

## **Minutes of the Analyst Briefing for the Second Quarter of the Fiscal Year Ending March 31, 2018**

Date & Time: November 8, 2017 (Wednesday) 10:00-11:35

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: 85

### ○ **Business Results for the First Half of FY2018/3 [supplementary explanation]**

Reference: document entitled above dated November 1

\*Figures are rounded off.

#### 1) FY2018/3 1st half results

##### (i) Consolidated net sales: ¥627.9 billion

Including net sales of ¥8.0 billion of Breeders & Packers Uruguay S.A. (“BPU”) which has been consolidated since June

##### (ii) Processed foods business: changes in operating income (improvement of production and sales operations: breakdown of ¥(0.3) billion in 1st half results)

Production: ¥(0.5) billion      Vendor business: ¥(0.1) billion      Sales: ¥0.4 billion

⇒ Main factor: rising labor expenses in production operations

##### (iii) Fresh meats business: changes in operating income (farming operations in Japan: breakdown of ¥3.0 billion in 1st half results)

Pork business: ¥0.7 billion      Chicken business: ¥2.5 billion      Other: ¥(0.2) billion

⇒ Market prices remained high for chicken and pork carcasses

##### (iv) Overseas business: changes in operating income (Australia operations: breakdown of ¥(1.0) billion in 1st half results)

Australia: loss on valuation by lower-of-cost-or-market method: ¥(0.6) billion

drop in selling prices: ¥(0.1) billion

foreign exchange, etc.: ¥(0.1) billion

Uruguay: BPU: ¥(0.2) billion

⇒ Struggled due to drop in sales prices while cost of livestock shipped were high

## 2) FY2018/3 2nd half forecasts

(i) Processed foods business: improvement of production and sales operations (breakdown of ¥2.5 billion)

Production: ¥1.6 billion      Vendor business: ¥0.4 billion      Sales: ¥0.5 billion

⇒ Effect of investment in production operations

Improvement of labor expenses in the vendor business

(ii) Fresh meats business: farming operations in Japan (breakdown of ¥0.9 billion)

Pork business: ¥0.6 billion      Chicken business: ¥0.4 billion      Other: ¥(0.1) billion

⇒ Reviewing the trend of feed prices, etc.

(iii) Fresh meats business: other factors (¥(1.3) billion)

⇒ Reflecting results of previous year (foreign exchange gains)

(iv) Overseas business: Australia operations (breakdown of 3Q ¥(0.6) billion and 4Q ¥0.7 billion)

3Q: ¥(0.6) billion (Australia: ¥(0.8) billion      BPU: ¥0.2 billion)

4Q: ¥0.7 billion (Australia: ¥0.5 billion      BPU: ¥0.2 billion)

⇒ Expecting recovery in the Australia operations from mid-4Q onward

## 3) Other

(i) Convertible bonds maturing in 2018

Conversion ratio: 73% as of September 30, 75% as of October 31

### ○ Q&A

Q1

What triggered the substantial deterioration of profitability in the Australia operations?

A1

Although the procurement environment improved, we had to depend on expensive short-fed in order to resolve the lag in fattening periods among feedlots. On the other hand, selling prices fell significantly in the global market and in Australia mainly for high-grade cuts. As a result, profitability deteriorated. Sales prices are currently on a recovery track overall, but we are aware of the need to reconsider measures for stabilizing the beef business.

Q2

What are your future strategies for stable operations in the overseas business?

A2

Our basic approach to the overseas business is to integrate production and sales operations in each region, and to sell or reorganize businesses that do not fit with that approach. However, fresh meat exports to Japan currently account for more than half of our overseas business, and our mission is to create a business model that can achieve stability as well as integration. However, creating such a structure will take a certain amount of time, so we will also consider acquisitions that will produce immediate results.

Q3

What growth drivers will increase income levels over the next three years?

A3

The overseas business is one possibility. In particular, global procurement of raw materials is an important factor, and we will consider M&As and other measures as necessary. Meanwhile, in the overseas beef business, we believe it is essential to remedy the situation by revising our policies based on careful assessment of the supply and demand situation worldwide in order to achieve our next growth.

Q4

What direction are you taking in terms of specific measures to expand sales and measures to cut production costs in the processed foods business?

A4

We will increase profitability by expanding sales for NB products for consumers, focusing on branded products in particular. In future, we will realize market-oriented product development by integrating and centralizing functions such as planning, development, sales promotion and advertising. In addition, with regard to cost reduction, we will work to improve productivity by continuing to renew production facilities.

Q5

When do you predict profit to improve in the processed foods business? Any possibility of an approach to improve profit by setting sales plans at a scale that is justified by appropriate profitability instead of aiming for sales expansion per se?

A5

First, we plan to raise the operating income ratio to around 4% in the three years of the next Mid-term Plan. Dedicating ourselves to producing and selling NB products for consumers that bring high profit will ensure a certain level of income, but in light of our responsibility as a supplier to business partners, this is not realistic. Going forward, we intend to tackle the issue through building

efficient production and sales systems by enhancing the ability to cope with supply and demand.

Q6

What would the future logistics system be like in the processed foods business?

A6

If the volume handled in the processed foods business grows by 2-3% per year, a shortage of storage capacity is predicted within the next few years. In addition, given the recent logistics environment, there are mounting expectations for joint distribution in numerous quarters. We are aiming to establish joint distribution as our new business model. We assume one-third of the handling to be for external customers at full operation, and plan to expand the ratio in line with business development. Furthermore, while we are promoting “workstyle reform” for employees on the one hand, distribution needs are diversifying, and we intend to seek solutions for all these issues at the same time.

Q7

Measures for the processed foods business are not delivering results, and profitability is not improving. How is this issue being addressed within the Company?

A7

Due to the sheer size of the processed foods business, it will take time for results to kick in. Instead of focusing only on cost reduction like we did so far, we will shift our gear to offense with aggressive investments including advertising expenses when we reach the recovery phase. We are at a stage where the problems surrounding the Company require Group-wide solutions, and reforms will be promoted noting the gravity of the issue.

Q8

How are fresh meats upstream businesses proceeding with expansion, and what are your future measures?

A8

The number of chickens is increasing by 2-3% per year, and we will continue investment while maintaining this level. The number of hogs is not progressing as planned, but we hope to secure an increase by working to enhance productivity based on existing farm capacity. We will continue to pursue expansion plans, and intend to consider JVs and M&As with other organizations in addition to organic investment and expansion.

Q9

What is the status of domestic chicken inventory and what impact will this have on 2nd half results?

A9

Shipments from Brazil in July and August ranged at 35,000 tons and 50,000 tons, respectively. Accordingly, in October, estimated inventory in Japan is around 140,000 to 150,000 tons with shipment results remaining high at 35,000 tons. Although subsequently shipments are expected to decline, there are concerns in the 2nd half that a drop in market prices may affect results reflecting abundant domestic chicken inventory.