Business Division and Affiliated Business Division are expecting increases in operating income of ¥0.8 billion and ¥0.3 billion, respectively.

<Processed Foods Business>

Recovery in sales volume ⇒Products exclusively sold by distributors, revision of plans for branded products, and volume pack products

Measures

Promotion of products featuring branded meats

Sales representatives from the Processed Foods Business Division will be stationed at three of the main business establishments of the Nippon Food Group companies to reinforce capability to meet demand in the areas.

<Fresh Meats Business Division>

Imported fresh meat: Operating income is forecast to decrease by ¥0.2 billion in the 2Q.

Farming operations: Reduction in the production volume is expected due to switching of the U.S. Chunky. Branded fresh meat will be expanded.

Nippon Food Group: Profitability is solidly maintained, while brand strategies will be promoted. Further improvement in profit margin will be pursued, by the development of new markets and the introduction of branded fresh meat for restaurant channels.

<Affiliated Business Division>

We will improve our profit margin by fully utilizing our own factories, mainly for marine products and cheese.

<Overseas Business Division>

- Australian operations

The plant operating rates will be increased due to contract manufacturing.

Contract manufacturing

Dramatic increase in procurement prices will be dealt with by shifting the increase to the sales price.

Enhancement of the ratio of brand beef and grain-fed beef

Profitability will be enhanced mainly by these measures.

- Americas

Expansion of processed foods sales as well as the number of local sales outlets

・Full year sales forecast

Downward adjustment to ¥1,250.0 billion (a decrease of ¥20.0 billion against original forecast)

Affected by the decline in sales prices of fresh meat, mainly in beef and chicken

Effective statutory tax rate: 30.0% (compared with 22.6% in the previous fiscal year)

* Forecast of net income attributable to NH Foods Ltd. does not include additional special payments expected to be granted, in association with the “Transfer Solicitation by its Consolidated Subsidiaries.”

・Q&A

Q1　What is the outlook for the market condition for the fresh meat both in Japan and overseas over the second half?

A1

The situation in the overseas beef markets varies from area to area. In Australia, a volume shortage is expected due to a decrease in the number of processed cattle, while in the U.S., local production is increasing. As a result, U.S. imports from Australia are declining.

In the pork market, imports of China are increasing, while production in the U.S. is also on the increase. Recently, spot and futures prices of pork are declining in the U.S., making the future trends highly unpredictable.

In the chicken market, while domestic inventory is accumulating in Japan, certain tightness is expected on a global scale due to factors including the high grain price in Brazil. Thus we envision a market recovery.

Q2　In Australia, farmers are not releasing enough live cattle, resulting in a price increase. Do you expect an increase in the delivery of live cattle in the near future?

A2

While we can expect delivery of cattle that are currently on hold due to weather factors, we do not expect full-scale recovery in delivery quantity for the time being. Due to the cattle cycle, a full-scale recovery should occur in or after 2018.

Q3　When will the mismatch between unit procurement price and unit sales price be resolved?

A3

Although we are striving to shift the increase to the sales price, the procurement cost is rising too rapidly. It will take time before we can fully shift the increase.

Q4　How is the supply of beef in Australia as well as on a global level?

A4

In Australia, the whole industry is facing a challenging situation. Referring to other areas, production volume has recovered in the U.S., while South America supplies cheap beef to the markets around the world. We believe that Australian beef has a certain market value as there is some level of segmentation of use.

Q5　As there was a decrease in sales volume in Australia in 1Q, can we understand that sales prices are declining as well?

A5

The decrease of ¥3.6 billion in operating income in the Australian operations for 1Q was mainly due to soaring procurement cost. Sales price is increasing, but the increase is surpassed by the pace of increasing procurement cost. Sales price has not caught up with the pace of increase in procurement cost. We will further strive to shift the cost increase to the sales price by deploying product strategy.

Q6 Is the number of processed cattle restricted throughout the year in Australian operations?

A6

Situation is tight for the grass-fed cattle as it depends on the delivery by farmers, while the procurement environment is more favorable with the grain-fed cattle. In the case of the latter, given a fattening period, the supply is controllable to a degree, while added value can also be derived depending on the number of days for fattening including background fattening.

Q7 How is the status of Ege-Tav in Turkey?

A7

Ege-Tav in Turkey is on track towards achieving annual operating income of ¥0.5 billion as forecasted. Specifically, its Turkish domestic chicken sales operations changed its product mix by increasing cut chicken to roughly 60% while reducing whole chicken, and simultaneously increased direct delivery to volume retailers and increasing the number of key business establishments, thereby enhancing the profitability. In the meantime, however, we recognize the political instability in Turkey as a source of concern.

Q8 How is the status of the sales price in the processed foods business?

A8

The current pricing emphasizes consumers' attitudes towards defending their livelihood rather than polarization. We intend to enhance our value mainly through our national brand products.