

# NH Foods Group Medium-Term Management Plan 2020

— Progress During the First Half of FY2019/3

November 6, 2018

NH Foods Ltd.

President and Representative Director

Yoshihide Hata



# <Contents>

1. Revisions to the Full Year Financial Results Forecast for FY2019/3
2. Medium-Term Management Plan 2020: Progress
3. Medium-Term Management Plan 2020: Capital Expenditures

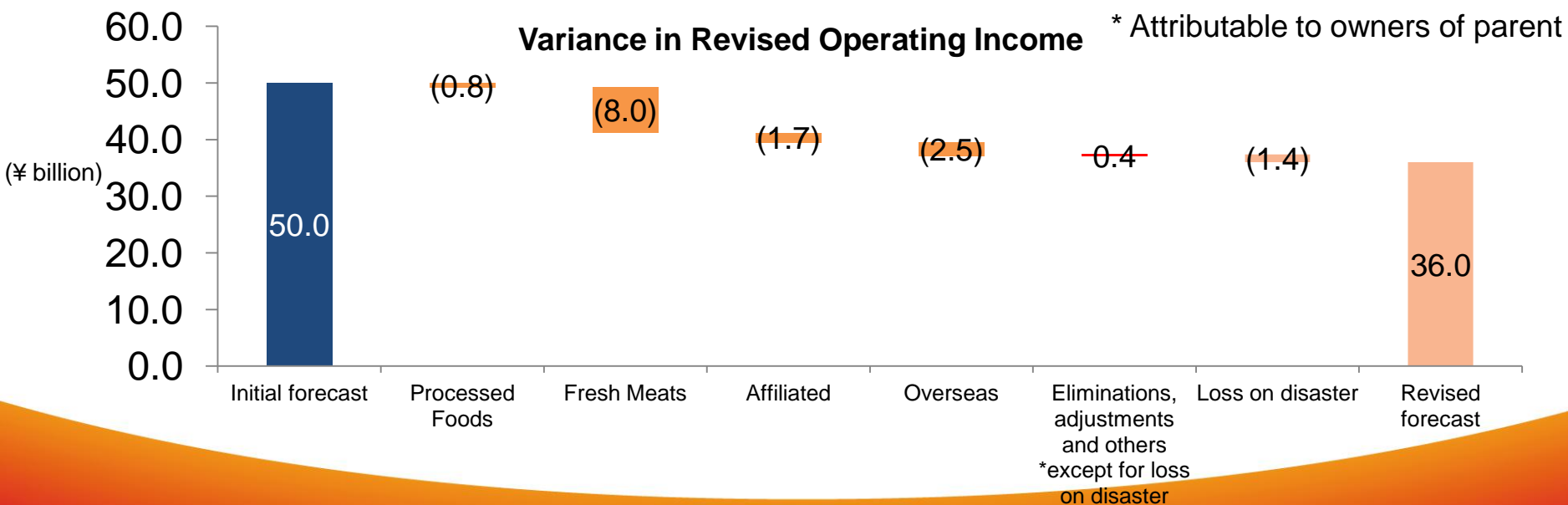
# Revisions to the Financial Results Forecast for FY2019/3

# 1. Revisions to the Full Year Financial Results Forecast

Operating income and profit have been revised downward taking into account the weak domestic chicken market, a decrease in demand due to unseasonal weather, and the impact of earthquakes, typhoons and other natural disasters.

(¥ billion)

	FY2019/3 Initial forecast	FY2019/3 Revised forecast	Variance	Previous year results
Net sales	1,310.0	1,260.0	(50.0)	1,258.5
Operating income	50.0	36.0	(14.0)	45.8
Profit *	32.0	23.0	(9.0)	37.6
ROE	7.5%	5.4%	(2.1)%	9.5%



# 1. Revisions to the Full Year Financial Results Forecast

- Main factors for downward revision of operating income forecast by business division  
(¥ billion)

Business Division	1st half			Variance factors
	Initial forecast	Results	Variance	
Processed Foods	3.7	2.8	(1.0)	Struggling gift products, and rising costs, including labor, logistics, and electricity costs.
Fresh Meats	21.3	18.3	(3.1)	Weak sales of domestic pork due to market prices remaining high, and lost opportunities due to disasters.
Affiliated	1.4	0.2	(1.2)	Decline in sales volume of marine products, rising costs for dairy products (cheese).
Overseas	(0.3)	(0.9)	(0.6)	Business environment in Uruguay and deterioration of profit in the processed foods business in North America.
Eliminations, adjustments and others	3.9	1.1	(2.8)	Significant impact of disasters, etc.
(of which loss on disasters)	-	(1.4)	(1.4)	In addition to these, losses of approximately ¥0.5 billion were incurred mainly in the fresh meats segment.
<b>Total</b>	<b>30.0</b>	<b>21.4</b>	<b>(8.6)</b>	Mainly due to losses in the fresh meats business and loss on disasters.

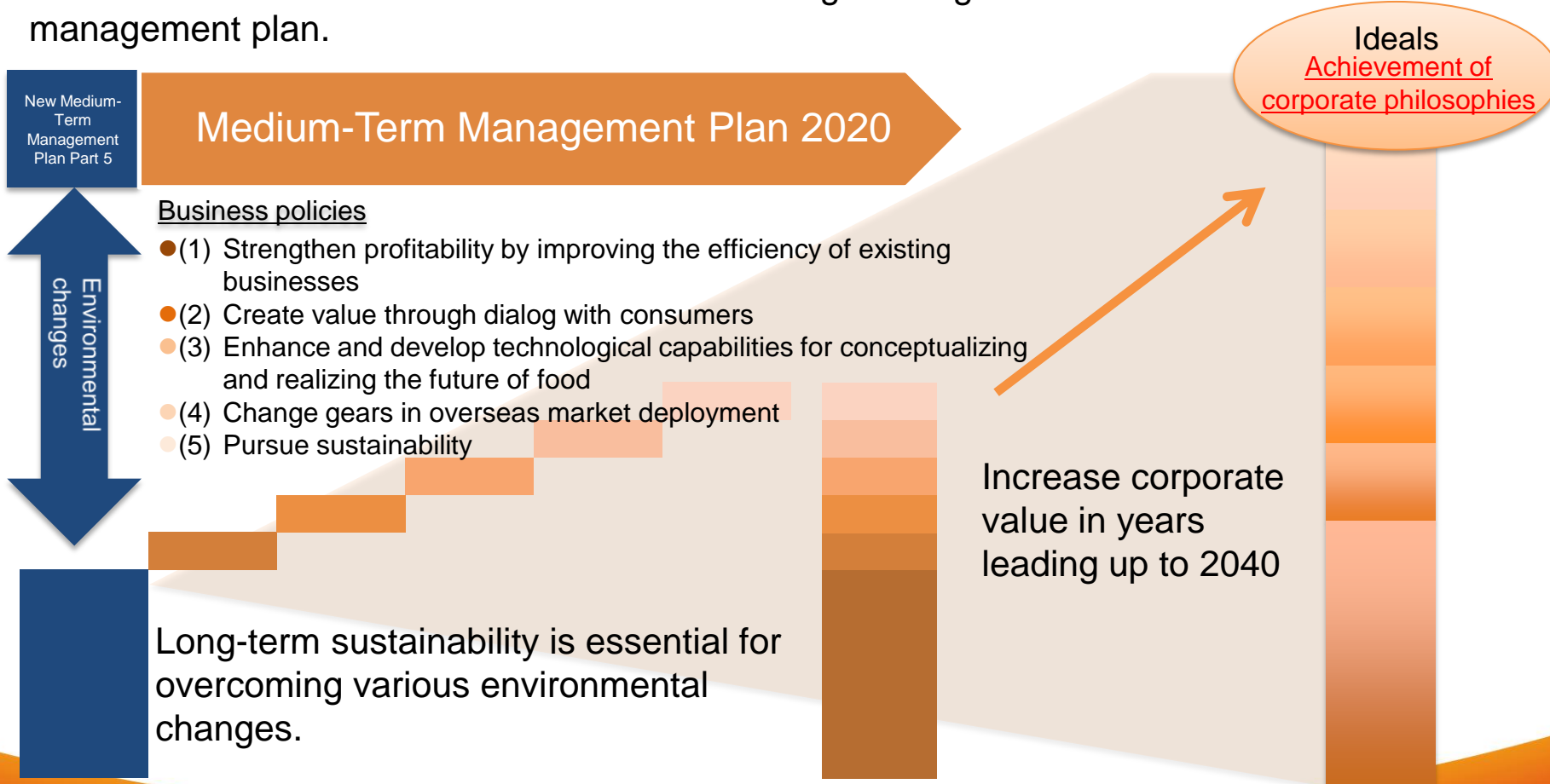
Business Division	Full year			Major initiatives in the 2nd half
	Initial forecast	Revised forecast	Variance	
Processed Foods	8.5	7.7	(0.8)	Reduce costs through standardizing production (concentrated production of <i>SCHAU ESSEN</i> , FC measures, etc.), aggregating packaging materials and auxiliary raw materials, logistics improvement, etc., as well as improve gross profits by brand extension, expanding sales of gift products and acquisition of deals for major commercial-use products.
Fresh Meats	44.0	36.0	(8.0)	Increase sales volume through enhancement of domestic production capacity and procurement capabilities (domestic and overseas), as well as expanding sales to mass retailers and restaurant channels. Reduce logistics costs by improving relay points, etc.
Affiliated	3.0	1.3	(1.7)	Improve sales of high added-value marine products and improve product mix of dairy products.
Overseas	0.5	(2.0)	(2.5)	Planning on an improvement project in Australia, sales expansion in Uruguay, and cost reduction in Turkey.
Eliminations, adjustments and others	(6.0)	(7.0)	(1.0)	No structural reform expenses are expected during this fiscal year.
(of which loss on disasters)	-	(1.4)	(1.4)	
<b>Total</b>	<b>50.0</b>	<b>36.0</b>	<b>(14.0)</b>	Set a minimum of ¥36.0 billion under the revised forecast and work on further improvement.

# Medium-Term Management Plan 2020: Progress

## 2. Medium-Term Management Plan 2020: Progress

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: Progress

### ➤ Themes to be realized throughout the Medium-Term Management Plan

#### Processed Foods

#### Business Division

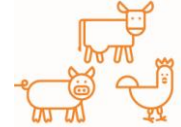
- Casting off low profitability through cost competitiveness and reinforcement of product development system



#### Fresh Meats

#### Business Division

- Developing a profit foundation by strengthening the fresh meat value chain



### Sustainable Growth

#### Affiliated

#### Business Division

- Becoming a manufacturer that can supply high added value products



#### Overseas

#### Business Division

- Expanding sales and generating stable profit





## 2. Medium-Term Management Plan 2020: Progress

### ➤ Challenges for each business division and group-wide

#### Processed Foods Business Division

- Consumer-centric product development
- Cost structure
- Spirit of challenge

#### Fresh Meats Business Division

- Dilapidation of domestic facilities
- Securing of suppliers
- Stalled expansion of market share

#### Affiliated Business Division

- Securing of suppliers
- Increased efficiency of the production system
- Development of products to suit the market

#### Overseas Business Division

- Instability of the beef business
- Building a production and sales system in the processed foods business

#### Group-wide challenge

Addressing personnel composition, equal treatment across the Group and expansion of the optional retirement system

## 2. Medium-Term Management Plan 2020: Progress

### Processed Foods Business Division — Casting Off Low Profitability

➤ Aim for revival in both production and sales, with product development capability as key

Development

Issue recognized: Marketing capability

Aging brands

Main users becoming seniors

Appeal to youth segment

- ◆ Current measures: Refinement of existing brands  
Example: Series of new products in *SCHAU ESSEN*



- ◆ Measures throughout the Medium-Term Plan: Building new brands by creating new categories

Carry out product development adapted to environmental changes

Actively adopt proposals from young developers

Develop products for overseas with a view to the EU-Japan EPA, etc.

Act on changes in consumer lifestyle

## 2. Medium-Term Management Plan 2020: Progress

### Processed Foods Business Division — Casting Off Low Profitability

➤ Aim for revival in both production and sales, with product development capability as key

#### Production

Issue recognized: Overcoming rising costs

Rising labor costs

Rising logistics costs

Soaring  
raw materials prices

- ◆ Current measures: Establishment of production system concentrated on core products → Control rising costs
- ◆ Measures throughout Medium-Term Plan: Begin reviewing processes in order to standardize production

Begin standardization of production to reduce costs

Extend shelf-life

Expand support for FC in processed  
foods

Review number of  
operating days

#### Sales

Issue recognized: A sales system adapted to diversifying needs

- ◆ Expand current measures and enhance the organization to build a sales system that satisfies consumer needs

Cater to diverse consumer needs

Reconstruction of  
sales company

Respond to emerging sales  
channels (EC, drugstores)

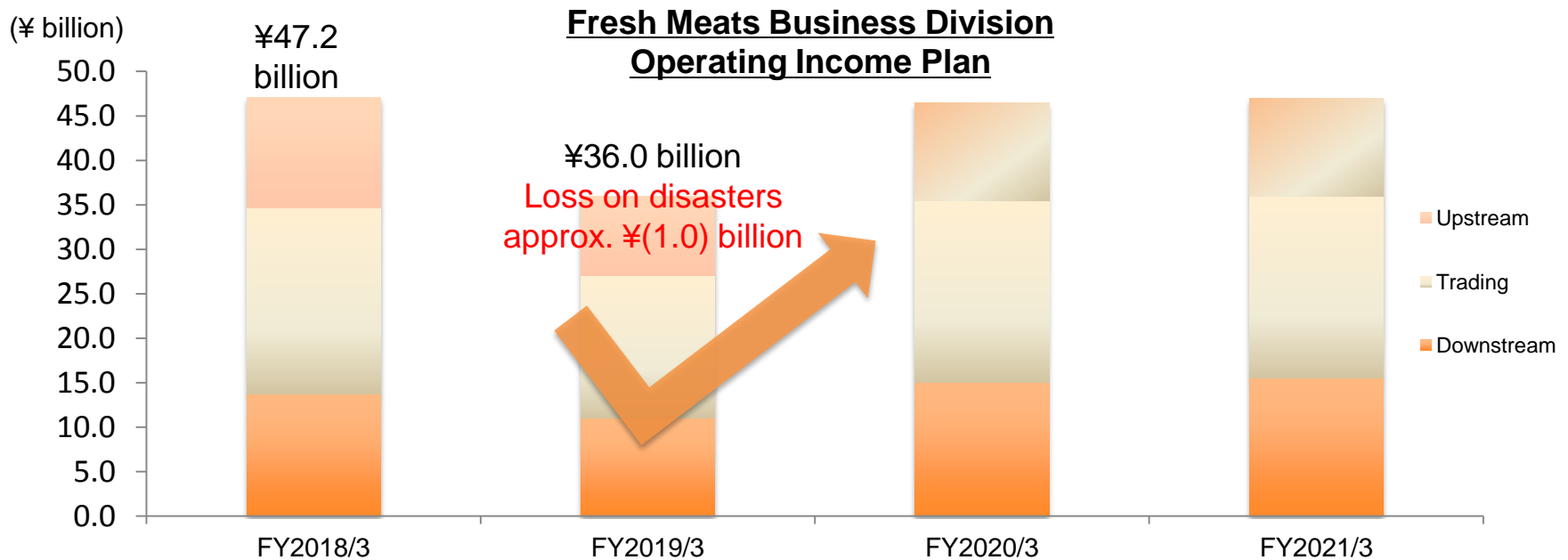
Strengthen area promotion  
(TV commercials, etc.)

## 2. Medium-Term Management Plan 2020: Progress

### Fresh Meats Business Division —Strengthening the Fresh Meat Value chain

#### ➤ Securing stable profits both upstream and downstream

Although factors such as the weak chicken market and disasters have led to an unfavorable start, strive to achieve the Medium-Term Plan by leveraging our sales capability empowered by strong supplying capability.

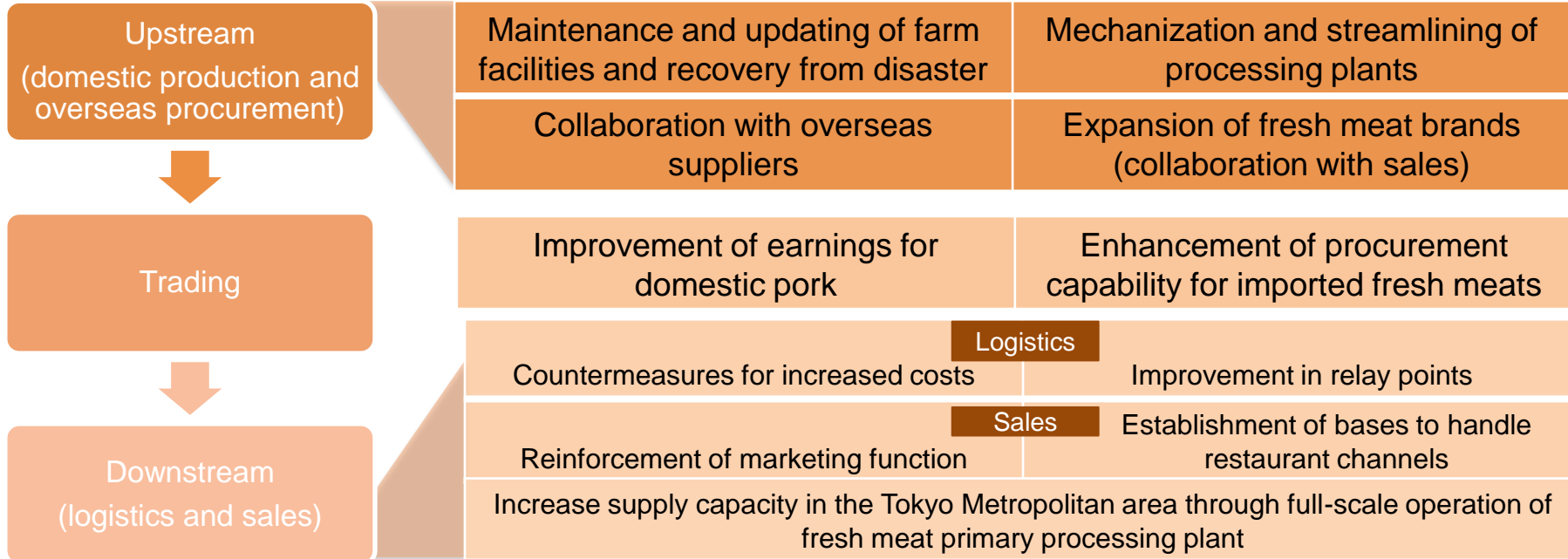


Strive for prompt recovery from disasters including the earthquake in Hokkaido and typhoons to steadily pursue these policies.

## 2. Medium-Term Management Plan 2020: Progress

### Fresh Meats Business Division —Strengthening the Fresh Meat Value chain

- Securing stable profits both upstream and downstream  
Work on current measures to fund future growth

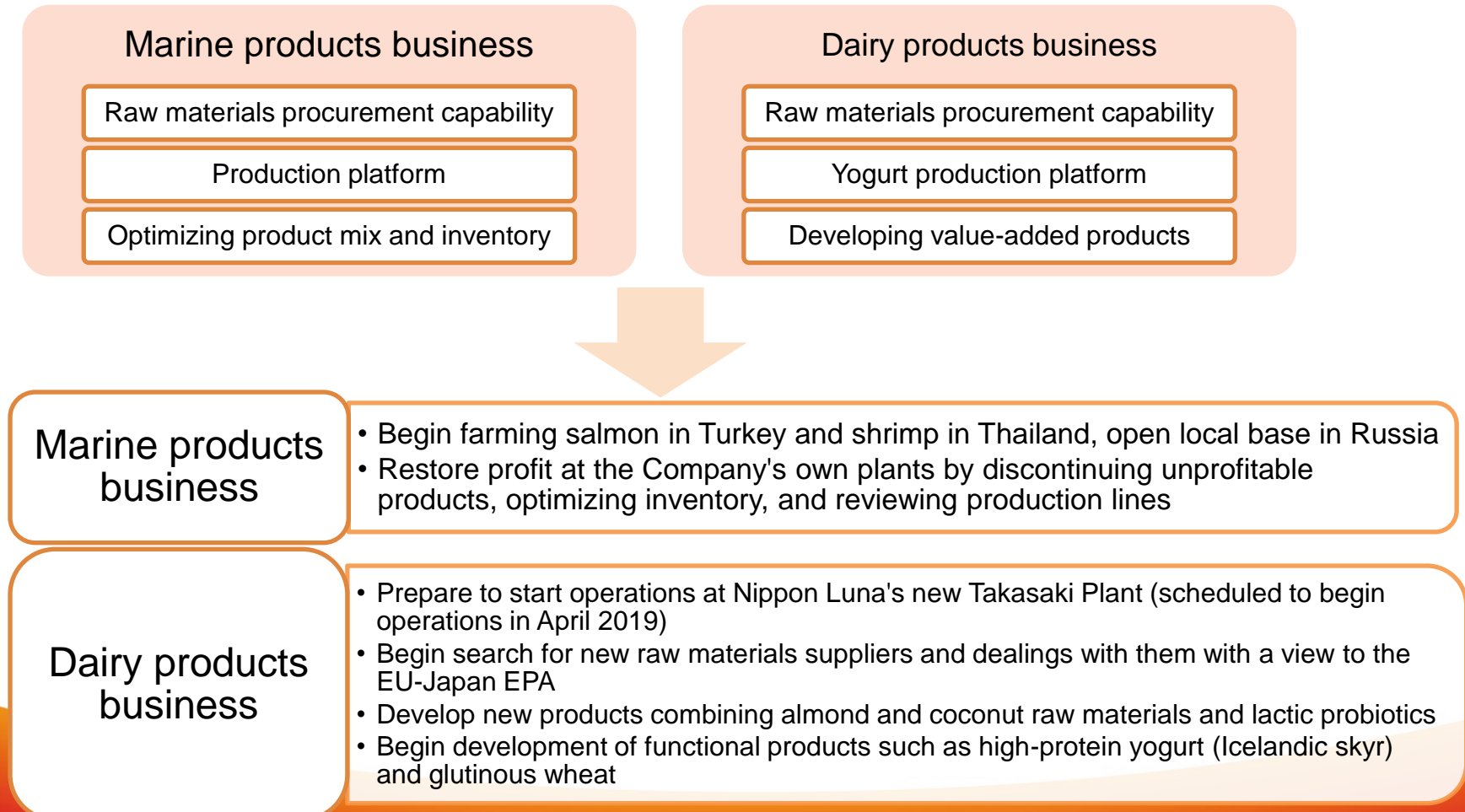


- ◆ Future enhancement of procurement capability will be the basis for increasing market share, aiming for 25% share
  - Expand domestic production facilities, strengthen external procurement, and promote partnerships including capital alliances
  - Enhance collaboration with leading packers overseas with a view to the TPP, the EU-Japan EPA and TAG
- ◆ Thorough customer focus and deployment of policies (product proposals that solve customer problems)

### Affiliated Business Division — Becoming a Manufacturer Supplying High Value-Added Products

➤ Improving earning capability and expanding business through structural reform

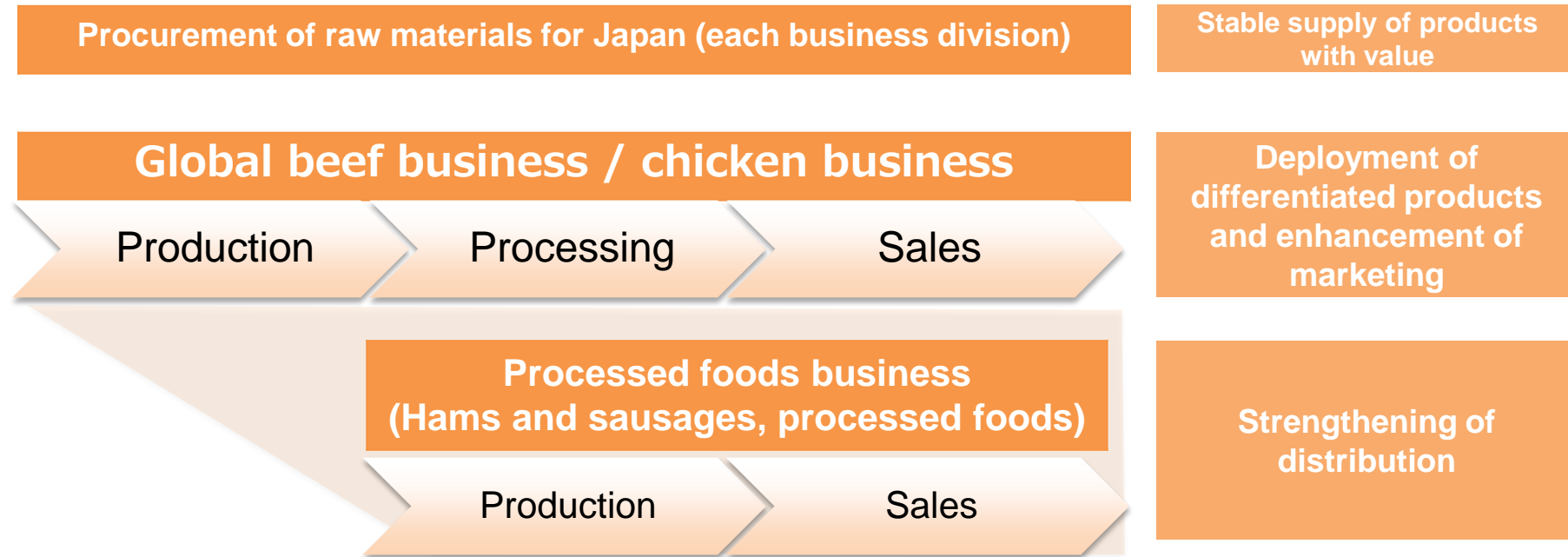
#### Reconfirming the issues of the Affiliated Business Division



## 2. Medium-Term Management Plan 2020: Progress

### Overseas Business Division —Expanding Sales and Generating Stable Profit

#### ➤ Current business structure and priority issues



Upon summarizing businesses in major areas, the following areas urgently need generation of profit

	Beef business	Chicken business	Processed Foods Business
Local sales	Australia Uruguay	Turkey	Asia / Americas
Exports to third countries	Australia Uruguay		

## 2. Medium-Term Management Plan 2020: Progress

### Overseas Business Division —Expanding Sales and Generating Stable Profit

#### ➤ Global beef business

Australia: Improvement project is ongoing. Improve productivity by promoting thorough cost control and brand consolidation in the production division.  
Strive to strengthen branding in sales as well.

#### ➤ Chicken business in Turkey

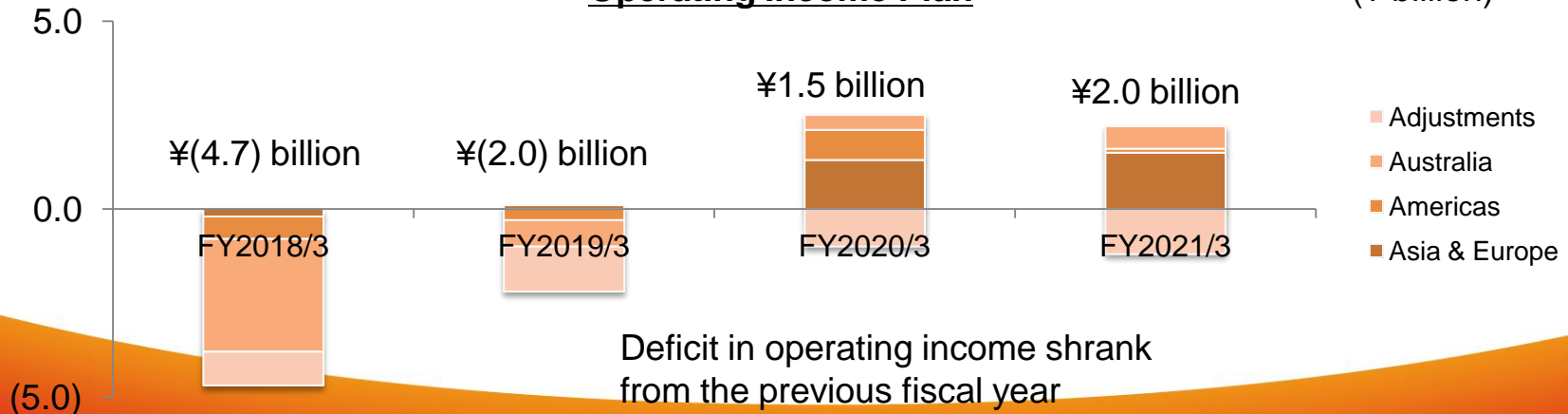
Despite the reaction to the strong market last year, profit is being secured.  
Going forward, build feed plants and market differentiated products in order to stabilize profit.

#### ➤ Platform for the processed foods business

In Asia, work on developing plant sites and enhancing distribution function mainly through capital alliances.  
As for the processed foods business in North America, modify facility plan in light of environmental changes.

#### Overseas Business Division Operating Income Plan

(¥ billion)





## 2. Medium-Term Management Plan 2020: Progress

### Group-Wide Challenges and Structural Reform Expenses

- Structural reform expenses → A platform to enable more personnel exchange within the Group
  - \*Results achieved are to be recorded at each segment
  - Enhance the platform to develop and optimally allocate human resources
  - Improve overall working conditions in the Group (wage levels, equal treatment)
  - Address reduction of working hours and other issues
 ⇒ These are recurring instead of one-time costs, for raising pay levels, etc.
- Value creation expenses → To be used to acquire new technologies, for R&D to create a new food culture, to obtain and analyze information on consumer lifestyle, to improve environmental performance, etc.

(¥ billion)

		FY2019/3	FY2020/3	FY2021/3
		Initial forecast	Initial forecast	Initial forecast
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)

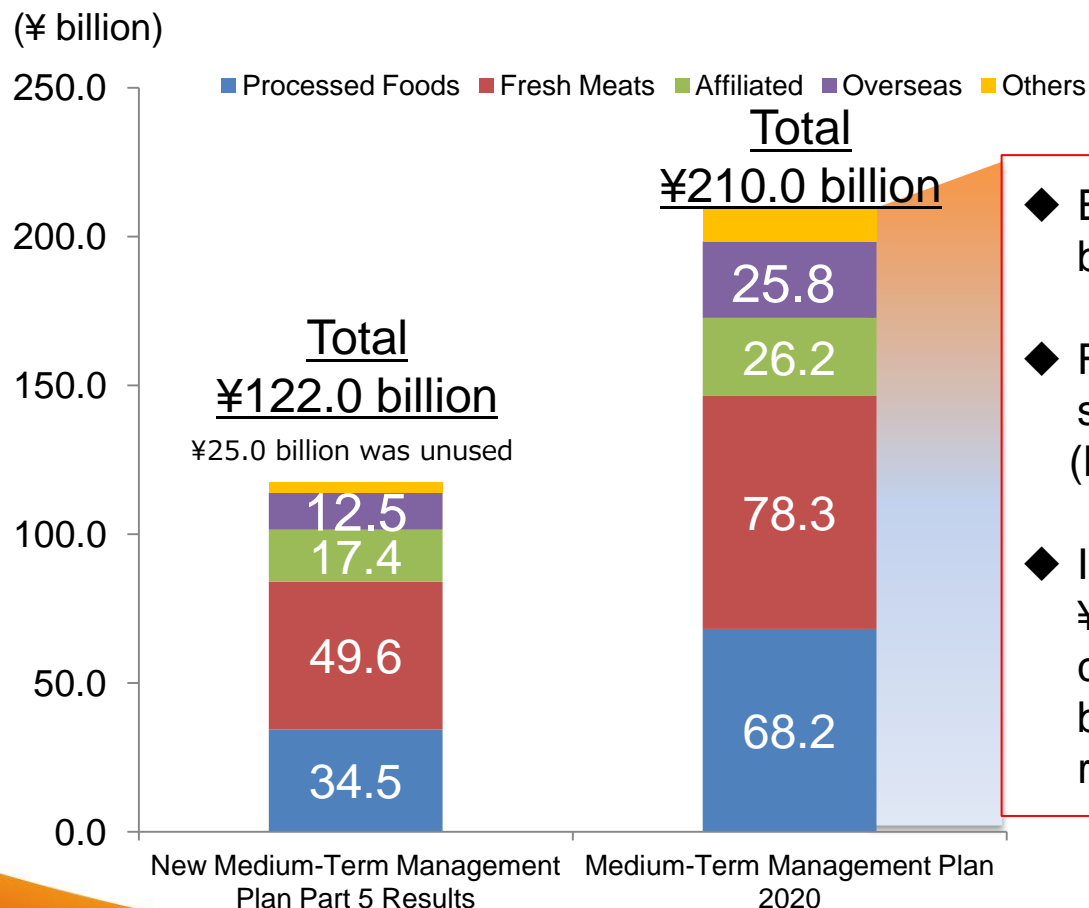
◆ No structural reform expenses will be incurred in FY2019/3.

◆ Structural reform expenses are a cost increase factor of ¥7.0 billion in the final year of the Medium-Term Plan.

# Medium-Term Management Plan 2020: Capital Expenditures

### 3. Medium-Term Management Plan 2020: Capital Expenditures

- Capital expenditures – Total of ¥210.0 billion over three years (172% compared to the results of the previous medium-term management plan)
  - Although this is a significant increase in capital expenditures, implementation will be carefully selected for those that are necessary for future growth



- ◆ Each item will undergo careful selection before being implemented.
- ◆ FY2019/3: Capital expenditure plan fell short of initial plan. (Difference from plan: ¥(6.0) billion)
- ◆ In addition, investment of approximately ¥15.0 billion is expected for the construction of a new baseball stadium, but the total amount is to fall within the range of the plan.

# 3. Medium-Term Management Plan 2020

## Construction of a New Ballpark



In October 2018, NH Foods Ltd. decided to construct a new ballpark (investment amount: approximately ¥60.0 billion) for the professional baseball club, the Hokkaido Nippon-Ham Fighters.

- ◆ Construction is scheduled to begin in 2020, and the stadium is scheduled to open in 2023.
- ◆ The Nippon Ham Group, under the slogan the “Joy of Eating,” aims to achieve synergies with its core business through this venue that will create a space for excitement and joy while “supporting people’s mental and physical well-being through food and sports.”
- ◆ We aim to expand opportunities to gain profit by fusing the intangible (the baseball club) and the tangible (the ballpark).

### <Schedule>



# Conclusion

We will increase corporate value in the medium- to long-term.

- Pursue optimal business portfolio
- Reform business model
- Create new food cultures and fields
- Maximize brand value

## Medium-Term Management Plan 2020 —Building systems that pave the way to the future

- Enhance sales capability and coordinate sales capabilities within the Group
- Strengthen product development capability and technological capability for value creation
- Improve and optimize development and use of human resources and personnel composition

Processed Foods: Cast off low profitability

Fresh Meats: Strengthen production and procurement  
Increase share to 25%

Affiliated: Transform to a supplier of high value-added products

Overseas: Expand net sales and generate stable profits

For the next medium-term management plan:  
Aim for operating income ratio of 5% or more, ROE of 9%.



Figures for the final year of the Medium-Term Management Plan 2020:  
Operating income ratio 4.0%  
ROE 7.4%  
ROIC 5.5% or more

Contact  
Public & Investor Relations Office  
NH Foods Ltd.  
ThinkParkTower  
2-1-1 Osaki, Shinagawa-ku, Tokyo 141-6014  
Tel: +81-3-4555-8024 Fax: +81-3-4555-8189

#### 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.