

NH Foods Group

# Medium-Term Management Plan 2023 Progress Briefing

May 13, 2022

NH Foods Ltd.

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Unleash new potentials for protein

NH Foods Group Vision 2030



Medium-Term  
Management Plan 2023  
Progress Briefing

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# Medium-Term Management Plan 2023—Overview

We will enhance the certainty that our goals under Medium-Term Management Plan 2023 will be achieved by organically integrating our business, functional, and cross-segment strategies.

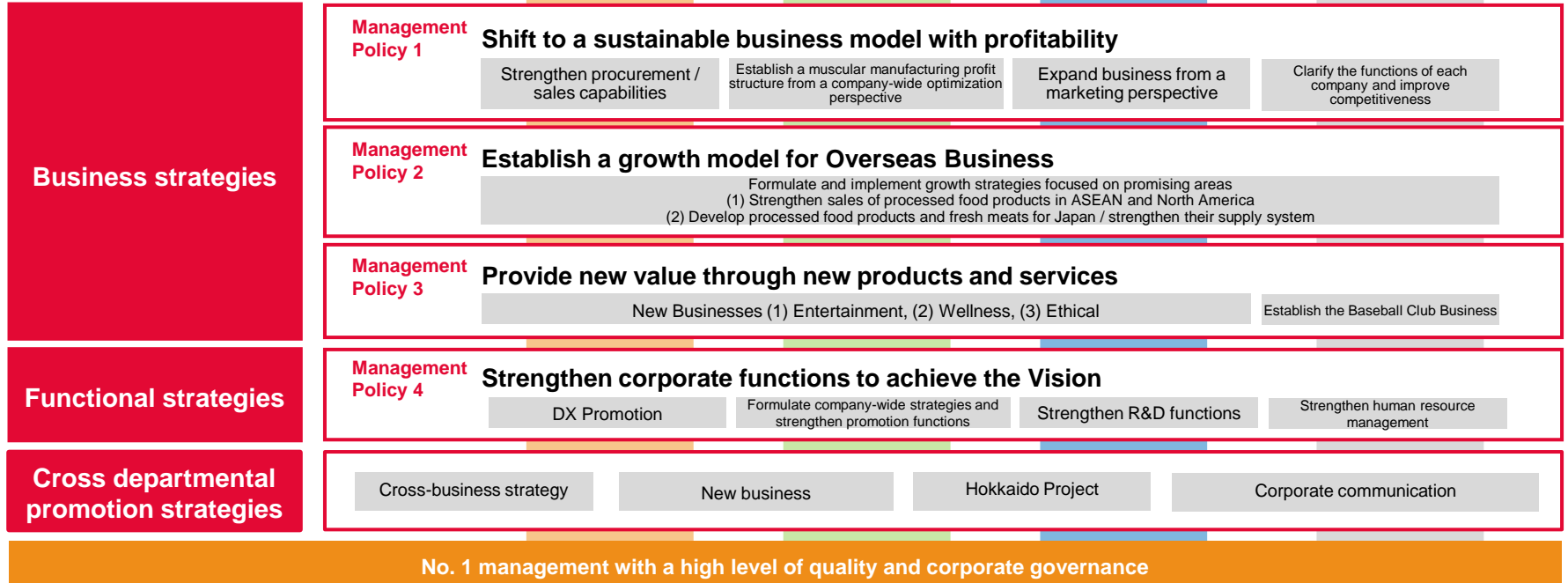
## Vision2030 “Unleash new potentials for protein”

Fresh Meats  
Business Division

Processed Foods  
Business Division

Overseas  
Business Division

New Business and  
Baseball Club Business



## ● Overview

- Despite soaring raw material prices and higher procurement and production costs, our progress under the plan remains on schedule, thanks to price adjustments, efficiency improvement measures, and initiatives based on brand and channel strategies.
- We are optimizing our portfolio and building an optimal production structure from a medium- to long-term perspective.
- However, uncertainty is increasing due to rapid changes in the external environment. We are accelerating our shift to sustainable business models.

## ● Financial targets



## ● Priority strategies

- Increase business value** Pursue portfolio optimization and accelerate the creation of an optimal production structure. Activate our comprehensive potential across all business segments and strengthen our infrastructure through structural reforms. Enhance profitability through growth strategies and digital transformation initiatives.
- Increase social value** Pursue a unique approach to sustainability based on linkage with business strategies. Reduce GHG emissions, including livestock-related emissions, and accelerate animal welfare initiatives. Expand efforts to address food allergies. Work toward the realization of the five materialities through innovation.
- Create new value** Start to create new value, including consumer experience value, through the use of digital technology.

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# Trends in Business (Operating) Profit, Changes in the External Environment

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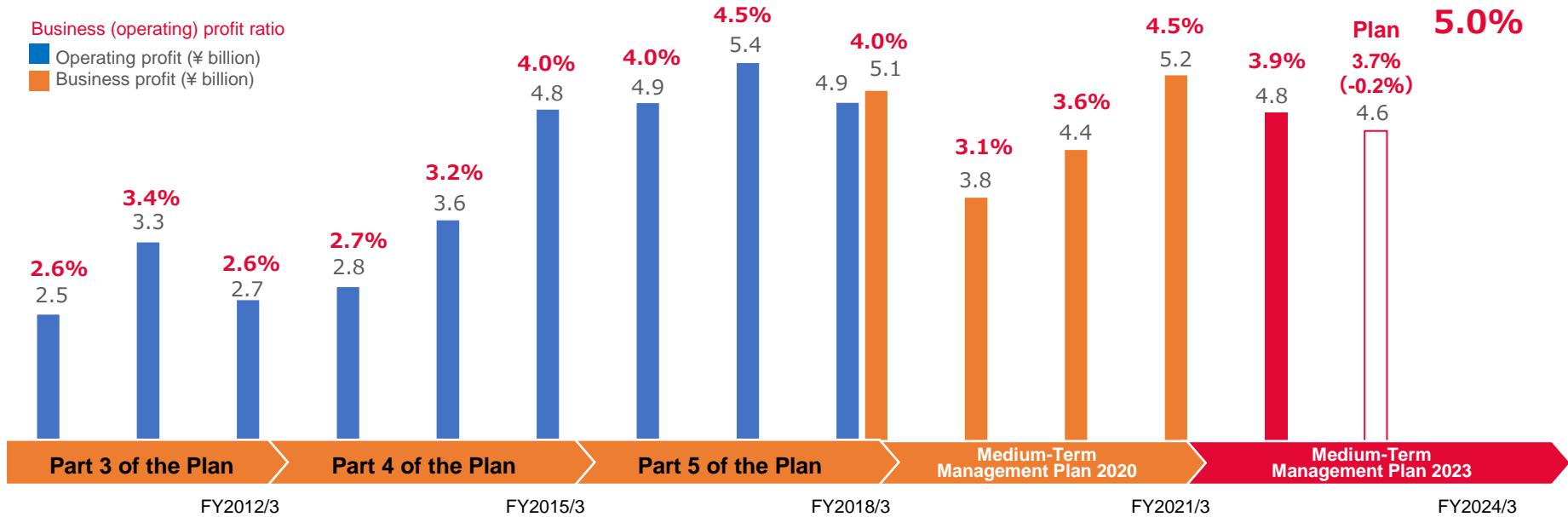


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### 3. Trends in Business (Operating) Profit

We will raise profit levels through efficiency improvement measures and brand strategies targeting existing businesses, and initiatives to reduce volatility in overseas markets. We aim to achieve ROIC of 8.0% or higher through the improvement of the business profit ratio.



\* We transitioned to IFRS in the final fiscal year of Part 5 of the Medium-Term Management Plan.  
 \* We adopted the “business profit” indicator in FY2020/3. Figures for FY2019/3 and FY2018/3 have been adjusted retrospectively.

### 3. Changes in the External Environment

The procurement environment and consumer preferences have changed as a result of the COVID-19 pandemic. Uncertainty in the external environment has been rising since the third quarter of FY2022/3.

**Chicago corn price** **40% higher**  
(Comparison between end of April 2021 and end of April 2022)

**Oil price** **67% higher**  
(Comparison between end of April 2021 and end of April 2022)

**Weak-yen trend**  
**¥130 range since early May**

**Food price index** **33% higher**  
(Comparison between March 2021 and March 2022)

**Expanding global demand has caused competition to procure livestock to intensify.**  
**The global spread of the pandemic is reflected in continuing raw material procurement risks.**  
**Consumers are becoming more cost-conscious because of inflation.**

Source: CME  
Organization of the Petroleum Exporting Countries  
Food and Agriculture Organization of the United Nations

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# Progress and Initiatives under Medium-Term Management Plan 2023

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# Results and Future Measures

We will respond to changes in the external environment by accelerating our transition to profitable and sustainable business models.

Results		Future measures
Company-wide initiatives	<ul style="list-style-type: none"> <li>- Establish an optimal production system (Starting with the Fresh Meats and Processed Food Businesses)</li> <li>- Concentration of management resources into priority business areas</li> <li>- Pursuit of an optimal portfolio (Sale of Marine Foods Corp.)</li> </ul>	<ul style="list-style-type: none"> <li>- Initiatives based on milestones leading to the 2030 targets</li> </ul>
<b>Shift to a sustainable business model with profitability</b>		
Processed Foods Business Division	<ul style="list-style-type: none"> <li>- Adjustment of prices</li> <li>- Concentration on <i>Schau Essen</i> and high-productivity lines</li> <li>- Expansion of sales through synergies within the Processed Foods Business Division</li> <li>- Shift to environment-friendly packaging (<i>Schau Essen</i>)</li> </ul>	<ul style="list-style-type: none"> <li>- Effective countermeasures against rising raw material/energy costs</li> <li>- Recovery of sales volumes after price adjustments</li> <li>- Improvement of productivity and reduction of costs in the area of deli and processed foods</li> <li>- Realization of additional synergies</li> </ul>
Fresh Meats Business Division	<ul style="list-style-type: none"> <li>- Curbing of costs through productivity improvements in company-owned processing facilities</li> <li>- Increased external procurement of domestic chicken and pork</li> <li>- Expansion of the imported meat procurement network through the development of new source countries and packers</li> <li>- Improvement of the branded fresh meat ratio</li> </ul>	<ul style="list-style-type: none"> <li>- Reduction of production costs to offset soaring feed prices</li> <li>- Maintenance and enhancement of procurement capacity for imported fresh meats despite unstable local production and shipping disruptions</li> <li>- Offensive strategies targeting priority channels</li> </ul>
<b>Establish a growth model for Overseas Business</b>		
Overseas Business Division	<ul style="list-style-type: none"> <li>- Expansion of processed food volumes in North America</li> <li>- Expansion of branded fresh meat sales by the Australia business</li> <li>- Securing of profits through collaboration between procurement and sales operations in the beef business</li> </ul>	<ul style="list-style-type: none"> <li>- Countermeasures against soaring raw material costs for processed chicken products</li> <li>- Development of new products in ASEAN</li> <li>- Initiatives to reduce livestock-related GHG emissions</li> </ul>
<b>Provision of new value through new products and services supplied via the D2C channel</b>		
	<ul style="list-style-type: none"> <li>- Start of participation in the Entertainment Business and Wellness Business</li> </ul>	<ul style="list-style-type: none"> <li>- Expansion/development of the Entertainment Business and Wellness Business</li> </ul>

# Financial Results for FY2022/3, Yearly Plan for FY 2023/3 (1)

The FY2023/3 plan was adjusted to reflect the impact of rising raw material, fuel, and feed costs on the Processed Foods and Fresh Meats Businesses.

(¥ billion yen, %)

	FY2022/3 results			FY2023/3 forecasts		
	Full year results	Variance	Variance from initial plan	Forecasts	Variance	Variance from initial plan
Net sales	1,174.4	68.0	(5.6)	1,240.0	65.6	40.0
Business profit	48.1	(4.3)	0.1	46.0	(2.1)	(6.0)
	*45.8	(4.7)	0.3		0.2	*(3.5)
Business profit ratio	*3.9	(0.7)	(0.2)	3.7	(0.2)	(0.6)
Profit before tax	51.4	3.8	8.4	44.5	(6.9)	(4.5)
Profit attributable to owners of the parent	48.0	15.4	18.0	33.0	(15.0)	(1.0)
ROE	10.5	2.7	3.7	6.7	(3.8)	(0.6)
ROIC	5.0	(0.9)	(0.1)	4.4	(0.6)	(0.9)

\* The figures exclude results and plan values for Marine Foods Corp.

	FY2022/3 results	FY2023/3 forecasts	FY2024/3 forecasts
ROIC	5.1%	5.3%	6.0%
[Breakdown formula]	$\left[ \begin{array}{l} 4.1\% \times 0.69 \\ \times 1.8 \text{ times} \end{array} \right]$	$\left[ \begin{array}{l} 4.3\% \times 0.69 \\ \times 1.79 \text{ times} \end{array} \right]$	
		5.0%	4.4%
	$\left[ \begin{array}{l} 3.9\% \times 0.69 \\ \times 1.86 \text{ times} \end{array} \right]$	$\left[ \begin{array}{l} 3.7\% \times 0.69 \\ \times 1.73 \text{ times} \end{array} \right]$	
WACC	3.98%		

ROIC breakdown formula: Business profit ratio x (1 – tax rate) x turnover rate

# Financial Results for FY 2022/3, Yearly Plan for FY 2023/3 (2)

We aim to increase segment business profit (excluding non-continuing operations) through comprehensive cost-cutting measures and the pursuit of brand/channel strategies.

	FY2022/3 results			FY2023/3 forecasts			
	Full year results	Variance	Variance from initial plan	Initial plan	Forecasts	Variance	Variance from initial plan
Processed Foods	14.7	(3.3)	(0.3)	16.0	10.0	(4.7)	(6.0)
	*12.4	(3.7)	(2.6)	13.5		(2.4)	*(3.5)
Fresh Meats	35.6	(5.7)	(1.4)	38.0	36.0	0.4	(2.0)
Overseas	2.4	2.5	1.9	2.0	3.0	0.6	1.0
Baseball Club and others	(1.6)	0.2	(1.1)	0	0	1.6	0
Eliminations	(3.0)	1.9	1.0	(4.0)	(3.0)	0	1.0
Total	48.1	(4.3)	0.1	52.0	46.0	(2.1)	(6.0)
	*45.8	(4.7)	(2.2)	49.5		0.2	*(3.5)

## Processed Foods Business Division

### (Efforts focusing on consumer products)

- Improvement of product mix thanks to the expansion of sales of flagship brands through \*BIGBOSS sales promotions
- Continuing development of new sales channels (e.g., e-commerce, drugstores, home centers)

### (Efforts focusing on commercial-use products)

- Price changes for commercial products
- Development of value-added products and new category products

### (Efficiency improvement strategies)

- Use of competitive raw materials/changes of materials
- Review of low-margin products/formula changes
- Improvement of logistics operations

## Fresh Meats Business Division

- Securing of profits across entire value chains to offset higher production costs
- Curbing of production costs through co-creation with other companies
- Expansion of earnings through improvements in the branded fresh meat ratio
- Expansion of sales through the reinforcement of food marketing channels

## Overseas Business Division

- Scale expansion through the expansion of processed food sales
- Securing of profits through the improvement of the branded product ratio in the beef business

\* Tsuyoshi Shinjo, known as BIGBOSS is a current manager for the Hokkaido Nippon-Ham Fighters of Nippon Professional Baseball (NPB).

\* The figures exclude results and plan values for Marine Foods Corp.

## Maximize corporate value

### Sustainability strategies

#### Increase social value (non-financial value)

- ✓ Address social issues by executing materiality measures
  - Stable procurement and supply of proteins
  - Food diversification and health
  - Contributing to a sustainable environment
  - Co-creation and shared prosperity with local communities and society as a whole through food and sports
  - Employee development and respect for diversity

### Business strategies

#### Increase business value (financial value)

- ✓ Structural reform and strengthening of existing businesses
- ✓ Business development in growth areas
- ✓ Pursuit of an optimal portfolio
- ✓ Establish an optimal production system

**Transform  
business  
models**

### DX Strategy

#### Create new value

- ✓ Dramatic efficiency improvements in existing business areas
- ✓ Business optimization
- ✓ Data-based decision-making
- ✓ Creation of new business models based on digital data

# Increasing Business Value—Initiatives by the Processed Food Business Division

Creation of a lean manufacturing profit structure, business expansion from a marketing perspective

## Manufacturing, development

## Logistics, marketing

### Efficiency improvement strategies

#### Establishment of a manufacturing profit structure

- Development of a manufacturing structure from a company-wide perspective
  - Implementation of projects leading to the restructuring of production sites
  - Exploration of products suitable for overseas procurement through a cross-segment free trade agreement project
- Maximization of benefits from rationalization investment
  - Production line automation, expansion of line capacity
- Production leveling
  - Agile adaptation to changes in the external environment

#### Expansion of profit-making products through manufacturing-marketing collaboration

- Item consolidation

#### Enhancement of profitability through logistics improvements

- Expansion of added-value operations
- Use of external logistics
- Improvement of warehouse operating efficiency

#### Further price adjustments

#### DX-based efficiency improvements

- Improvement of productivity of head office personnel

## Growth strategies

#### Realization of synergies

- Production/marketing integration with Nippon Pure Food Co., Ltd. and Hoko Co., Ltd.
- Use of production lines that enhance profitability
- Use of processed food brands to develop synergy-generating products

#### Provision of new value from the consumer's perspective

- Creation of systems for the development of hit products
- Customer analysis using customer feedback and ID-POS data

#### Further expansion of sales of flagship brands

- Use of social media to expand the purchaser base
- Proposal of ideas based on lifestyle changes

#### Initiatives targeting new channels and business areas

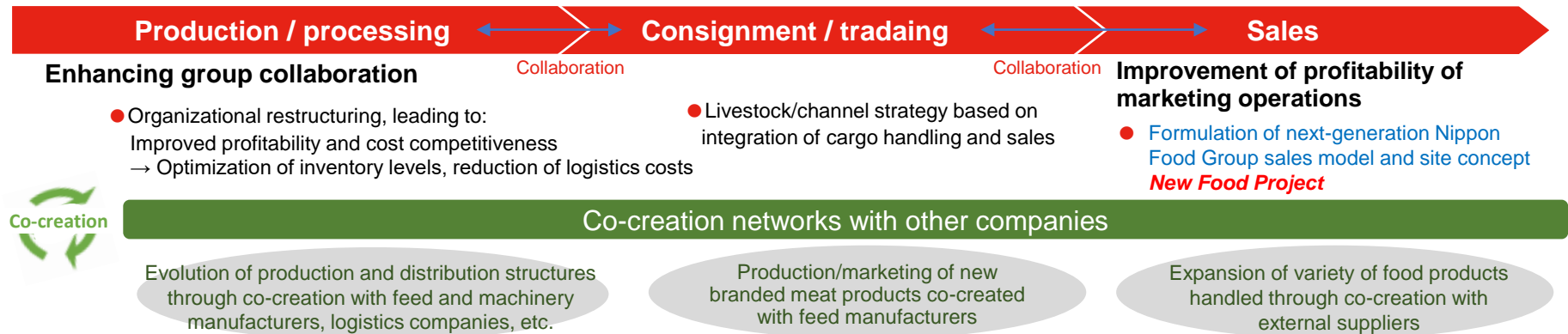
- Use of room temperature products (e.g., emergency foods) to develop new sales channels (e.g., home centers)
- Use of soy meats, etc., to open up new sales areas
- Creation of new categories
- Investment of resources in emerging businesses, such as extracts, vegetable proteins, food for the elderly

#### Enhancement of resilience of the group's logistics networks, promotion of group-level marketing

- Logistics project, marketing project

# Increasing Business Value—Initiatives by the Fresh Meats Business Division

We aim to maximize business profit by strengthening procurement and marketing capabilities and building co-creation networks.



## Growth strategies

### Strengthening procurement capabilities

- Domestic beef: Brand development/nurturing with partners
- Japanese pork: Improvement of production indicators, enhancement of procurement capabilities of capital partners
- Japanese chicken: Expansion of in-house production plus increased use of external suppliers
- Imported fresh meats: Development of new source countries and packers

### Improving resilience of group logistics network, promotion of group-level marketing

- Logistics project, marketing project

### Creation of branded fresh meats portfolio

- Establishment of competitive advantage based on scientific perspectives and qualitative factors, **rebranding** of existing brands based on quantitative data, development of new fresh meat brands
- Increase in percentage of branded fresh meats, such as *Sakurahime* (chicken) and *Mugikomachi* (pork)

### Strengthening sales capabilities

- Consideration of expansion into regional cities through **group companies specializing in the food service industry**
- Marketing of standard products (establishment of channel-specific organizations) that reflect customer needs in each channel as well as changes in the external environment
- Establishment of marketing units
- Expansion of **wagyu export markets and items**, collaboration with certified factories
- Marketing of new core products, such as **plant-based meats**

# Increasing Business Value—Initiatives by the Overseas Business Division

Building business models that are resilient to impacts from the external environment.

## Processed Foods Department

**Enhanced marketing of high-value-added products in North America and ASEAN**

- Offsetting soaring prices for key raw materials through price adjustments
- Improving production line efficiency
- Updating of existing products

## Fresh Meats Department

**Deepening of optimal manufacturing structures through procurement-marketing collaboration**

- Expansion of feedlots (Australia)
- Stable operation of factories to support the balancing of supply and demand

## Trading Department

**Enhancement of cost-competitiveness and procurement capabilities**

- Consideration of products suitable for overseas procurement with the aim of enhancing competitiveness in Japan and ensuring reliable procurement (Cross-Divisional Free Trade Agreement Countermeasures Project)

### Growth strategies

#### Processed Foods

**Creation of competitive products, enhancement of marketing**

- Creation of new product categories
- Expansion of manufacturing capacity for processed products
- Development of meat alternatives
- Use of domestic processing technology to develop new products

#### Fresh Meats

**Expansion of line-up of value-added products**

- Enhancement of beef branding (*Angus Reserve*, *NaturesFresh*, *Gran Carne*)
- Improvement of grain-fed ratio
- Expansion of sales of primary processed products

We will enhance business value and social value through the development of new businesses.

## Baseball Club

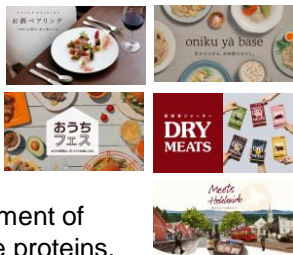


Opening  
in the  
spring of  
2023

- In addition to the creation of the Baseball Club business, we will also foster synergies with NH Foods Group businesses and contribute to community revitalization in Hokkaido.
- We established the [Hokkaido Project Promotion Department](#) in April 2022 to drive community engagement activities in Hokkaido, using the Hokkaido Nippon-Ham Fighters brand as a starting point.

## Entertainment Business

### Expanding *Meatful* sales



Future initiatives:

- We will consider the development of services, including alternative proteins.

Brands based on the concept of new possibilities for meat  
We will use concepts focused on snacking, the experience of home cooking, and luxury foods as starting points for the development of products that will allow us to keep pace with dietary diversification.

## Wellness Business

### Launch of *Table for All*

We have launched an integrated platform for food allergy care.



Future initiatives:

- We will carry out research into food allergy prevention methods with a high level of safety.
- We will consider promotional activities using gluten-free products.
- We will expand into the aged care and family food businesses.

Support for dietary diversification and health  
We aim to create new value through businesses targeting diverse food consumption situations and needs.

## Ethical Business

Upcycling business based on in-house recruitment system

Future initiatives:

- We will develop products based on cyclical farming.



# Financial and Capital Policies under Medium-Term Management Plan 2023

We aim to maximize free cash flows, achieve stable, sustainable dividend growth, and optimize our capital-liability mix.

## Cash flow position

- Cash flows from investing activities in FY2022/3 include ¥16.6 billion in proceeds from the sale of a business.

(¥ billion)

	Medium-Term Management Plan 2023 (3 years)	FY2022/3 results	FY2023/3 forecasts
Cash Flow from operating activities	227.0	33.4	69.5
Cash Flow from investing activities	(202.0)	(22.8)	(94.2)
Free cash flow	25.0	10.6	(24.7)

## Capital policy

- Stable, sustainable dividend growth based on a DOE of 2.3% (FY2021/3: ¥94, FY2022/3: ¥102, FY2023/3: ¥110)
- Flexible share buyback schemes an option for capital control
- Reduction of WACC with the aim of creating an optimal capital structure (D/E ratio of 0.4-0.5) (FY2022/3: 0.44, FY2023/3: 0.44)

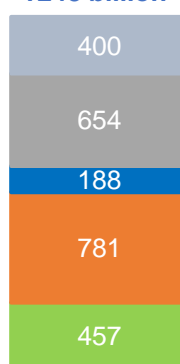
## Capital expenditures

### (3-year Medium-Term Management Plan period)

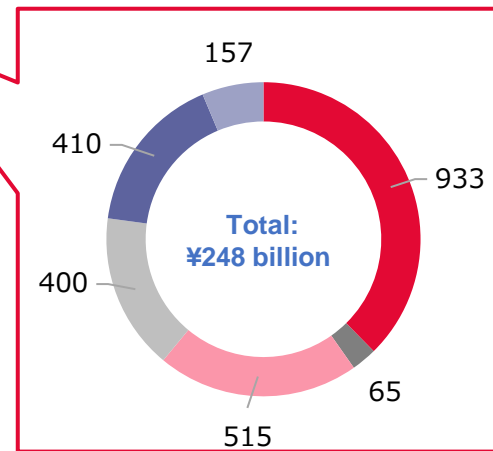
- No change in initial plan, investment in infrastructure enhancement and the development of sustainable business models



**Total:**  
¥248 billion



Medium-Term Management Plan 2023 Forecasts



We have adopted IFRS 16, under which lease transactions other than short-term or small leases are treated as right-of-use assets. "IFRS leases" represent the aggregate projected increase in right-of-use assets based on the application of this standard.

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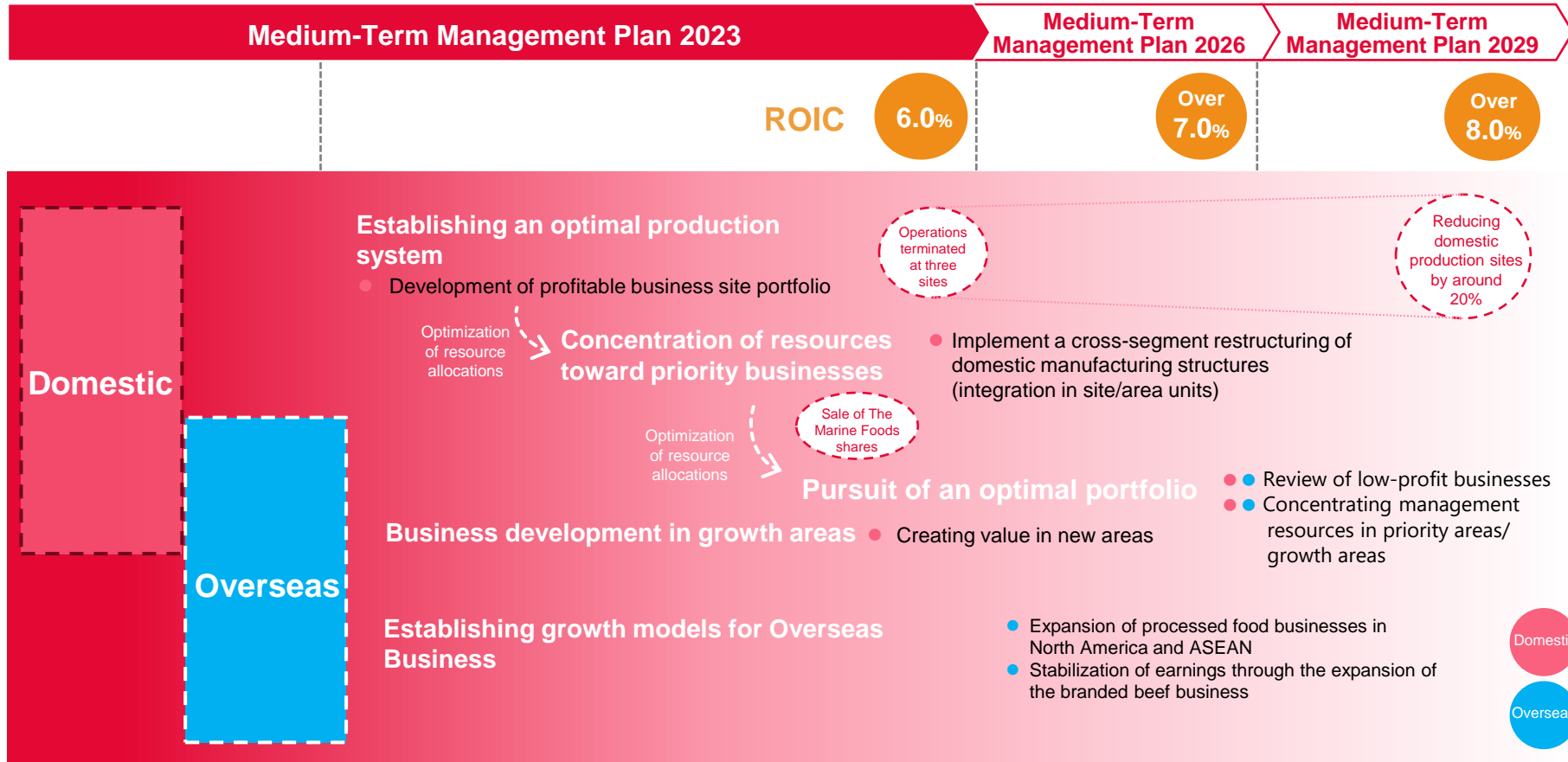
# Strategic Direction Going Forward



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NH Foods Group Vision 2030

# Increasing Business Value—Production Structure and Portfolio Optimization



# Increasing Business Value—Strategic Directions for Business Divisions

We are strengthening business operations and accelerating growth by concentrating management resources under Vision 2030.

## Medium-Term Management Plan 2023 <ROIC 6%>

Medium-Term Management Plan 2026  
<ROIC 7%>

Medium-Term Management Plan 2029

2021 →

2022 →

Establishing an optimal production system

Concentrate resources toward priority businesses

Pursuit of an optimal portfolio

Processed Foods

Centralizing production of flagship ham and sausage brands.

Centralizing production of flagship deli and processed foods brands.

Improving value through new brands. Raising awareness of new brands

Sale of shares in Marine Foods.

Consolidating extract production sites

5% business profit ratio by FY2027/3

Cross-segment strategies

Analysis of future logistics priorities.

Proposal of future logistics concepts. Generation of cross-segment logistics synergies

Creating an optimal logistics structure.

Fresh Meats

Restructuring the Fresh Meats Business Division.

Consideration of food marketing models for fresh meats, formulation of business site concepts..

Build co-creation networks.

Consolidation of beef and pork production sites.

Achieving a market share of 25% through the development of sustainable business models for fresh meats.

Overseas

Expanding sales of processed chicken products in N. America.

Expanding production structures.

Strengthening R&D capabilities

Reviewing business site policies

Establishing supply chains in ASEAN.

Stabilizing the beef business.

Commencement of R&D concerning GHG emission reduction. Expanding the branded fresh meats range.

Pursuing selection and concentration in growth areas.

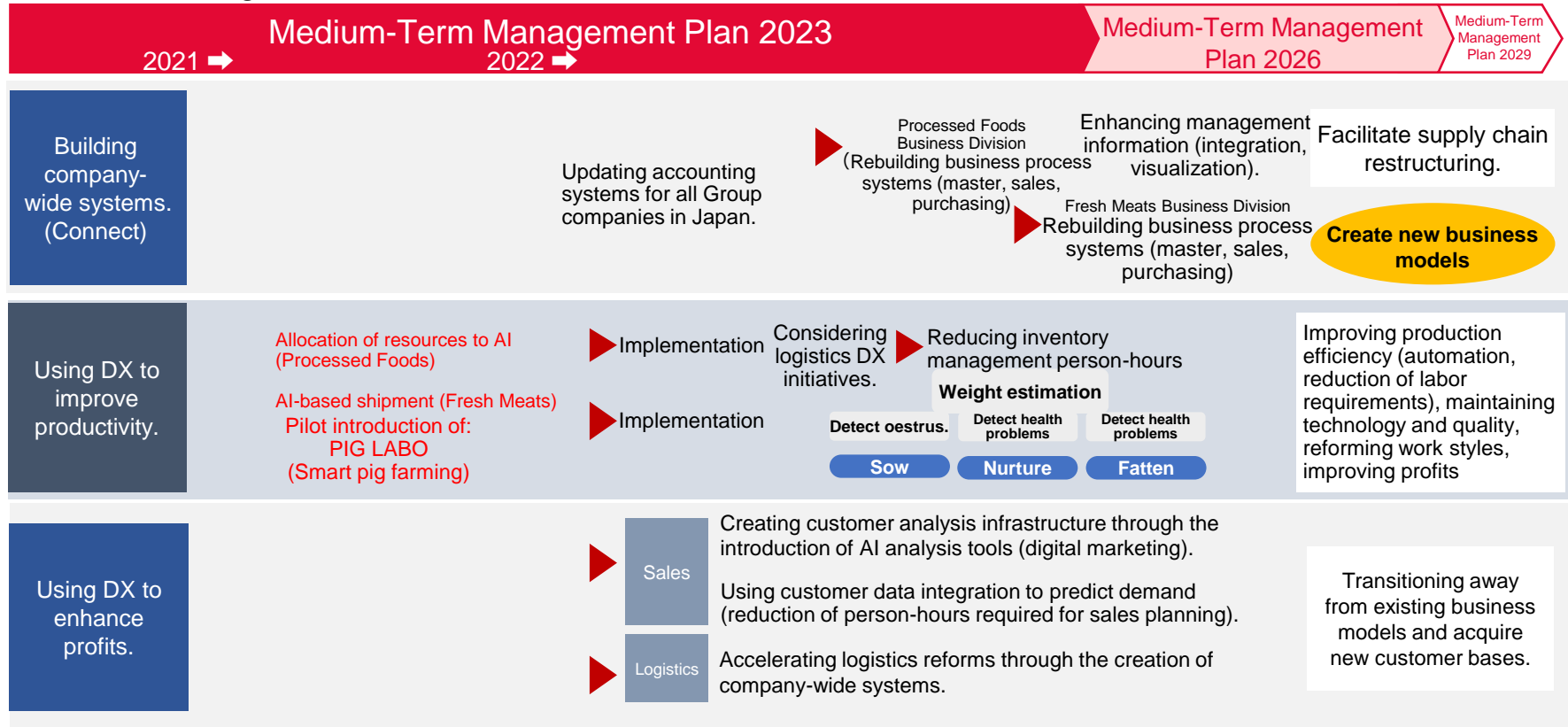
# Creating New Value—Cross-Segment Strategies

We are transitioning to sustainable business models and maximizing synergies by pursuing cross-segment strategies.



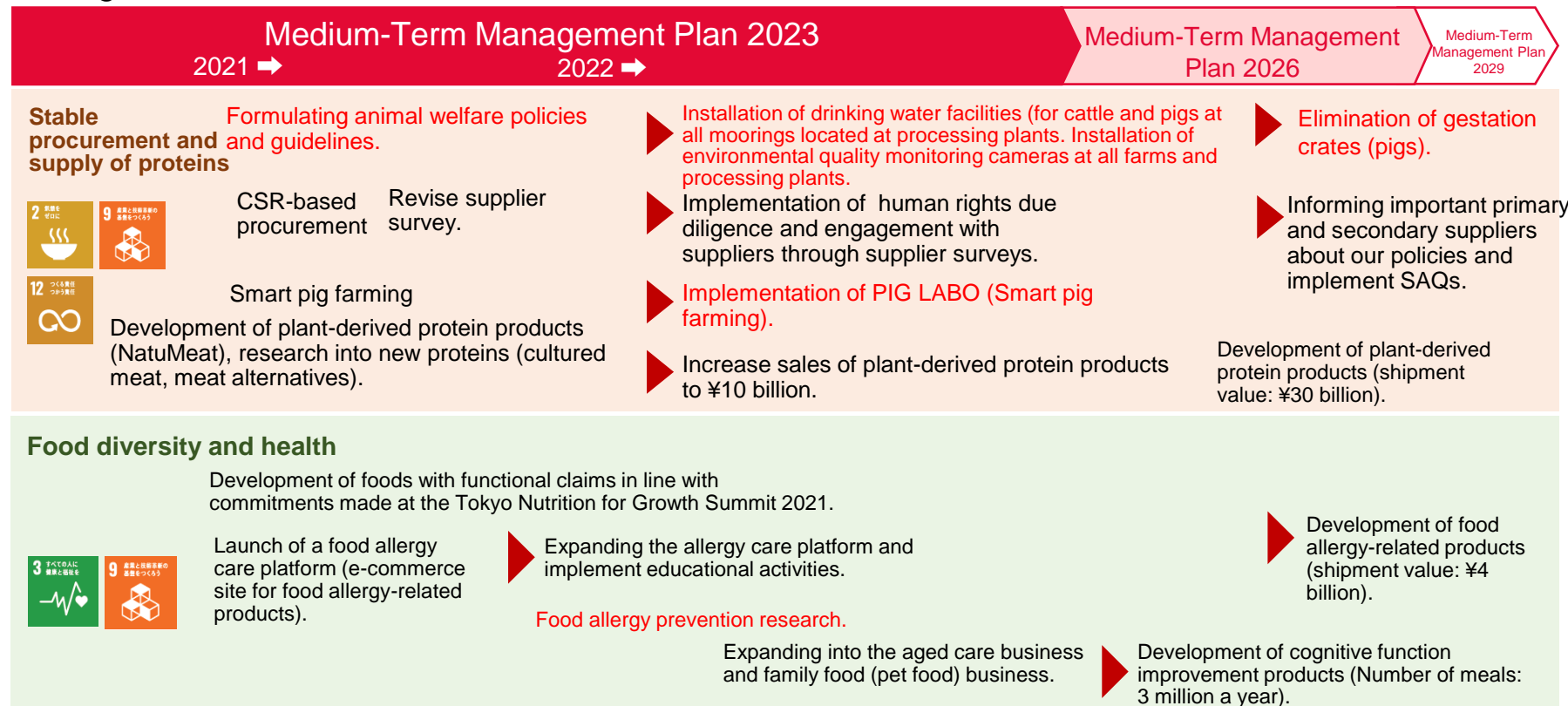
# Creating New Value—IT/DX Initiatives

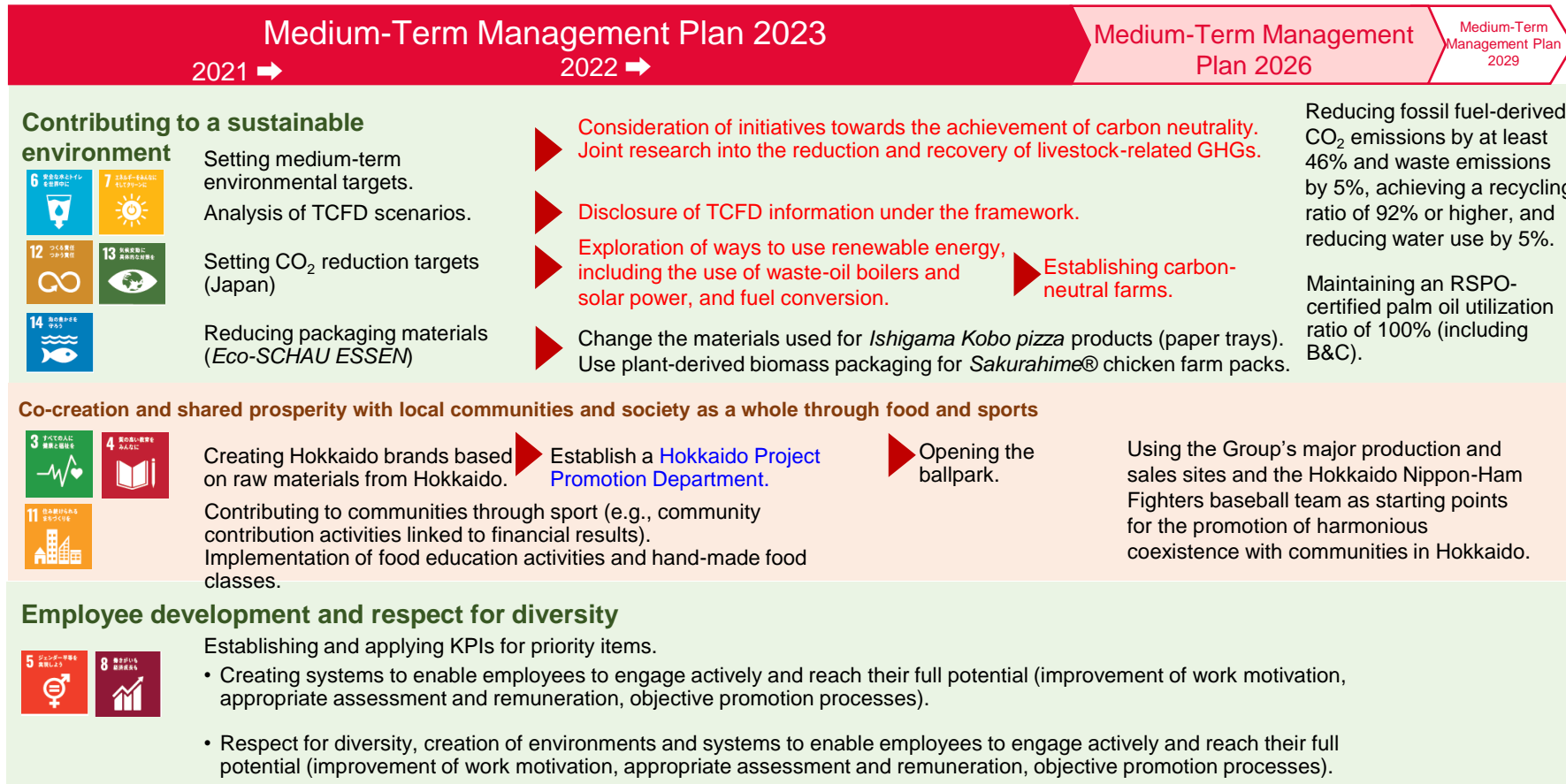
We are using ITX and DX to improve business efficiency, create new business models, and enhance management.



# Increasing Social Value—Progress on Materialities

We have formulated medium-term targets for materialities in the final year of Medium-Term Management Plan 2023.









 Unleash new potentials for protein  
**NH Foods Group Vision 2030**