May 31, 2017

Minutes of the Analyst Briefing for the Fiscal Year Ended March 31, 2017

Date & Time: May 11, 2017 (Thursday) 9:00-10:40

Venue: 501A, B, S, STATION CONFERENCE TOKYO

Attendees from the Company:

President and Representative Director (President and CEO): *Juichi Suezawa*
Vice President and Representative Director: *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 Overseas Business Division: *Hiroji Okoso*
Director and Senior Managing Executive Officer,
General Manager of Fresh Meats Business Division: *Katsumi Inoue*
Managing Executive Officer,
General Manager of Affiliated Business Division: *Kanji Bando*

Number of attendees: 96

○Business Results and Progress in the New Medium-Term Management Plan Part 5 [supplementary explanation]

Reference: President's briefing for the fourth quarter of the fiscal year ended March 31, 2017 (entitled above) dated May 11

1) Capital expenditures: changes from initial plan

(i) Breakdown as of the announcement of the Medium-Term Management Plan (May 2015)

(ii) FY2016/3 and FY2017/3 results + FY2018/3 forecasts

	(i)		(ii)	(¥ billion)
Production facilities	501	⇒	585	[+84]
Sales facilities	166	⇒	244	[+78]
Farms and processing facilities	360	⇒	280	[-80]
Overseas business facilities	309	⇒	247	[-62]
Other facilities	134	⇒	114	[-20]
Total	1,470		1,470	[±0]

(Variation factors)

・Farm facilities and Overseas business facilities have been partially moved out to the next fiscal year.

・The addition has been made to Production facilities as capital investment for the future.

・There are no changes to the cumulative total for three-year period of the Plan.

○ **Business Results for the Year Ended March 31, 2017 [supplementary explanation]**

Reference: document entitled above dated May 9

1) FY2017/3 results: variation factors for operating income

(i) Improvement of production and sales operations in the processed foods business

(breakdown of the full year results of ¥0.9 billion)

Production: ¥0.2 billion, Vendor business: ¥0.2 billion, Sales and marketing: ¥0.5 billion

⇒ Main factor: unable to reduce costs as forecast for production division and vendor business.

(ii) Fresh meats business (Nippon Food Group: cause of ¥(0.5) billion variance from forecast)

⇒ Sales to restaurant channels did not reach forecast (a decrease of 8.3% year on year)

2) FY2018/3 forecasts: sales growth rate and operating income ratio by business division

	Growth rate (%)	Operating income ratio (%)
Processed Foods Business Division	3.4	2.9
Fresh Meats Business Division	1.8	5.3
Affiliated Business Division	7.5	2.3
Overseas Business Division	8.2*	0.4

* Including ¥17.0 billion sales from Breeders & Packers Uruguay S.A. in Uruguay

3) Increase our shareholder's equity

There is no change in our policy to optimize our debt/equity ratio (D/E ratio) and reduce capital costs, and we will take capital measures in line with the policy.

○**Q&A**

Q1

Your plans indicate aggressive entry into new markets. How is the rationale changing inside the Company and how will you manage profitability risk?

A1

Areas which were difficult to explore on a single division-basis are being addressed through cross-company projects generating synergistic effects of collaboration among the expertise of each business division. We are evaluating profitability risks for M&A in multiple patterns such as positive, negative, etc.

Q2

Your ROIC forecast level for FY2018/3 seems rather low considering the performance forecast. Are there any latent factors?

A2

We use the standard tax rate (statutory tax rate) instead of the effective tax rate. Operating income ratio of 4.5% was not determined per se, but is a result of an absolute amount of the business divisions in aggregate. Of course, we recognize that our task is to raise the operating income ratio and invested capital turnover.

Q3

What are your income drivers in the coming three years?

A3

Firstly, “overseas.” As we reorganize our businesses, we are able to more clearly visualize business opportunities. We believe that processed foods overseas in general enjoy a relatively high income ratio, which will lead to stable earnings.

Secondly, the enhancement of “domestic farms.” Although there were brief outbreaks of avian influenza among our contract farmers as well, we enabled stable supplies to customers because we operate production facilities nationwide. This is our continued focus of reinforcement.

Thirdly, “further integration.” We will identify unexplored areas that lies in between business divisions to increase income.

Q4

How would you rate your potential to achieve improvement in income of production and sales operations of the processed foods business?

A4

Although personnel expenses have surged due to labor shortages in recent years, we have completed our re-allocation of products for the launch of the new Hyogo Plant, and we will aim to improve earnings through labor-saving and mechanization by increasing our capital expenditures above initial forecasts. In addition, we will promote the sharing of manufacturing line status between production and sales for a sales forecast that takes into account the fluctuation in plant operating rate, enabling production conditions to be less consolidated. We will also strive to earn revenue from gift products year-round.

Q5

Your income forecast for the processed foods business assumes volume expansion. How will you manage this year’s product mix, which was the factor that supported volume expansion in the previous fiscal year?

A5

In the previous fiscal year we leveraged our product mix to expand volume. Consumer products this fiscal year will feature new products that are designed in accordance with cost setting and renewal will take place successively starting with existing products. We will plan our sales promotion cautiously according to our customers’ circumstances while restraining expenses by opting for methods such as sales promotion through increased product volume. As sales activities for commercial-use products depend on prices linked to cost, we will act according to the market situation.

Q6

The processed foods business requires a 5% OP margin (current target is 3%) in the long term, but is 5% attainable by the current measures (increased operating income through volume growth)?

A6

We will discuss whether 5% is the right level in our Medium-Term Management Plan Part 6. To raise the income ratio, it is vital to significantly reduce manufacturing costs by means such as switching to production lines with high productivity instead of labor-intensive lines. Product development will focus on differentiation through product development that renders high value-added products as well as products with an edge through collaborations with the Research and Development Center. This is necessary to break away from price competition, which is difficult in the category of commodity products.

Q7

Growth in Nippon Food Group is slowing down, but why has income leveled off even though volume has increased by 5%? Can expansion be accelerated in the next three years?

A7

Factors behind the expansion of the Nippon Food Group in recent years include the favorable meat market and that it has been in sync with domestic production enhancement measures. In addition, the branding of fresh meats has led to stable earnings.

As there are uncertainties in the global supply and demand environment, we do not believe it will be easy to raise domestic sales shares beyond the current levels (Overall: 21.6%, Imports: 26%, Domestic: 17.7%) in an aim to recover our share of 25%. Sales and marketing will strengthen efforts to expand sales to restaurant channels, for which forecasts were not achieved last year.

Q8

You are planning to expand the processed foods business in the United States. How will you differentiate from the competition, and what are your advantages in procurement?

A8

Currently, Asian flavored frozen processed food products are strong, and we are beginning to develop core brands to focus sales activities by expanding our product lineup. Moving forward, we will build a second plant aimed at further expanding variation, volume, and sales areas (Eastern Region). We have currently not identified any positive factors in raw material procurement.

Q9

We hear that the break-even point for Australia operations in terms of number of heads processed is 500,000. Why are you forecasting increasing income despite decreased number of heads processed of 480,000 in this year’s prospects? Also, what is your view on fluctuation risks in selling prices?

A9

Although purchasing of livestock is extremely difficult to control because of the major influence of the market environment, our measures for market fluctuation include increasing yield, increasing carcass weight, and raising sales price, in addition to operation adjustment at processing plants. Furthermore, we currently conduct a certain level of consignment processing, so the criteria for breaking even in terms of number of heads processed is becoming unrealistic. Going forward, we will aim to enhance profitability by maintaining and raising sales prices through increasing the shares of branded beef and grain-fed beef. Since consignment processing is relatively low margin, we do not plan significant increases.

Q10

With regard to Breeders & Packers Uruguay S.A. (“BPU”), what is the outlook for global beef demand, will there be any synergistic effects with Australia operations, and if yes, when will it appear?

A10

The main sales destinations of BPU are the EU, China, and the United States. BPU’s priority will be to offer upscale beef to differentiate especially to China where sales are growing. With the backdrop of growing demand for beef worldwide, taking advantage of the synergy with Australia operations by demonstrating the know-how cultivated in Australia operations, we intend to produce results in three years.