MARUHA NICHIRO

Consolidated Financial Results Briefing
for the 2nd Quarter (Interim) of the Fiscal Year Ending March 2025

Date: Monday, November 18, 2024

Speakers: Masaru Ikemi, Representative Director, President & CEO
Kenji Funaki, Director, Managing Executive Officer
Seiichi Hiroshima, Director, Managing Executive Officer
Satoshi Kokaji, Managing Executive Officer
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Q. While there is a responsibility to supply marine products, the Marine Resources Business Segment is facing a challenging business and resource environment. This Segment accounts for more than half of your consolidated assets. How do you plan to improve ROIC in the next medium-term management plan? Additionally, with growth investments such as overseas M&A, plant restructuring, and DX (digital transformation) investments likely planned, can these investments be completed within the target net D/E ratio of 1.0x? Please share your current perspective on the situation.

Recently, including the impacts of climate change, natural resources are generally in a declining trend. While it is essential to continue providing marine products sustainably as part of our business, we must first carefully assess whether the resources we handle will remain sustainable in the future. Marine products that are not sustainable will likely not be viable within our business model. Resources such as Alaska pollock, Patagonian toothfish, skipjack tuna, and other species we handle are sustainably managed, so we aim to build a solid value chain and improve profitability, ultimately working towards improving ROIC.

The concept of ROIC has become more ingrained within the company. We have managed to reduce working capital, and if current trends continue, operating cash flow is expected to remain at a level similar to last year (53.6 billion yen). The net debt-to-equity ratio is expected to approach 1.0 times. We will use the cash generated from the sale of strategic cross-shareholdings and other sources to determine how much will be invested in growth investments, including M&A, and in debt repayment, as well as to develop the next medium-term management plan that will allow us to present solid numerical targets for shareholder returns.

Q. Seafood Connection has been performing well and profits are improving. What is the current ratio of high-margin products within the portfolio? If you were to expand successful cases into North America, would M&A be the primary approach?

The ratio of high-margin products (sushi toppings such as shrimp, scallops, octopus, squid, etc.) has steadily increased, and now accounts for about 30%. Additionally, in Europe, where interest rates are high, improvements in inventory management and cash collection have contributed to higher profitability. Expanding in North America, following the example of Seafood Connection, is a significant goal. The North American market is large, but we have faced challenges in penetrating the market with products other than imitation crab. In the future, we would like to expand our business by targeting frozen foods, in particular.

Q. The pet food business is performing well but based on disclosures from manufacturers of the final products, there seems to be some signs of a slowdown in both sales volume and prices. What is your current view on this? Additionally, is there an increasing relative advantage for Thailand in OEM production?

The North American pet food market, our primary market, grew at a CAGR of over 10% from 2019 to 2024. However, the outlook for the next five years suggests that growth will slow to around 3%. Our business partners have strict sustainability management requirements for raw materials, including traceability and the elimination of IUU (Illegal, Unreported, and Unregulated) fishing. Since we can meet these management requirements, we are able to differentiate ourselves and expect continued growth. Currently, our main products are wet pet food, primarily canned products. We expect that there is room for growth as we are conducting research to expand into frozen and freeze-dried categories, for example, and we believe that profitability can be maintained even if we expand our SKU range.

Q. The profit margin of the Processed Foods Business Segment for the first half of this FY was 8.9%, an unprecedentedly high level. Within the 3.0 billion yen increase in operating income in the first half of the FY, please give us a breakdown of the contributions from the domestic business and the pet food business in Thailand. Also, what is your outlook on the sustainability of this performance for the second half of the FY in your main businesses?

The main positive factor behind the 3.0 billion yen increase of operating income is the pet food business in Thailand, while domestic business in the Processed Foods Business Unit were a negative factor. The domestic business was particularly affected by the rising costs of foreign exchange rates and logistics costs. Frozen foods faced difficulties, but we implemented a price revision in September 2024, and we expect a slight increase in profit margins in the second half of the fiscal year. The chilled-stored fish sausage products, which offer high protein, performed well in sales, and the cup jelly products also showed good results.

The pet food business in Thailand saw significant growth in net sales compared to the same period last year, as the first half of the previous year was affected by inventory adjustments. With increased production, operating income also saw a significant rise. On the other hand, since the second half of the previous year saw a recovery from the effects of inventory adjustments, we do not expect the increase in operating income in the second half to be as large as in the first half, but we anticipate that the Processed Foods Business Segment will maintain a relatively high profit margin in the second half of the year.

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