



**Nipponham Group**  
人輝く、食の未来

# **Business Results and Progress in the New Medium-Term Management Plan Part 5**

**November 8, 2017**



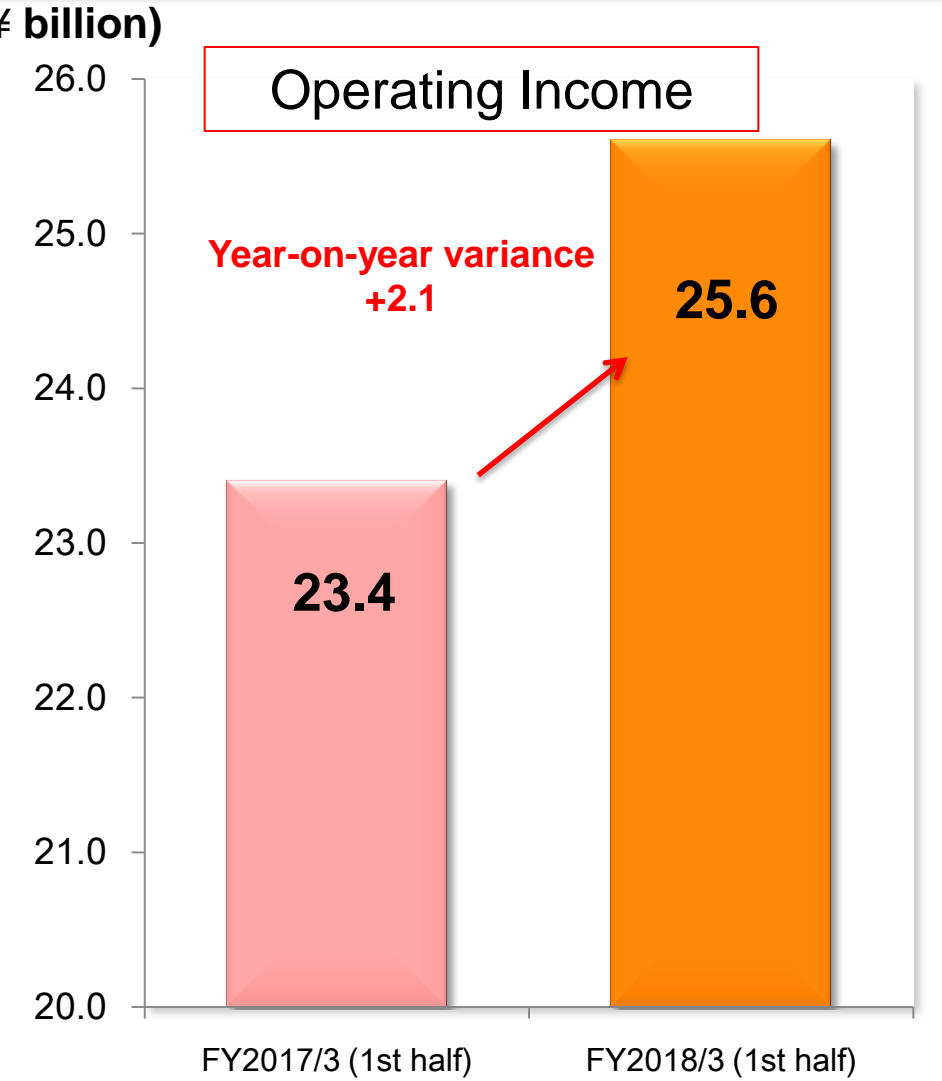
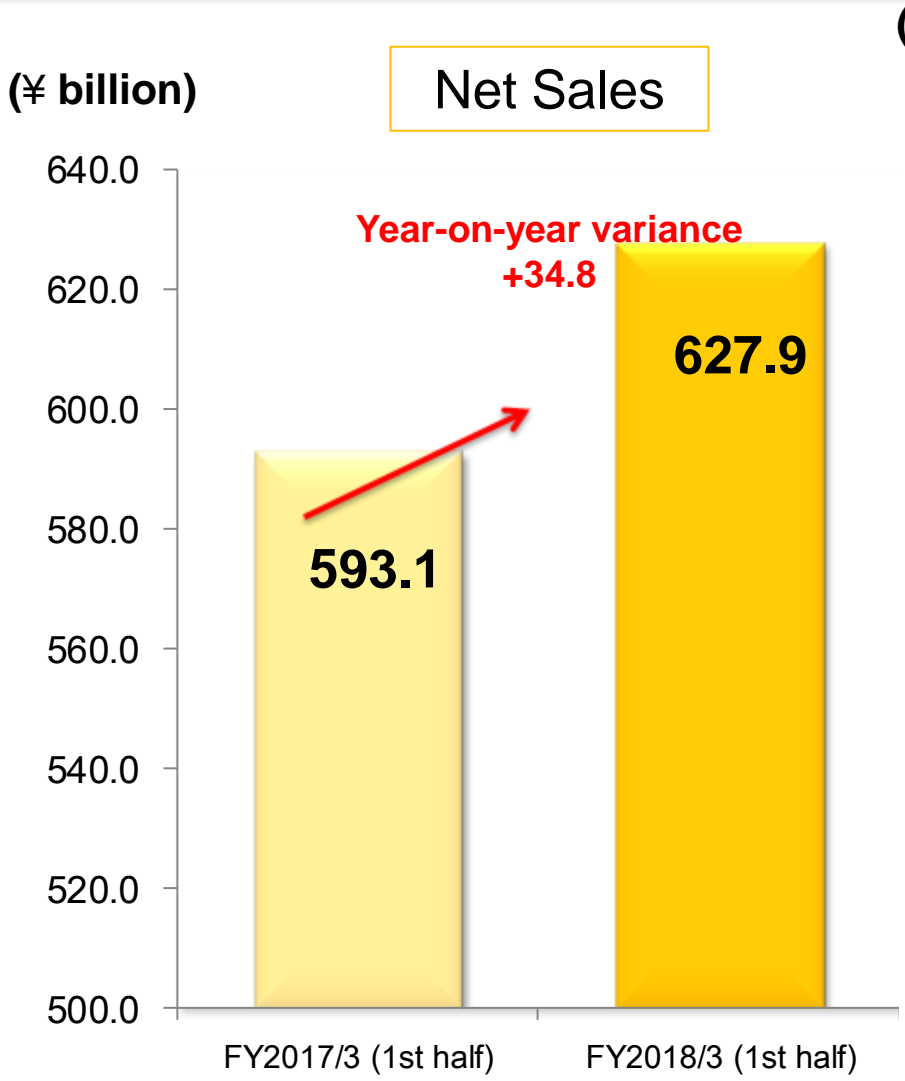
**NH Foods Ltd.**  
**President and Representative Director**  
**Juichi Suezawa**



1. Business Results Overview for the First Half of FY2018/3
2. Full Year Outlook for FY2018/3
3. Progress in the New Medium-Term Management Plan  
Part 5

# 1. Business Results Overview for the First Half of FY2018/3

Marked record highs for both net sales and operating income, due to increased revenue and income.



## Variation Factors for the Operation Income Forecasts

\*Forecasts are those that were revised as of 1Q.

(¥ billion)

Business Division	Forecasts	Results	Variance	Variation Factors
<b>Processed Foods Business</b>	3.2	2.2	(1.0)	Operating income fell below the forecast due to low sales volume of consumer products in deli and processed foods, as well as higher labor costs.
<b>Fresh Meats Business</b>	23.4	24.5	1.1	Operating income exceeded the forecast due to robust market conditions, mainly for chicken.
<b>Affiliated Business</b>	1.2	0.9	(0.3)	Operating income fell below the forecast due to struggling procurement of marine products.
<b>Overseas Business</b>	(0.4)	(2.5)	(2.1)	Operating income fell below the forecast due to the impact of deterioration in the business environment in Australia.
<b>Eliminations, adjustments and others</b>	0.1	0.5	0.4	
<b>Total</b>	<b>27.5</b>	<b>25.6</b>	<b>(1.9)</b>	Operating income fell below the forecast due to deterioration in the business environment beyond expectations.

\* Due to rounding, item tallies in each division may not match totals.

# FY2018/3 Full year operating income ¥56.0 billion

(Previously revised forecast ¥58.0 billion; previous year ¥53.8 billion)

(¥ billion)

	FY2017/3	FY2018/3
Processed Foods Business	7.9	8.0
Fresh Meats Business	43.9	47.8
Affiliated Business	3.7	2.6
Overseas Business	(1.3)	(2.8)
Elimination and adjustment	(0.5)	0.4

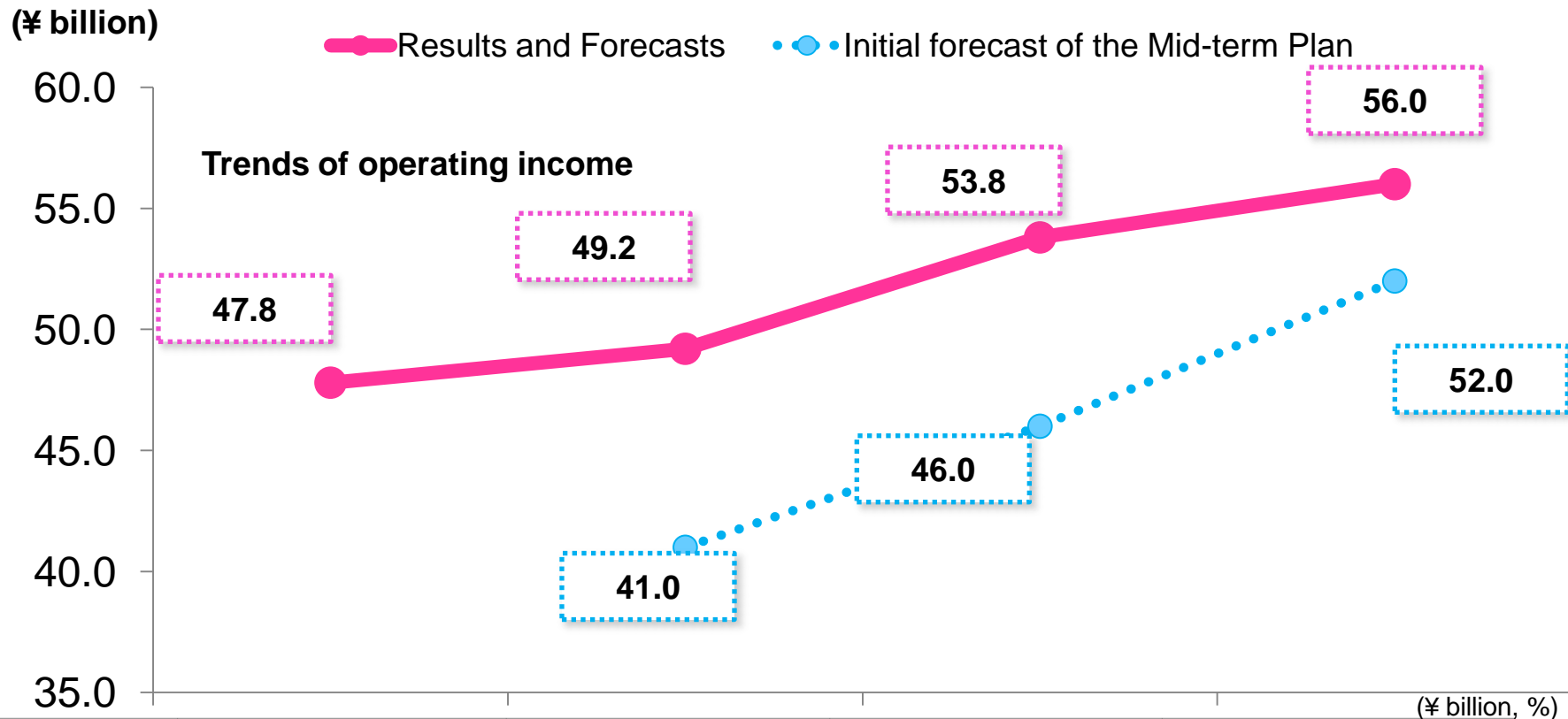
### ● Positive factors

- Fresh Meats Business Division      Strong market trends mainly on chicken
- Processed Foods Business Division      Structural reform effects in sales operations  
Investment effects from initiatives such as  
streamlined production line development
- Affiliated Business Division      Strong market trends for cheese  
Steady sales of lactic probiotic beverages
- Overseas Business Division      Decline in cattle livestock prices in Australia  
Improved performance of Ege-Tav in Turkey  
Stable operation of Breeders & Packers  
Uruguay S.A. (“BPU”) in Uruguay

### ● Negative factors

- Fresh Meats Business Division
  - Inventory status of imported fresh meats (mainly chicken)
  - Impact of safeguards on imported beef
- Processed Foods Business Division
  - Raw material prices remaining high
  - Increase in labor costs due to rising personnel cost
  - Decline in sales prices due to intensified competition
- Affiliated Business Division
  - Surge in raw material prices due to declining catches in the marine products business
  - Sustained high prices of dairy product ingredients
- Overseas Business Division
  - Sales prices of beef in Australia are weak

### 3. Progress in the New Medium-Term Management Plan Part 5



	FY2015/3	FY2016/3	FY2017/3	FY2018/3
Net Sales	1,200.0	1,229.3	1,202.3	1,260.0
Operating Income	47.8	49.2	53.8	56.0
Operating Income Ratio	4.0%	4.0%	4.5%	4.4%
Net Income	31.0	21.8	35.0	37.0
ROE	9.2%	6.1%	9.2%	Target: 8% or more

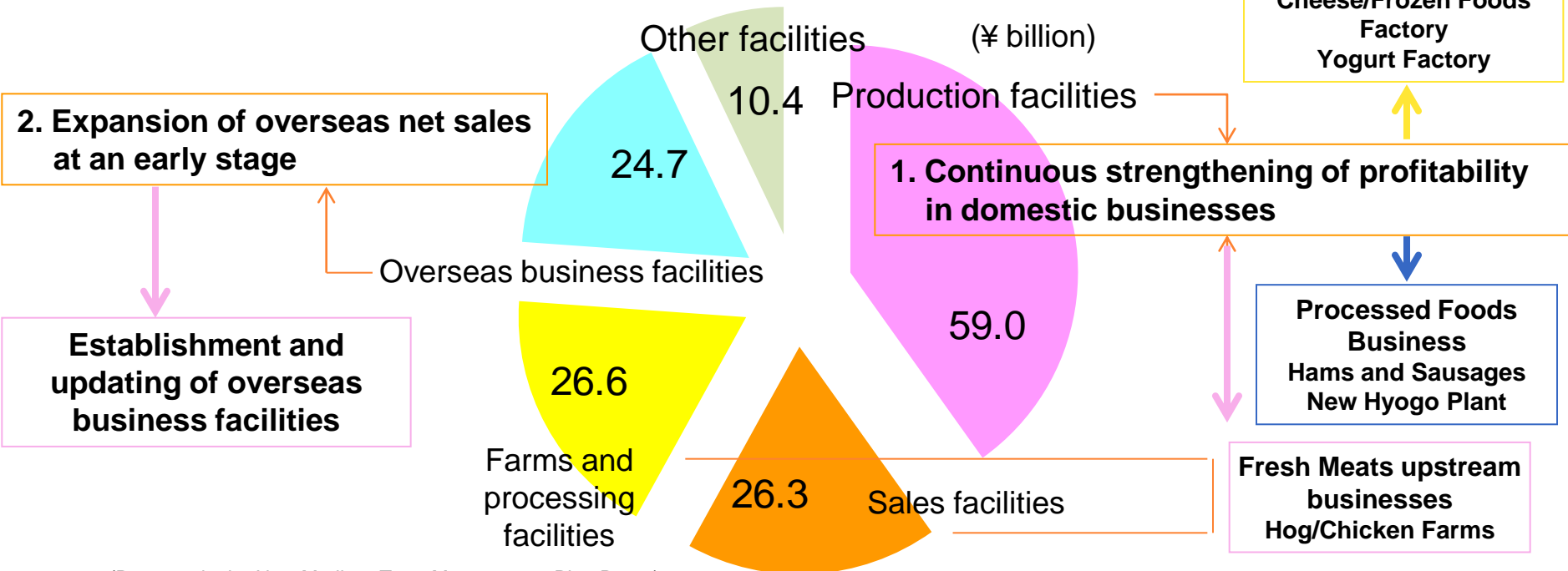
(¥ billion, %)



## Proactive investment for our growth strategy

### New Mid-term Plan Part 5 (cumulative)(from FY2016/3 to FY2018/3)

**Capital Expenditures: ¥147.0 billion** (variance from Part 4 +¥48.9 billion)



(Progress in the New Medium-Term Management Plan Part 5)

Category	FY2016/3 Full year results	FY2017/3 Full year results	Cumulative for the previous two years	FY2018/3 Full year forecasts	FY2018/3 1st half results	Cumulative for three years
Total	36.8	43.8	80.6	66.4	14.5	147.0
Production facilities	17.1	16.9	34.0	25.0	6.8	59.0
Sales and logistics facilities	3.5	12.4	15.9	10.4	2.3	26.3
Farms and processing facilities	7.7	7.8	15.6	11.0	3.8	26.6
Overseas business facilities	4.1	3.6	7.7	17.0	1.5	24.7
Other facilities	4.4	3.0	7.4	3.0	0.0	10.4
Depreciation and amortization	19.4	19.8	39.2	20.5	10.3	59.7

## 1. Continuous strengthening of profitability in domestic businesses

### • Fresh Meats Business Division

“Enhance supply capabilities of upstream businesses and increase sales volume toward a share of 25%”

#### (1) Improved profitability in upstream businesses due to stabilization of domestic fresh meat prices

Amount of increased operating income in upstream businesses (cumulative for three years)

(Business results for FY2016/3 and FY2017/3 + Forecasts for FY2018/3)

¥6.4 billion (1.5 times of the cumulative total for three years of the previous Mid-term Plan)

New and expanded farms (cumulative for three years)

Six locations

Hogs: two locations (two locations in Donan)

Chickens: four locations (two locations in Shiretoko, two locations in Niigata)

Issues ⇒ Strong influence of market factors continues. Further supplementary integration is necessary.

#### (2) Top share in domestic sales of fresh meats: growth in Nippon Food Group

Nippon Food Group's three-year cumulative volume expansion rate

(Business results for FY2016/3 and FY2017/3 + Forecasts for FY2018/3)

109% increase (compared to the cumulative total for three years of the previous Mid-term Plan)

Issues ⇒ Need to strengthen sales to restaurant chains such as barbecue restaurants.

#### 1. Continuous strengthening of profitability in domestic businesses

- Processed Foods Business Division

“Improve profit and recover volume through reform to connect production and sales”

(1) Efforts to improve revenue through reform to connect production and sales

Sales operations: Conducted optimal placement of sales personnel and strengthened sales through food company offices

Production operations: Consolidated two facilities through completion of the new Hyogo Plant  
(Hams and sausages plants: from 15 to 13 locations)

Issues ⇒ The external environment is continuing to change, and reform is required, including for the logistics system

- Affiliated Business Division “Reform into a manufacturer and growth strategy”

(1) Strengthening our foundation for business expansion to make the third pillar

Yogurt/Lactic probiotic beverages: Expanded sales of *Vanilla Yogurt* and *Smoothie*

Cheese: Expanded production by establishment of the ROLF Yamato Plant

Marine products: Developed high value-added products and expanded sales of in-house manufactured products

Issues ⇒ Further development of product groups that contribute to sales growth is needed to establish the Group’s positions within each industry

## 2. Expansion of overseas net sales at an early stage

### • Overseas Business Division

“Stabilizing revenue in the Australia operations

Establishment of infrastructure in the Americas and Asia & Europe Operations”

(1) "Promotion of visualization" and "Expansion of business foundation" by establishing the Overseas Business Division

#### • Reorganized unprofitable businesses (April 2016 onwards)

Sold the U.S. hog-raising business and reviewed production and sales system in China

#### • Expanded our business foundation

Opened a new U.S. sales office, acquired Breeders & Packers Uruguay S.A. (“BPU”), built the new plant in Vietnam, etc.

Issues: Promoting and stabilizing business that generate revenue and expanding the local sales business

## 3. Promotion of strategic branding

### • Promotion of company-wide marketing

⇒ Promoted organizational improvement, and pursued the Group’s synergy

## 4. Reinforcement of cross-Group corporate functions

### • Introduction of ROIC (FY2016/3: 6.5%, FY2017/3: 7.0%, FY2018/3 forecast: 6.9%)

⇒ Pursued efficiency of invested capital through progress management

### 3. Progress

## (1) Continuous strengthening of profitability in domestic businesses

### Processed Foods Business Division Combine external and Group logistics to establish a logistics system that covers all of Japan

1. In a severe logistics environment, work on joint distribution both extra- and intra-Group to establish a new business model
2. Streamlining through large-scale storage and transportation

#### Overview of Nippon Dairy Net Co., Ltd.



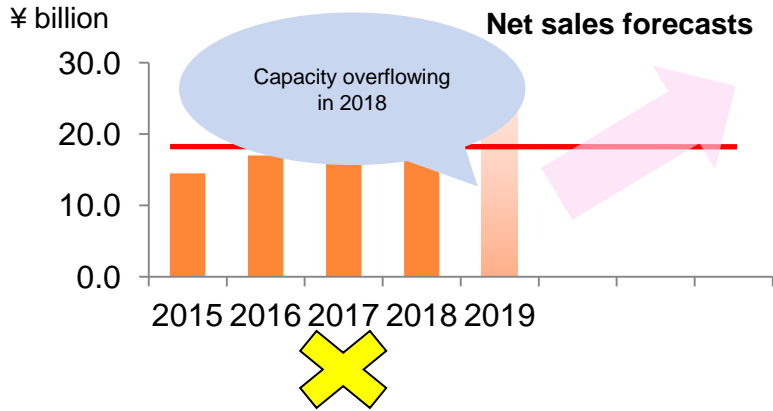
- Established: April 1987
- Business activities: Warehouse and distribution business  
Distribution of goods mainly by the Processed Foods Business Division of NH Foods
- Net sales : approximately ¥17.0 billion (FY2017/3)
- Number of offices: 15 nationwide

#### Invest ¥9.0 billion\*, and reorganize the center function of each facility

##### \*Investment amount in the Kanto and Chubu areas

- Establish a joint distribution business  
→ We will respond to environmental problems such as chlorofluorocarbon gas, and also respond to labor shortages with automated warehouses, in addition to contracting to deliver for other companies, in order to enhance efficiency within the industry.
- Synergy of logistics within the Group  
→ Promote collaboration with other business divisions and pursue the synergy effect of the Nipponham Group
- Pursue merits of scale

Background 1: Responding to increases in volume

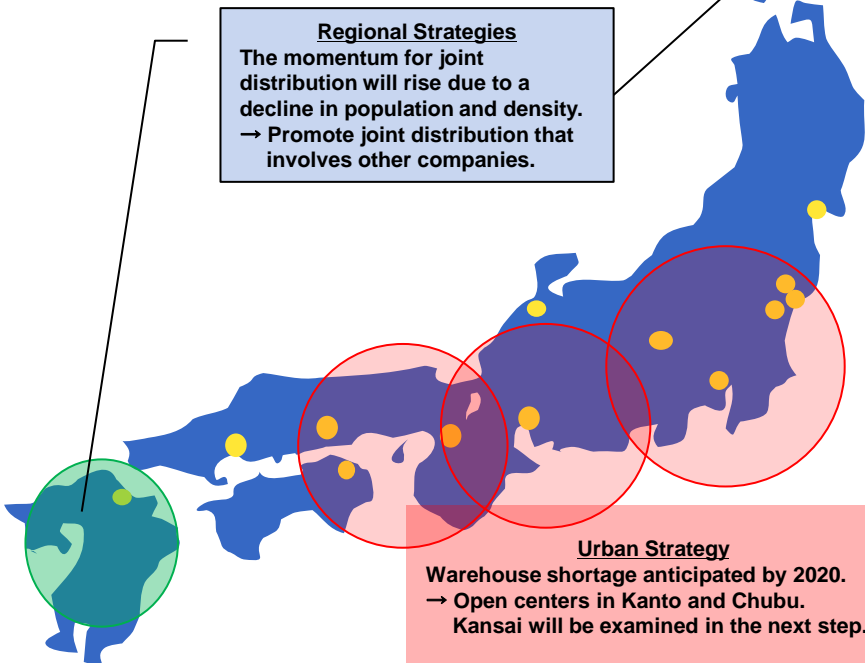


Background 2: Responding to social background

#### External environment

Serious labor shortage  
Responding to environmental problems

Regional Strategies  
The momentum for joint distribution will rise due to a decline in population and density.  
→ Promote joint distribution that involves other companies.



Urban Strategy  
Warehouse shortage anticipated by 2020.  
→ Open centers in Kanto and Chubu.  
Kansai will be examined in the next step.

# 3. Progress

## (1) Continuous strengthening of profitability in domestic businesses

**Fresh Meats Business Division** Enhance supply capabilities of upstream businesses and increase sales volume toward a share of 25%

**Expansion of production and procurement capability over the medium to long term**

⇒ **Factor of increase in profit of ¥6.4 billion in the fresh meats production business in this New Mid-term Plan in pursuit of further reinforcement of profitability in the future**



Final year outlook of the New Mid-term Plan Part 5

Chickens: Variance from initial forecasts is (1.5) million chickens, but the growth of *Sakurahime* and productivity improvements have secured profitability.

Hogs: Certain level of achievement in the branding of *Mugikomachi*, yet the number of hog shipments have not increased due to disease problems.  
Promote cooperation with farmers, leading to an increase in the number of hogs processed.

Cattle: Made progress in collaboration, such as consignment and outsourcing, and made efforts in branding. Still, the number of cattle processed and others did not increase as a whole.

### Progress on boosting production

\*Based on the number of chickens, hogs and cattle processed

	FY2016/3	FY2017/3	FY2018/3	Major brands
Chickens	68 million chickens	69 million chickens	70.5 million chickens	<i>Sakurahime</i> 28 million chickens
Hogs	1.46 million hogs	1.79 million hogs	1.80 million hogs	<i>Mugikomachi</i> 0.21 million hogs
Cattle	46 thousand heads of cattle	46 thousand heads of cattle	44 thousand heads of cattle	<i>Megumi-no-Kuni/Genmaigyū</i> 5,940 heads of cattle

Improve domestic beef procurement capabilities to strengthen our proposal-based sales in food companies.

Improving profitability in beef is a future issue

Expand production and procurement

Establish production company joint venture

Processing company capital tie-up

Enhance purchasing

NH Foods trading

- Expand supply volume in anticipation of future deterioration of the production environment and strengthen the processing system
- Accumulate production know-how through technical exchanges
- Improve efficiency of cattle-raising business through partnerships with outside companies

- Optimization of supply-demand balance
- Aggregation of purchasing offices and operations
- Training domestic beef specialists

### 3. New overseas strategy leading to synergies among business divisions


#### Thailand: Investment in chicken integrator

30% investment in Panus Poultry Group ("Panus")

Stabilize raw material supply to the chicken processing and production facility in Thailand targeted for Japan.

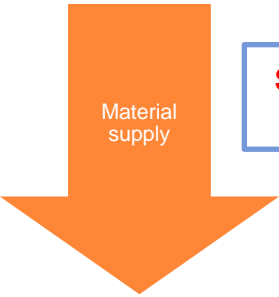
Expect a synergistic effect across the Nipponham Group as a whole.

**Overview of Panus**



- Established: 1997
- Business activities: Production and sales of chicken and processed chicken products
- Location: Thailand
- Sales destination: Primarily exports to Europe and Japan  
History of sales to NH Foods
- Features: Integrator handling from poultry farming to processing  
Ranked 10th in Thailand in terms of number of chickens processed

**NH Foods acquired 30% of outstanding shares and invested around ¥9.0 billion**



**Stable procurement of raw materials**



**Thai Nippon Foods Co., Ltd.**

- **Established:** In Thailand in 1989, wholly owned by NH Foods
- **Business activities:** Production of processed products
- **Situation:** Stable procurement of raw materials is indispensable for producing processed chicken products for Japan
- **Operation** is at a high level due to increased demand



**Expected synergy**

- Stable supply of high-quality processed chicken products in Thailand, whose demand is increasing
- ⇒ Increase competitiveness to raise sales throughout the Group



Overseas offices of the Group





# Nipponham Group

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## Contact

Public & Investor Relations Department, NH Foods Ltd.

14F ThinkPark Tower, 2-1-1 Osaki, Shinagawa-ku, Tokyo 141-6014

Tel: +81-3-4555-8024 Fax: +81-3-4555-8189

## Forward-looking statements

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Actual performance may differ the outlook and targets in this presentation, and investment decisions should not be based exclusively on them.

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