

NH Foods Group Medium-Term Management Plan 2020

—Building systems that pave the way to the future

May 15, 2018

NH Foods Ltd.

President and Representative Director

Yoshihide Hata



1. Overview of the New Medium-Term Management Plan Part 5
2. Medium-Term Management Plan 2020: Overview
3. Medium-Term Management Plan 2020: Key Challenges Faced by Business Divisions
4. Medium-Term Management Plan 2020: Financial Strategy and Capital Policy

- Operating income level rose, backed by high market prices for fresh meats, despite disparity among segments.

Management strategy (1): Continuous strengthening of profitability in domestic businesses

Results

- Fresh Meats Business Division: Achieved a major increase in earnings
- Affiliated Business Division: Increased earnings in dairy products business

Problems

- Processed Foods Business Division: Recovery of profitability stalled
- Affiliated Business Division: Securing of principal raw materials in marine products business

Management strategy (2): Expansion of overseas net sales at an early stage

Results

- Area expansion in beef business (BPU in Uruguay)
- Expansion of chicken business (Lay Hong, Panus)

Problems

- Australia business: High cattle procurement costs and falling sale prices
- Exports to Japan: Soaring raw material procurement prices

Management strategy (3): Promotion of strategic branding

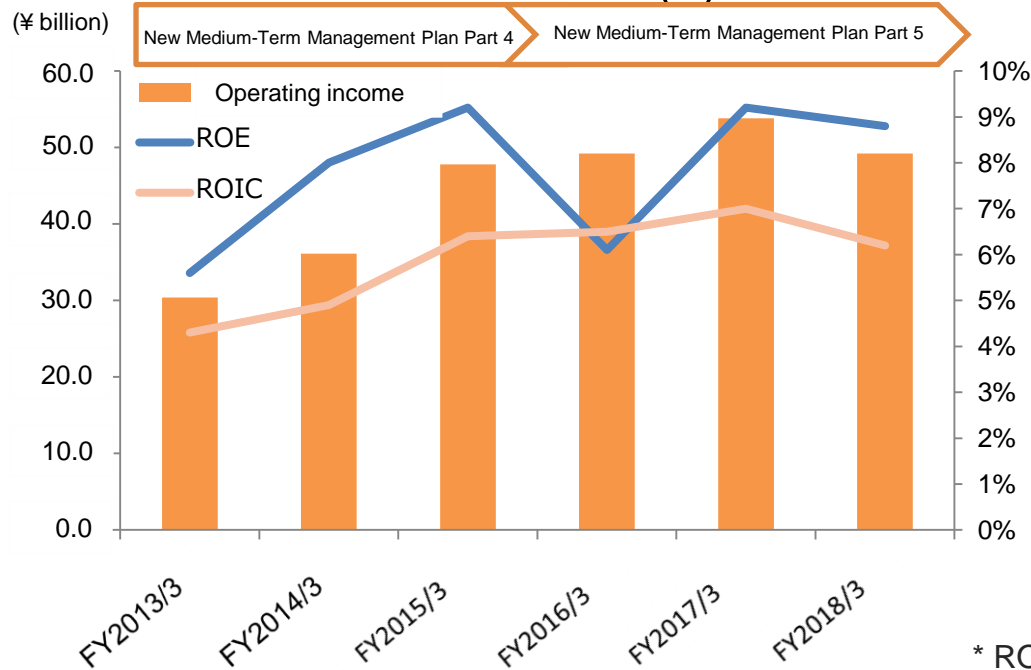
In progress: Penetration of the Group brand both inside and outside the Company

Management strategy (4): Reinforcement of cross-Group corporate functions

In progress: Application of ROIC at the worksite level

1. Overview of the New Medium-Term Management Plan Part 5

Quantitative Evaluation (1)



- Increased sales volume and higher fresh meat unit prices resulted in net sales growth.
- The operating income ratio generally remained around the 4% level as planned.
- ROE temporarily declined due to lower net income resulting from impairment in FY2016/3, but other than that period achieved the target of 8% or above.
- ROIC reached planned level in the final year but only due to lower tax rates.

* ROIC is provided for reference

(¥ billion)

	New Medium-Term Management Plan Part 4			New Medium-Term Management Plan Part 5			
	FY2013/3	FY2014/3	FY2015/3	FY2016/3	FY2017/3	Final year forecast	FY2018/3
Net sales	1,011.6	1,110.8	1,200.0	1,229.3	1,202.3	1,300.0	1,269.2
Operating income	30.4	36.1	47.8	49.2	53.8	52.0	49.2
Operating income ratio	3.0%	3.2%	4.0%	4.0%	4.5%	4%	3.9%
ROE	5.6%	8.0%	9.2%	6.1%	9.2%	8% or above	8.8%
ROIC	4.3%	4.9%	6.4%	6.5%	7.0%	6% or above	6.2%

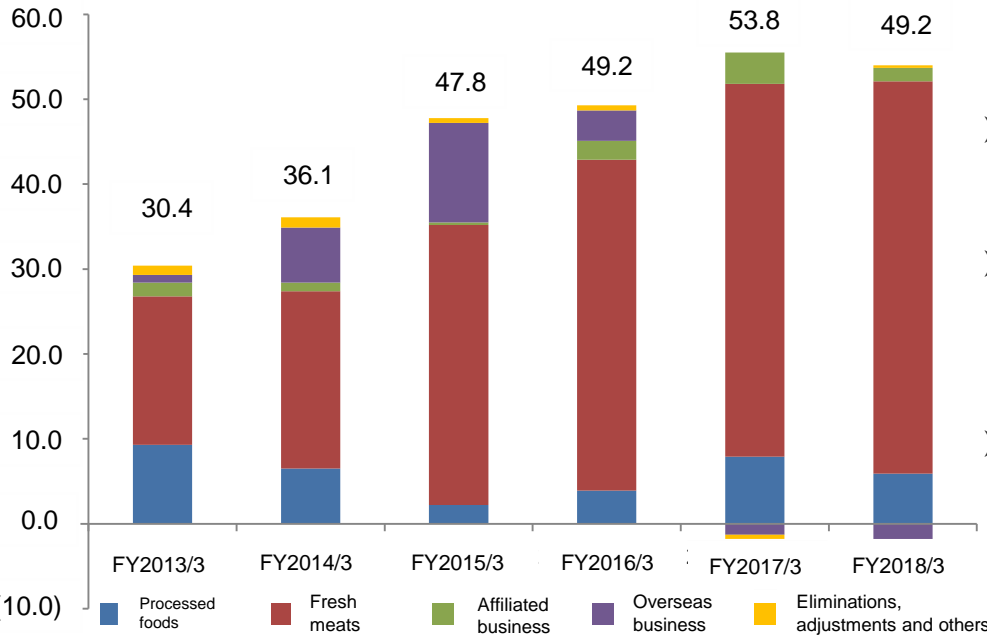
1. Overview of the New Medium-Term Management Plan Part 5

Quantitative Evaluation (2)

New Medium-Term Management Plan Part 4

New Medium-Term Management Plan Part 5

(¥ billion) Operating income results by segment



- In the fresh meats segment, earnings levels increased from upstream to downstream, primarily for domestic chicken, backed by strong demand, and a new income growth record was reached.
- In the processed foods segment, the Company struggled to secure revenue due to intensified competition and rising labor costs.
- In the affiliated business segment, increases in labor costs and procurement costs could not be transferred to prices in full, so profits fell in the last year of the plan.
- In the overseas business segment, there were major changes in the Australia beef business environment, resulting in a large deficit.

(¥ billion)

	FY2013/3		FY2014/3		FY2015/3		FY2016/3		FY2017/3		FY2018/3	
	Operating income/ratio		Operating income/ratio		Operating income/ratio		Operating income/ratio		Operating income/ratio		Operating income/ratio	
Processed Foods Business Division	9.3	2.9%	6.5	1.9%	2.2	0.6%	3.9	1.2%	7.9	2.3%	5.9	1.7%
Fresh Meats Business Division	17.5	2.9%	20.9	3.1%	33.0	4.5%	39.0	5.2%	43.9	5.9%	46.2	5.9%
Affiliated Business Division	1.6	1.1%	1.0	0.7%	0.3	0.2%	2.2	1.4%	3.7	2.4%	1.6	1.0%
Overseas Business Division	0.9	0.6%	6.5	3.3%	11.7	4.9%	3.6	1.5%	(1.3)	(0.6)%	(4.7)	(1.9)%
Eliminations, adjustments and others	1.1	-	1.2	-	0.6	-	0.5	-	(0.5)	-	0.3	-
Total	30.4	3.0%	36.1	3.2%	47.8	4.0%	49.2	4.0%	53.8	4.5%	49.2	3.9%

Medium-Term Management Plan 2020: Overview

2. Medium-Term Management Plan 2020: Overview

Responding to changes in the environment - Situational assessment based on SWOT analysis

Changes in the environment during the New Medium-Term Management Plan Part 5

- Rising labor costs, soaring logistics expenses, and economic improvements

Strengths	<ul style="list-style-type: none"> ● Fresh meat integrated system ● Sales network covering the entire country ● Top sausage brand ● Global production sites 	<ul style="list-style-type: none"> ● Low profitability of processed foods ● Dilapidation of existing facilities ● Japan-centric revenue structure ● Business structure highly affected by market conditions 	Weaknesses
Opportunities	<ul style="list-style-type: none"> ● Health-oriented added value ● Increase in number of foreigners visiting Japan ● Increased demand for fresh meats in emerging nations 	<ul style="list-style-type: none"> ● Livestock diseases ● Increased labor costs due to tight labor environment ● Intensified sales competition within the industry 	Threats

Identify and clarify challenges faced by each business division and create a roadmap for future growth.

2. Medium-Term Management Plan 2020: Overview

Theme: Building systems that pave the way to the future

- Throw off preconceived notions and short-term mentality, focusing more on the long term.
- Enhance consistency of company-wide strategy and business segment strategy, and also promote innovation to improve profitability.
- Focus on results and build structures for achieving the targets of the current medium-term management plan.

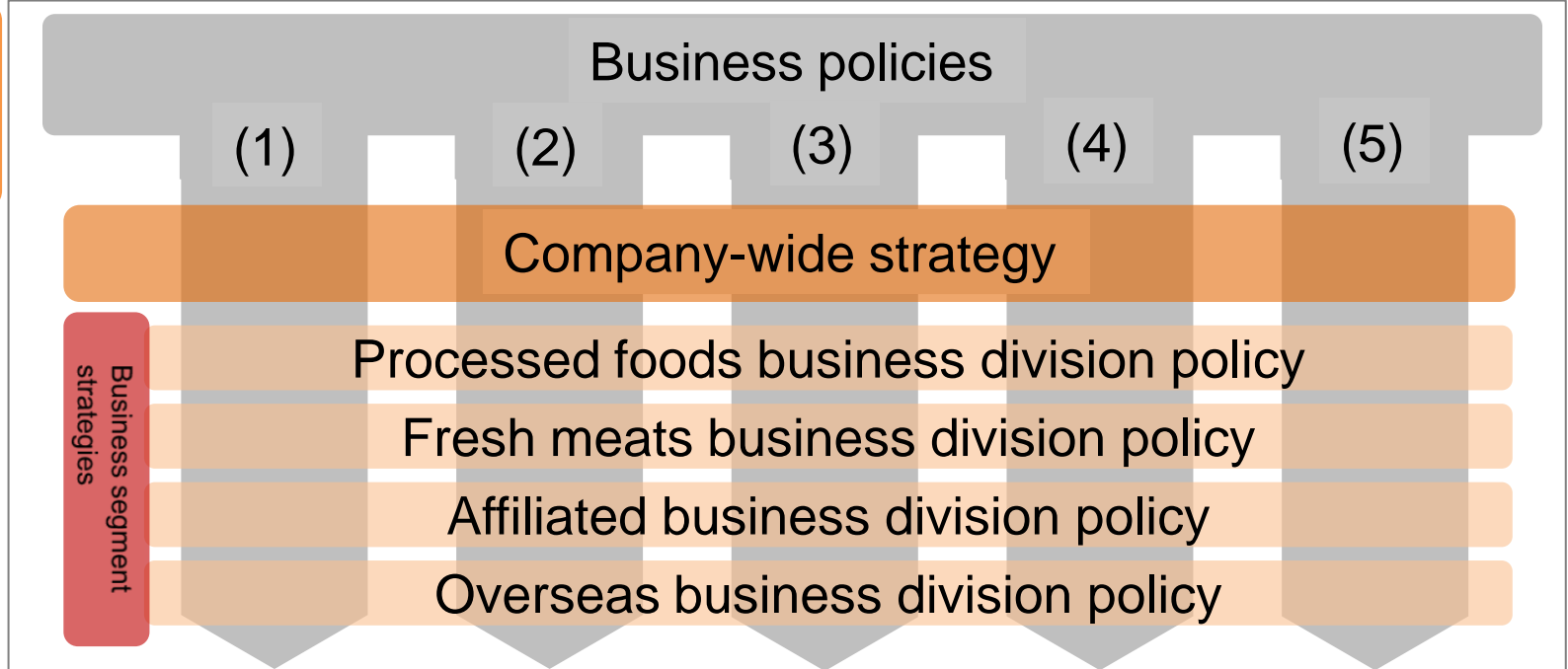


2. Medium-Term Management Plan 2020: Overview

Theme

Building systems that pave the way to the future

Management strategies



Functional strategies

Strategy formulation and promotion

Business segment sustainability improvement

Internal and external communications

Foundation

High-level Management for No.1 Quality

Improved product, management and human resource quality
Ongoing strengthening of compliance and governance

2. Medium-Term Management Plan 2020: Overview

- Application of five business policies to each business division and preparation of a foundation for growth.

Business policy (1): Strengthen profitability by improving the efficiency of existing businesses

- Formulate and promote plans for business, products, channel strategy and value chain from a medium- and long-term perspective. Channel strategy to be led by the new organization, Group Sales Planning Department.

Business policy (2): Create value through dialog with consumers

- Promote consumer understanding in the Company and reinforce marketing activities, led by the new organization, Lifestyle Research Office.

Business policy (3): Enhance and develop technological capabilities for conceptualizing and realizing the future of food

- Respond to changes in environment by promoting research activities and technology investment from a long-term viewpoint focused on the future.

Business policy (4): Change gears in overseas market deployment

- Strive to expand net sales and revenue in the global market.

Business policy (5): Pursue sustainability

- Work to solve social problems through business activities focused on the “five CSR material issues” based on compliance.

2. Medium-Term Management Plan 2020: Overview

➤ Enrich functional strategies and support management strategies

Functional strategy (1): Strengthen strategy formulation and promotion functions

- Seize changes in the social environment, enhance functions for developing and testing hypotheses and formulate and implement strategies from a group-focused perspective
- Strengthen corporate governance functions → Build a highly transparent management structure

Functional strategy (2): Strengthen structures to increase sustainability of business activities

- Invest in human capital and rationalize personnel composition
- Optimize quality assurance systems (comply with international certification requirements)
- Strengthen network development functions
- Improve financial strategy and capital policy

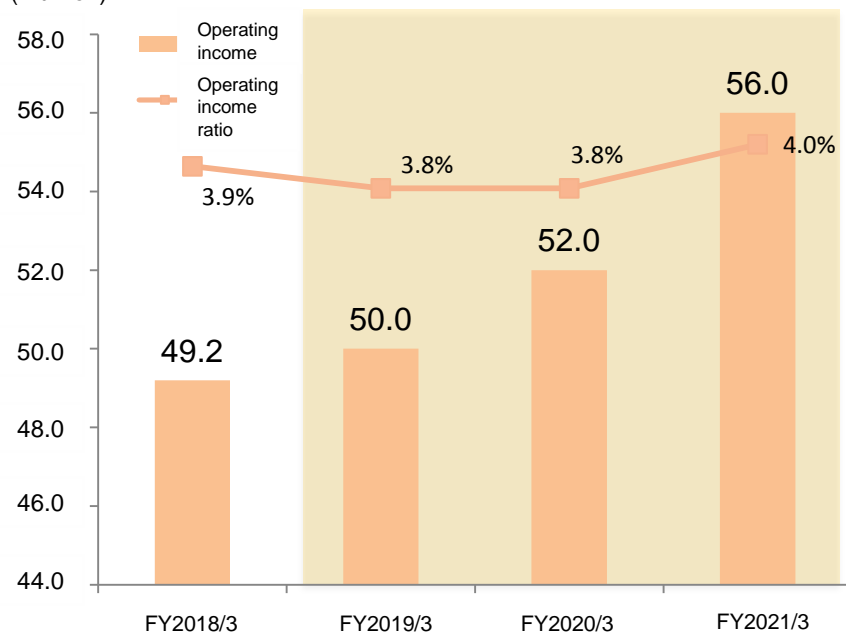
Functional strategy (3): Strengthen internal and external communication systems

- Strengthen information distribution and communication functions to allow stakeholders to accurately understand company activities
→ Create a Communications Strategy Division to realize bidirectional communications

2. Medium-Term Management Plan 2020: Overview

Quantitative target (1)

(¥ billion)



	Previous Medium-Term Management Plan	Medium-Term Management Plan 2020			
	FY2018/3	FY2019/3	FY2020/3	FY2021/3	
Net sales (¥ billion)	1,269.2	1,310.0	1,360.0	1,410.0	
Operating income (¥ billion)	49.2	50.0	52.0	56.0	
Operating income ratio	3.9%	3.8%	3.8%	4.0%	
ROE	8.8%	7.5%	7.3%	7.4%	
ROIC	6.2%	→	→	5.5% or above	
D/E ratio	0.25	0.36	0.42	0.41	

* US GAAP standards used for FY2018/3. IFRS to be used for FY2019/3 onwards

ROIC and D/E ratios provided for reference

- Expected business environment improvement expenses are reflected in operating income. Highest profits to be achieved in the last year of plan.
- ROE target is set to 7% or above due to an increase in shareholders' equity and a decrease in net income.
 - ⇒ Shareholders' equity is appropriate given the D/E ratio.
- ROIC target is set to 5.5% or above due to an increase in capital investment.
 - ⇒ Temporary decline in capital efficiency mainly due to investment in establishing the foundation for future growth.

Planned value for the last year of plan:

Operating income ratio 4.0% x Invested capital turnover 2.08 x (1 – Effective tax rate 31%)

2. Medium-Term Management Plan 2020: Overview

Quantitative target (2)

➤ Consolidated operating income - FY2021/3: ¥56.0 billion

(¥ billion)

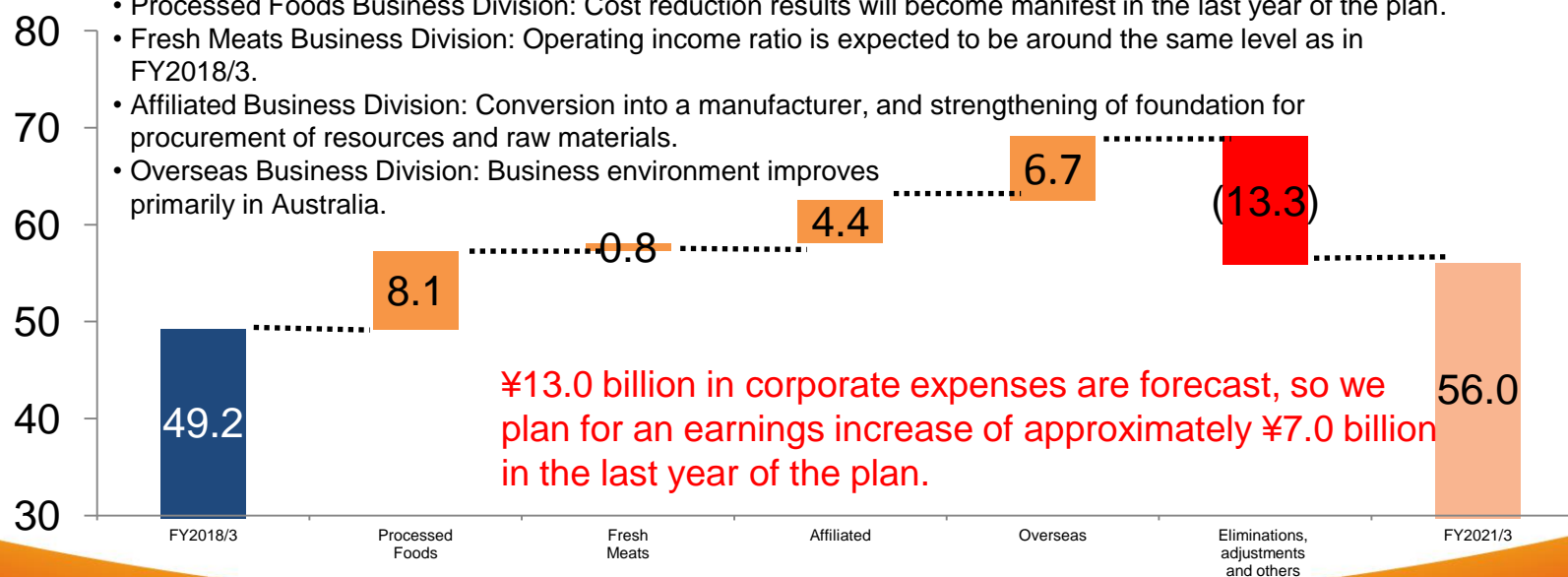
	FY2018/3		FY2019/3		FY2020/3		FY2021/3	
	Operating income/ratio		Operating income/ratio		Operating income/ratio		Operating income/ratio	
Processed Foods Business Division	5.9	1.7%	8.5	2.3%	11.0	2.9%	14.0	3.6%
Fresh Meats Business Division	46.2	5.9%	44.0	5.5%	46.5	5.7%	47.0	5.6%
Affiliated Business Division	1.6	1.0%	3.0	1.8%	4.5	2.6%	6.0	3.3%
Overseas Business Division	(4.7)	(1.9)%	0.5	0.2%	1.5	0.5%	2.0	0.7%
Business division subtotal	49.0	-	56.0	-	63.5	-	69.0	-
Eliminations, adjustments and others	0.3	-	(6.0)	-	(11.5)	-	(13.0)	-
Total	49.2	3.9%	50.0	3.8%	52.0	3.8%	56.0	4.0%

* US GAAP used for FY2018/3. IFRS to be used for FY2019/3 onwards

(¥ billion)

Factors for changes by segment

- Processed Foods Business Division: Cost reduction results will become manifest in the last year of the plan.
- Fresh Meats Business Division: Operating income ratio is expected to be around the same level as in FY2018/3.
- Affiliated Business Division: Conversion into a manufacturer, and strengthening of foundation for procurement of resources and raw materials.
- Overseas Business Division: Business environment improves primarily in Australia.



¥13.0 billion in corporate expenses are forecast, so we plan for an earnings increase of approximately ¥7.0 billion in the last year of the plan.

2. Medium-Term Management Plan 2020: Overview

Quantitative target (3)

➤ Corporate expenses

(¥ billion)

		FY2019/3	FY2020/3	FY2021/3
Main components of corporate expenses	Structural reform expenses	(2.0)	(4.0)	(7.0)
	Value creation expenses	(2.0)	(5.0)	(4.0)
	Profit or loss of baseball club (consolidated)	(2.2)	(2.2)	(2.2)

◆ Structural reform expenses *Scheduled to be recorded at each business division
Measures such as reduction of working hours and pursuing equal treatment

◆ Value creation expenses

- Acquire advanced animal husbandry technology and food product production and development technology
- Improve collection, accumulation and analysis capabilities of information for consumer understanding
- Execute the five priority CSR tasks
- Build a network to realize these goals

◆ Profit or loss of baseball club (consolidated)

Up to FY2018/3: Allocate to each business division as corporate expenses

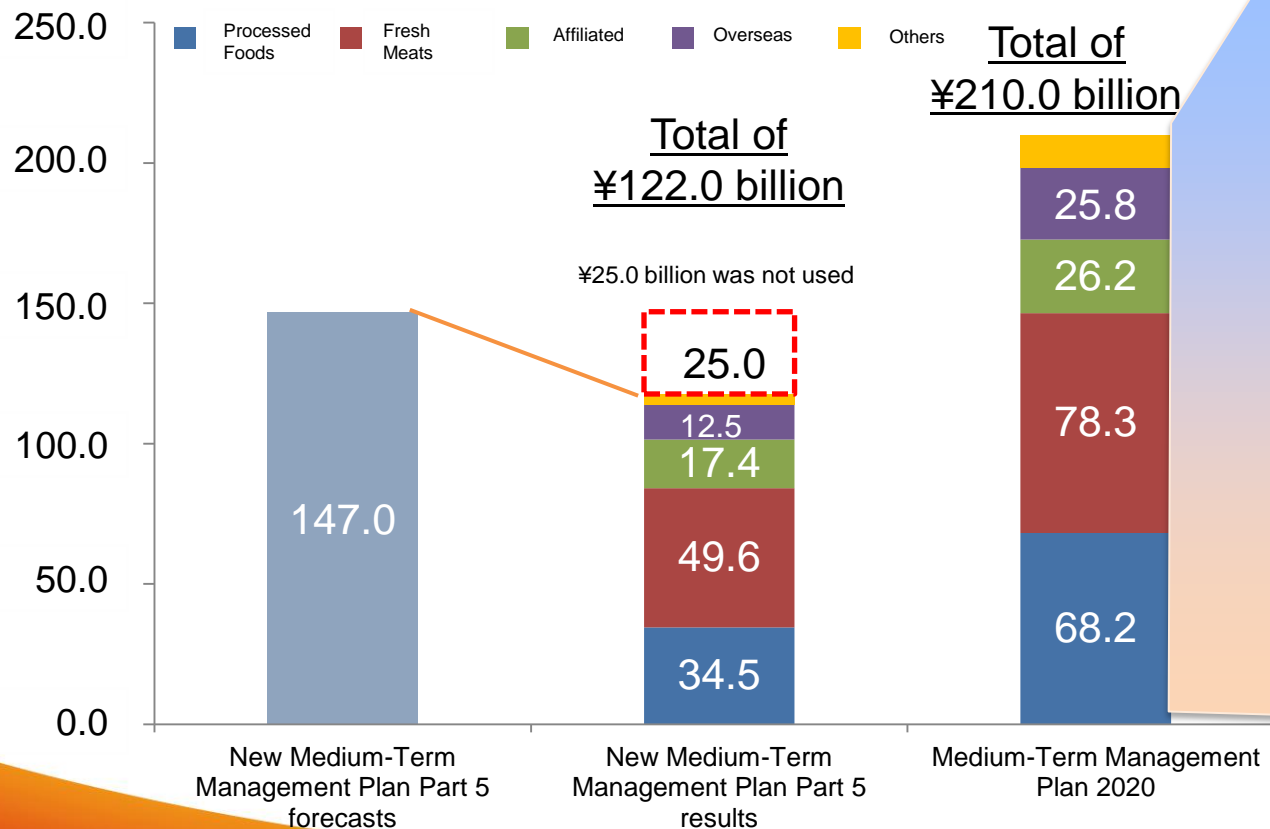
FY2019/3 and after: Record under “Eliminations, adjustments and others” without allocating to each business division

2. Medium-Term Management Plan 2020: Overview

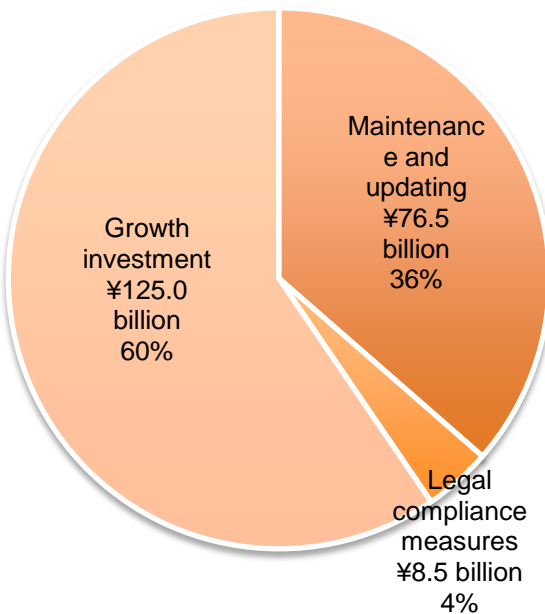
Capital Investment Plan

- Capital investment - Total of ¥210.0 billion over three years (172% compared to the results of the previous medium-term management plan)
- Capital investment will increase significantly, but will be carefully scrutinized to identify which are necessary for future growth before being implemented

(¥ billion)



Breakdown of capital investments



Medium-Term Management Plan 2020: Key Challenges Faced by Business Divisions

3. Medium-Term Management Plan 2020: Key Challenges Faced by Business Divisions

Key Challenges Faced by Business Divisions

From Medium-Term Management Plan 2020 business policies (1) improving the efficiency of existing businesses and (4) changing gears in overseas market deployment

Processed Foods Business Division	<ul style="list-style-type: none">➤ Casting off low profitability<ul style="list-style-type: none">• Further sales expansion through concentrated sale of key brand products• Creation of hit products through customer-centric marketing activities• Improve profitability through productivity enhancement measures such as standardization of manufacturing
Fresh Meats Business Division	<ul style="list-style-type: none">➤ Prepare for future changes in the environment and create a business environment for growth<ul style="list-style-type: none">• Reinforce integration that supports growth• Establish production system with balanced supply and demand
Affiliated Business Division	<ul style="list-style-type: none">➤ Promote conversion into a manufacturer<ul style="list-style-type: none">• Carry out structural reforms for marine products business, which is swayed by market conditions• Strengthen procurement capabilities in dairy products business and expand production sites
Overseas Business Division	<ul style="list-style-type: none">➤ Net sales expansion and profit stabilization<ul style="list-style-type: none">• Expand sales and profit by building value chain• Overall optimization of global beef business

Processed Foods Business Division improvement scenario

➤ Casting off low profitability

- (1) Further sales expansion through concentrated sale of key brand products
 - Concentrated sale and new sales channel development for highly profitable brand products
 - Rebuild gift business (rebuild framework, develop new categories)
- (2) Creation of hit products through customer-centric marketing activities
 - Perform product development that tears down the walls between consumer and commercial products and strive to accelerate product development
 - Prepare organizations that can create hit products based on customer needs
- (3) Improve profitability through productivity enhancement measures such as standardization of manufacturing
 - Aggregate major products in core plants with high productivity. Share line operation level conditions with production and sales departments, raising operation rates and equalizing production
 - Strive to review low-profitability categories, lines and products
 - Improve efficiency of indirect departments, procurement and logistics
 - Increase labor-saving and streamlining capital investment and solidify business foundation

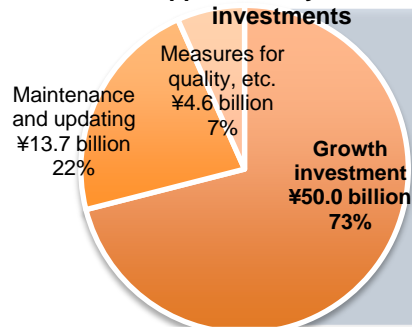
3. Medium-Term Management Plan 2020: Processed Foods Business Division

➤ Establish business environment for future growth

Background

- Facility dilapidation: High productivity support
- Soaring labor costs: Introduce automation lines
- Soaring logistics costs: Shift to a commercialized structure that produces revenue
⇒ Will have a major impact as a cost increasing factor in the near future

Breakdown of approximately ¥68.0 billion in capital investments



➤ Establishment of business foundation

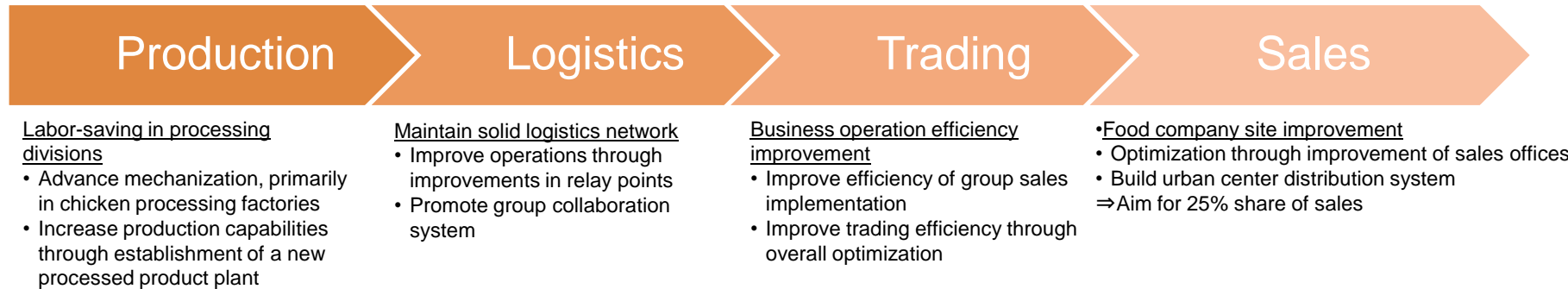
Main content of approx. ¥50.0 billion in growth investment

- Expansion of deli and processed foods business, streamlining investment, etc.: ¥21.5 billion
- Dilapidated ham and sausage plant rebuilding: ¥10.0 billion
- Investment in establishment of a new logistics base: ¥10.8 billion
⇒ Contribute to production expense and logistics expense reductions.



3. Medium-Term Management Plan 2020: Fresh Meats Business Division

- Prepare for future changes in the environment and create a business environment for growth
- (1) Reinforcement of integration that supports growth⇒Expand share



(2) Production system that balances supply and demand

- ✓ Keep level of increased chicken production in line with rest of market⇒The number of chickens processed in Japan is expected to grow by 1% to 2% per year.
- ✓ In-house production ratios for pork will be increased, but care must be taken regarding increases of pork imports, primarily from North America.

(Thousand of chicken, thousand of pork)

	New Medium-Term Management Plan Part 5			Medium-Term Management Plan 2020		
	FY2016/3	FY2017/3	FY2018/3	FY2019/3	FY2020/3	FY2021/3
Number of chickens shipped	67,794	69,215	70,186	71,000	72,200	72,700
Of which <i>Sakurahime</i>	21,440	25,157	26,665	27,500	28,300	29,000
Number of hogs processed	1,804	1,798	1,806	1,887	1,894	1,928
Shipped from the Company farms	620	605	618	679	716	724
Of which <i>Mugikomachi</i>	106	162	217	256	320	360

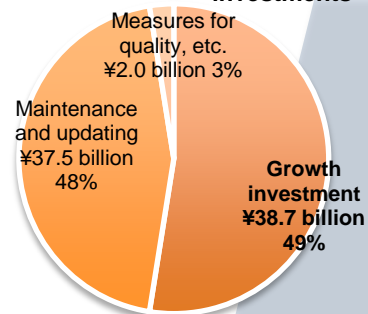
3. Medium-Term Management Plan 2020: Fresh Meats Business Division

➤ Prepare for future changes in the environment and create a business environment for growth

Background

- Domestic environment: Rising labor costs in production and logistics sites, facility dilapidation
- Overseas environment: Deteriorating procurement environment due to medium- and long-term increase in worldwide consumption
- Market conditions: Due to production increases by domestic chicken companies and ongoing increases in supplies of U.S. pork and imported chicken, the fresh meat market is expected to be weaker compared to the previous medium-term management plan.

Breakdown of approximately ¥78.0 billion in capital investments

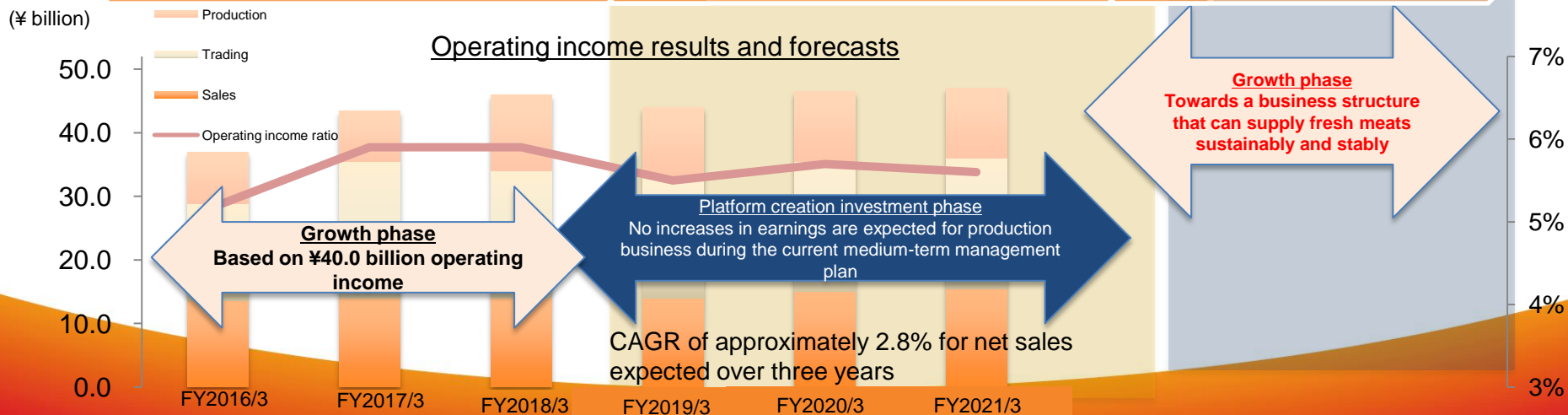


➤ Prepare an environment focused on production business
Main content of approx. ¥39.0 billion in growth investment

- New farm construction and processing line streamlining: ¥27.3 billion
- New sales site construction and relocation: ¥4.2 billion
- New processed product and extract plant construction and streamlining: ¥6.4 billion

⇒ Investment aimed at productivity improvement, labor-saving and customer problem resolution

New Medium-Term Management Plan Part 5 Medium-Term Management Plan 2020 To 2025



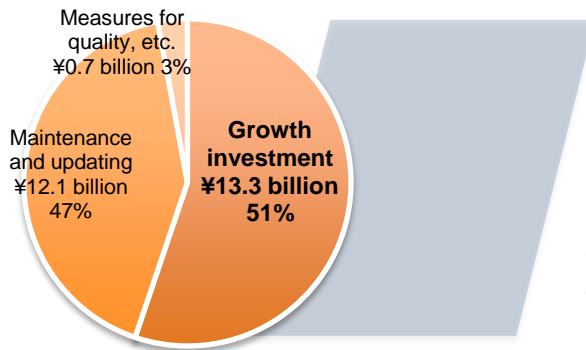
3. Medium-Term Management Plan 2020: Affiliated Business Division

➤ Promote conversion into a manufacturer

Background

- Marine product raw material prices and dairy product raw material prices are expected to continue to rise
- There will be a growing gap between marine product raw material prices, driven by increased worldwide consumption, and the curbing of passing on prices in the deflationary economy
- Increased demand for and development of dairy products that emphasize health properties
- The issue of raw material procurement source diversification is coming to light given the future growth of dairy product consumption in emerging nations
- Creating labor-saving and unmanned production factories is imperative to respond to the tight domestic employment environment

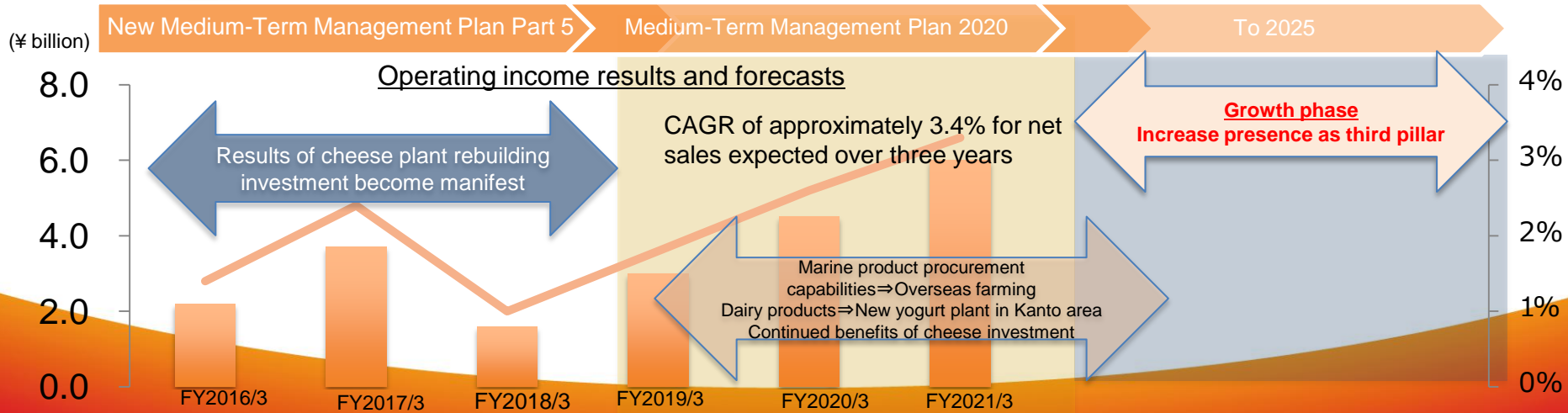
Breakdown of approximately ¥26.0 billion capital investments



➤ Capital investment to meet quality and customer requirements

Main content of approx. ¥13.0 billion in growth investment

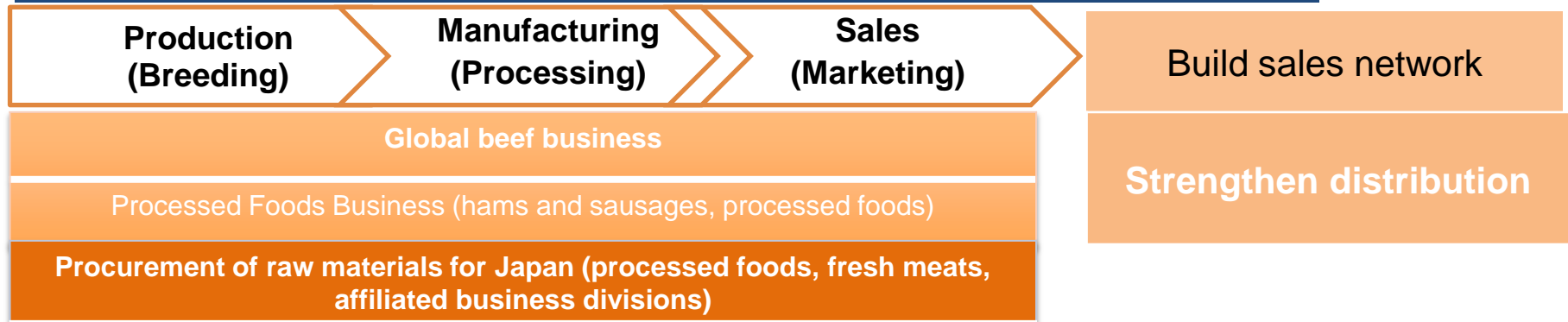
- Marine products business: Restructure existing plant production facilities, improve procurement platforms both in Japan and overseas and expand sales to overseas markets
- Dairy products business: Complete construction of the new Takasaki Plant and begin operations and enhance cheese production system
- ✓ Develop new yogurt categories, expand consumer cheese product lineup
- ✓ Aim to strengthen procurement capabilities through collaboration with overseas business divisions and cooperation with overseas facilities



3. Medium-Term Management Plan 2020: Overseas Business Division

➤ Net sales growth and profit stabilization

Expand sales and profit by building value chain



□ Carry out M&A to strengthen value chain, generate group synergies

- Build foundation for sale of products with added value
- Expand manufacturing facilities into promising areas in addition to existing areas

(1) Strengthen distributor functions in Hong Kong

- Investment in Tsit Wing International Holding (Investment amount: approx. ¥1.0 billion, investment ratio of approx. 5%)
 - Improve sales platform and use logistics network in Hong Kong and South China
 - Import and sell processed foods from China and Thailand, and beef and other products from Australia and Uruguay

(2) Build platform to connect production and sales in Indonesia

- Establish processed food production joint venture with PT Diamond Cold Storage (Investment amount: approx. ¥1.1 billion, investment ratio of 51%)

3. Medium-Term Management Plan 2020: Overseas Business Division

➤ Net sales growth and profit stabilization

Optimization of global beef business

- Creation of globally-oriented beef business model
→ Reform business structure for medium- and long-term growth

Seek an optimized business structure in Australia and Uruguay
⇒ Comprehensively consider product categories, sales areas, etc.
Focus on medium- and long-term South America potential



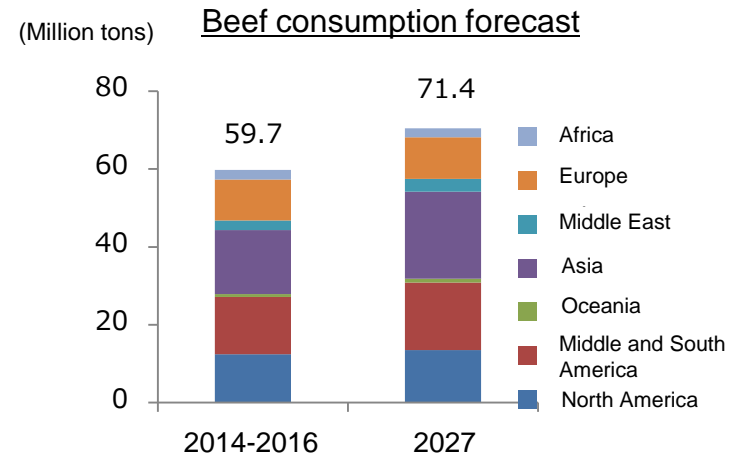
- ✓ Enhance integration in Uruguay
- Consider acquisition of feeding and production sites
- Expand sales areas



➤ Australian structural environment improvement trends
The number of cattle bred in Australia is expected to recover by 1% to 2% per year
Strengthen value chain through project implementation

- ✓ Australian competitiveness enhancement measures
- Improve production system efficiency through brand integration
- Improve efficiency by optimizing production lines
- Export-oriented new channel development and area expansion
- Strengthen sales in Australia
- Streamline procurement in line with sales

- ✓ Set sights on markets with growing demand
- Global beef consumption is growing primarily in emerging nations at a pace of approximately 20% in 10 years (annual growth rate of approx. 2%)



Source: Ministry of Agriculture, Forestry and Fisheries, "World Food Demand Forecast for 2027"

- ✓ Risk factors requiring attention
- Impact from changes in global supply and demand balance
→ Pay attention to trends in U.S. beef and low-priced Brazilian beef

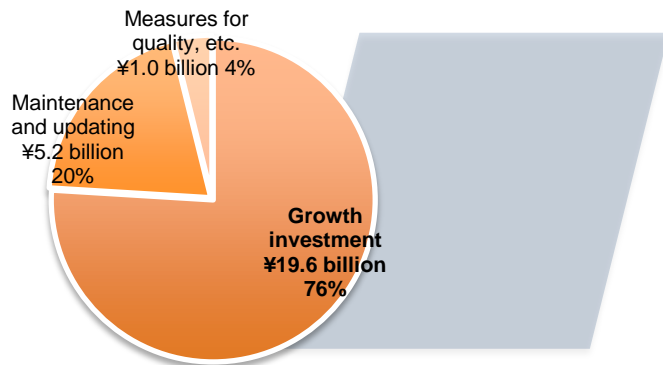
3. Medium-Term Management Plan 2020: Overseas Business Division

➤ Net sales growth and profit stabilization

Background

- Sales in areas we are already active in, and export sales to third countries, must be expanded
- Creation of a business model that is not swayed by outside environmental factors such as raw material procurement prices or exchange rates

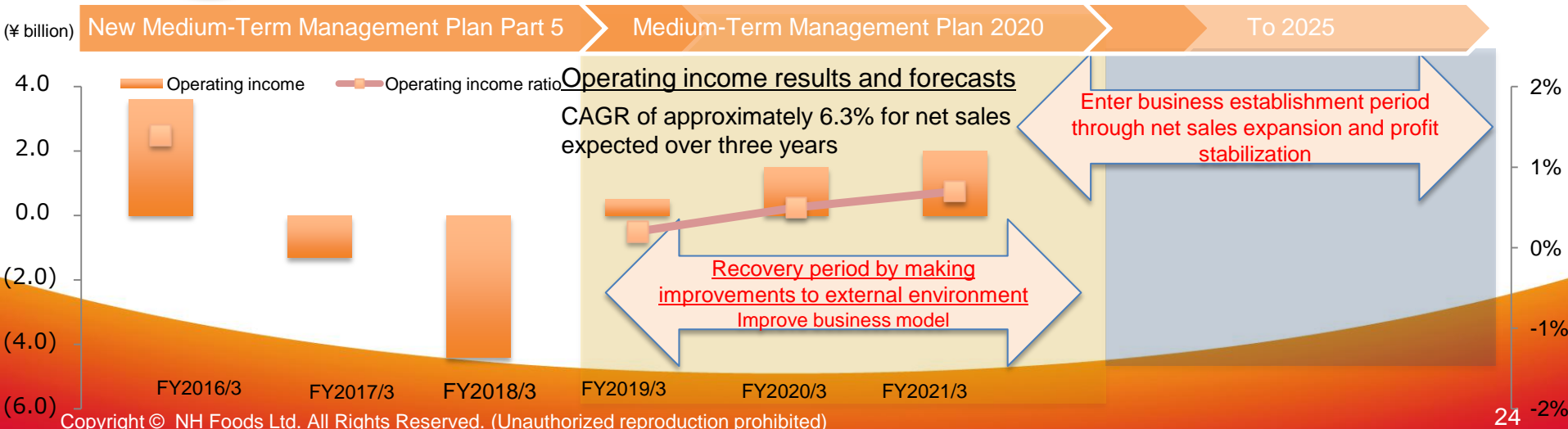
Breakdown of approximately ¥25.8 billion capital investments



➤ Capital investment that produces solutions

Main content of approx. ¥20.0 billion in growth investment

- Australian business ⇒ Strengthen cost competitiveness through labor-saving and improved efficiency
- Americas business ⇒ Re-examine production facilities and expand local sales network
- Asian & European business ⇒ Enhance competitiveness of chicken business
Create and reinforce new sites in order to unify production and sales



Medium-Term Management Plan 2020: Financial Strategy and Capital Policy

4. Medium-Term Management Plan 2020: Financial Strategy and Capital Policy

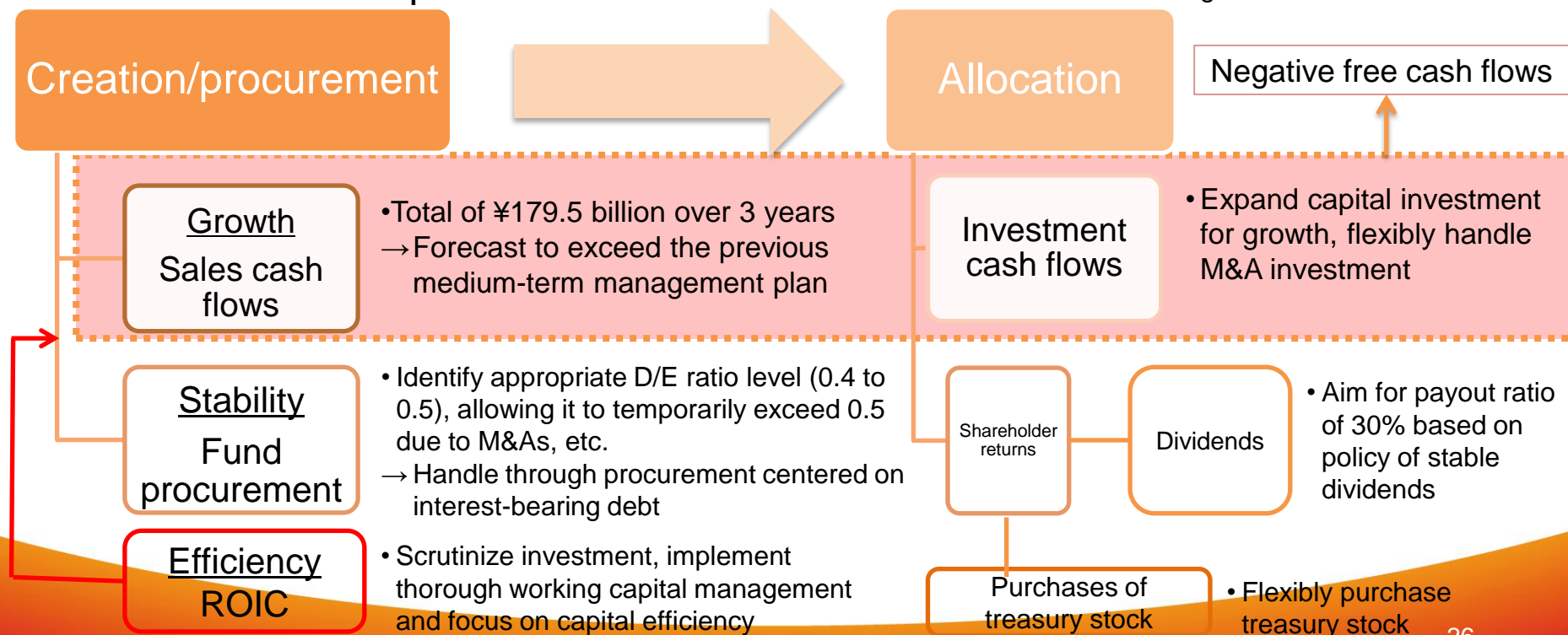
➤ Cash flow plan

(¥ billion)

	New Medium-Term Management Plan Part 5 initial cumulative forecasts	New Medium-Term Management Plan Part 5 cumulative results	Medium-Term Management Plan 2020 cumulative forecasts
Operating cash flows	160.0	172.4	179.5
Investment cash flows	(148.0)	(136.4)	(198.6)
Free cash flows	12.0	36.0	(19.1)

* Medium-Term Management Plan 2020 forecasts do not include strategic investments.

➤ Cash flow creation/procurement and allocation



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Forward-looking statements

This presentation includes forecasts regarding targets, strategies and earnings. These forecasts are based on information available at the current time and contain certain assumptions about the future. They are subject to numerous external uncertainties in areas such as economic environment, market trends and exchange rates.

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