MARUHA NICHIRO

Consolidated Financial Results Briefing for the Fiscal Year Ended March 2024

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Satoshi Kokaji, Managing Executive Officer
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Q. Please give us some background on your plans for this fiscal year (FY ending March 2025), for the Fishery Business Unit and the North America Operations Unit in the Marine Products Business Segment?

<Fishery Business Unit> We are making steady progress on repairs on our fishing vessels, that have experienced decreased operation due to aging. Once operations return to normal, both domestically and internationally, I believe profitability can be achieved.

<North America Operations Unit> The North America Alaska pollock market is gradually recovering. In Europe, net sales and operating income levels are favorable, and we plan a slight increase from the previous year.

Q. Regarding the Alaska pollock business (North America Operations Unit), what are your views on market prices for the current fiscal year, as well as the profitability when viewed across the entire supply chain?

We have a dominant advantage in terms of supply capability. However, in terms of surimi, the downstream area of processing and further productization is not yet as strong. We aim to strengthen the value chain, including product development, based on the recently announced collaboration with Kibun Foods Inc. In the previous fiscal year, the market price of Alaska pollock declined, resulting in soft prices for surimi and fillets. Fillet prices are gradually recovering. We expect companies to curb surimi production during this year's Alaska pollock season, a trend that will continue through the second half of the year, and we expect surimi prices to gradually recover accordingly. We will comprehensively consider what to produce and where to sell for profitability, and devise ways to improve production efficiency at our three Alaska pollock processing plants to lower manufacturing costs.

Q. Please explain the difference in operating income margin between the marine products trading businesses in Japan and Europe and measures to improve profitability in Europe.

Demand for marine products is high in Europe and the U.S. because “marine products = healthy and high protein.” Unfortunately, in Japan, it is becoming more difficult to secure profits as consumer spending is also decreasing against a backdrop of high prices for marine products due to the weak yen.
I believe that in the future, we should build a business model where high-value products are directed more towards Europe and products in the right price range are directed to Japan, all while ensuring a secure resource base.
In terms of measures to improve profitability in Europe, I believe it is necessary to add more value to the market, and we are considering M&A and other options. We aim to set clear target values in the upcoming Medium-term Management Plan.

Q. Please tell us about the background behind the Foodstuff Distribution Business Unit's forecast for lower operating income in the current fiscal year (FY ending March 2025) and what are the key points to watch regarding its actual performance values?

In the short term, the key point lies in how much the progress of yen's depreciation will be factored into earnings, and we are observing the situation somewhat conservatively. In the medium term, by leveraging the relationships with the many customers of the Foodstuff Distribution Business Unit in conjunction with the creation of new markets by the Marine Products Trading Unit, I believe that we will be able to further expand in the future.

Q. Please tell us about the competitive environment in the Processed Foods Business Unit's pet food business in Thailand.

It is true that competitors are emerging on an OEM basis. However, Thailand is becoming an oligolopy of suppliers. This is because sustainability management of raw materials for OEM contractors, such as IUU fishing and the elimination of child labor, is quite strict. Consequently, the number of suppliers capable of meeting these requirements is limited. Currently, the pet food business in Thailand is mainly OEM-based, but we believe there is further growth potential as we continue to challenge with our own brand.

Q. Please tell us if there is an option to increase your portion of ownership in Kingfisher Holdings (including the pet food business in Thailand) in the Processed Foods Business Unit to possibly make it a subsidiary.

We are currently at a stage where various considerations, are being examined.

Q. Please explain the background behind the single-digit P/E ratio for the past three years, which used to be in the double-digit range, and the measures taken to improve the P/E ratio.

The Marine Products Trading Unit's strength lies in its handling of various fish species and having numerous supply sources. With natural hedges between fish species, it generates an annual profit of around 4 billion yen. While the recent decline in performance can be attributed in part to the effects of the pandemic, we do not perceive marine products businesses as inherently highly volatile.

We believe that by including our overseas operations "Marine Products", investors may have perceived it as having high volatility. To provide a clearer picture of our business reality, we have decided to undergo this organizational restructuring. We aim to emphasize the stable food business (Foodstuff Distribution Business and Processed Foods Business Segments) and enhance our investor relations activities to achieve improvement of our P/E ratio.

Q. What are your thoughts on operating cash flow, capital expenditures, and financial leverage for this fiscal year?

The net D/E ratio is expected to be 1.2 times for the previous fiscal year (ended March 2024) and is forecasted to exceed the midterm target at 1.1 times for this fiscal year. Capital expenditures are progressing almost as planned for this fiscal year, with investment amounts expected to align with the initial three-year plan (approx. 100 billion yen). Operating cash flow is expected to be 40-50 billion yen, and free cash flow is viewed positively.

Q. You mentioned that you will make a decision on whether or not to continue low ROIC businesses for the next Medium-term Management Plan. If "comprehensiveness" is your strength, please tell us how you will make a decision on whether or not to discard low ROIC businesses.

To give an example, the meat and products business (Agricultural Foods & Meat and Products Business Unit) in the Foodstuff Distribution Business Segment has a trading division, which is a difficult business to improve ROIC because it holds a lot of inventory in order to secure customers. While businesses essential for building the value chain are essential, there may be a need to reevaluate its purely trading functions.

Q. Even if the actual results for this fiscal year fall short of the forecast, is it safe to assume that there is no possibility of lowering the dividend forecast of 100 yen for this fiscal year, or is there a lower limit, and if you proceed with the reduction of cross-shareholdings, is there a possibility of share buybacks?

We believe that 100 yen is the lower limit. As for setting a plan to set a dividend policy, including whether we will set a lower limit, please look forward to it being outlined in the next Medium-term Management Plan. We plan to sell a certain amount of our listed shares over the next two years, and we would like to clarify in the next medium-term management plan the extent to which we will use the proceeds to buy back our own shares.

Regarding cross-shareholdings, we plan to sell a certain amount of listed shares over the next two years, and we aim to clarify in the upcoming Medium-term Management Plan of how much of the proceeds will be used for share buybacks.

*This document is not a complete transcript of the questions and answers at the briefing and has been edited by Maruha Nichiro Corporation.