

Marine Resources Business Segment Small Meeting

Q&A Summary

Date: Wednesday, July 16, 2025

Speakers:

Itaru Kawada, Managing Executive Officer, Marine Resources Business Segment Director

Yoshitaka Koseki, Managing Executive Officer, Corporate Planning Dept. & Finance Dept.

Q. Please tell us what other companies besides your own hold quotas for Alaska pollock in the U.S. Also, while market conditions were very difficult in last fiscal year, should we expect Alaska pollock prices to follow an upward trend in the medium- to long-term, or will volatility continue?

Regarding quota holdings, while there is a restriction limiting individual companies to a maximum of 30% ownership, our company currently holds rights that provide access to up to 26%. Other major producers include two U.S.-based companies, one Japanese company, and two Korean companies, and various individual fishing vessel companies.

As for market conditions, Russia, China, and Asian countries are currently the primary buyers of Russian Alaska pollock products. Meanwhile, in Europe and the U.S., where economic sanctions on Russian products are in place, supply shortages have led to rising prices for U.S. Alaska pollock products. While it is difficult to make definitive statements about the future due to geopolitical factors, the overall catch volume of Alaska pollock has remained stable in the long term (under strict resource management). We believe that the resource will remain balanced without significant surplus or shortage, and that there will continue to be a stable market for its consumption. Considering the growth of the global population, we see potential to enhance its value as a source of protein.

Q. <Reference P.10> The upstream operations losses in the FY Ended March 2025 are understood to have been driven by market factors. For the FY Ending March 2028, key drivers for improvement in the upstream operations appear to include market recovery and the effects of production site integration, while downstream profit growth is expected to be supported by a higher in-house production ratio and the expansion of the U.S. surimi market. Could you provide a breakdown of the profit growth factors by component?

A major measure to improve upstream operations is the enhancement of production efficiency through the integration of production companies (two North American subsidiaries were merged in October 2024) to enhance operational efficiency.

Originally, there was a rule requiring one fishing fleet to deliver Alaska pollock to a single company (plant). However, by merging the two companies, it has become possible for one fishing fleet to deliver to multiple plants. This has led to improved production efficiency and is expected to enable a reduction in the number of vessels in the future, thereby reducing costs. As a result, the initiative is projected to contribute significantly to operating income.

In addition, efforts are underway to enhance added value through stronger intra-group collaboration. Currently, approximately 50% of the Alaska pollock products are utilized within the Group. By increasing this ratio, potentially through business partnerships, the Group aims to absorb upstream volatility through downstream operations. Increasing the ratio of value-added processing within the Group is expected to lead to higher profitability.

Q. <Reference P.10> Since the upstream operations includes both mother ships (offshore processing facilities) and invested fishing vessels, does the business model risk one side profiting while the other incurs losses?

Essentially, the fishing vessel and processing operations are managed as an integrated business. Under a 'revenue share' system, profits are split, meaning that if sales increase, the fish price (for the fishing vessel side) also rises, and if sales decrease, the fish price falls accordingly. However, in recent years, the U.S. minimum wage has nearly doubled over the past five years (from \$9 to \$18), creating challenges for the processing side, which requires a large number of employees, to adapt to the changing cost structure.

Since our company also holds equity in the fishing vessels, we are able to incorporate the profits from the fishing side into our financial results.

Q. Are there any macro-level impacts in the U.S., such as tariffs, affecting your operations?

For our business in North America, tariff policies could work in our favor. However, if retaliatory tariffs are imposed, for example in Europe, the impact on Alaska pollock fillet exports would be unavoidable. Nevertheless, since a reduction in imports of U.S. Alaska pollock products to the European market would lead to supply shortages in the market, we believe that retaliatory tariffs on marine products would be limited. Furthermore, we consider that any increase in the selling price of imitation crab products from other countries imported into the U.S. due to tariffs would be a tailwind for our company and could potentially increase the operation of our imitation crab production.

Q. <Reference P.12> Could you tell us about the competitive environment in the imitation crab business? Is it becoming commoditized?

Our investment in this business in the U.S. began in 1985, and while there were initially over 20 companies, only 4-5 major companies remain today due to issues with raw material procurement, stable supply. These few companies now account for over 90% of the chilled market. Although imitation crab still holds a relatively small position in the U.S. retail chilled section, our company has firmly secured market share through both national brands and private brands, creating a high barrier to entry for new competitors. Additionally, by focusing on retail sales in the chilled category, we are also contributing to profitability.

Q. Could you explain the asset-light nature and revenue structure differences among the three units (Fishery Business, Aquaculture Business, North America Operations) in the Marine Resources Business Segment? Also, which unit do you expect to grow the most in the medium- to long-term?

The Fishery Business Unit bears significant costs associated with vessel ownership. Amid labor shortages, it is essential to promote automation, while also assessing new vessel investment, as aging ships present challenges in both crew accommodations and operational efficiency.

The Aquaculture Business Unit doesn't require large investments to secure aquaculture sites but has high operating costs such as fish disease prevention and labor costs (farmed fish require 24/7, 365-day management).

In the medium- to long-term, aquaculture is the business we should expand most. With natural resources not expected to increase, aquaculture is the only way to meet protein supply demand from marine resources amid global population growth. We see significant growth opportunities in species expansion, aquaculture site expansion, and land-based aquaculture. We will consider investments in aquaculture when opportunities arise. In Japan, many operations are closing or suspending due to labor shortages and aging populations, but with proper community engagement, we see room for expansion. Regionally, rising seawater temperatures due to global warming pose business risks, and we experienced high water temperature impacts last summer. Countermeasures include using submersible cages, underwater feeding technology, and net improvements, but aquaculture sites may gradually move northward.

As part of this, we acquired an aquaculture company in Shizuoka Prefecture last year. Currently, red sea bream farming is mainstream, but we aim to expand to species such as yellowtail and amberjack. While it's unclear how far global warming will progress, sea-surface aquaculture in regions like Tohoku is a possibility.

Q. The Aquaculture business has a target of 600 million yen in operating income for the FY Ending March 2028. Was this set considering the risks involved?

Last year's loss was mainly due to rising feed costs and growth delays due to high summer water temperatures. Currently, feed prices are moderating. We're also installing additional submersible cages to avoid high water temperatures and have patented feeding technology for efficient feeding even when cages are submerged, while also considering northward movement of aquaculture sites. Additionally, we're expanding short-term bluefin tuna farming with high production efficiency and scaling up fast-growing fish species (Cobia), with the combined effects of these measures forming our 600 million yen target.

Please note that for farmed fish costs, bluefin tuna has a 4-year farming period and yellowtail/amberjack have 2-year periods, so fish currently in cages will be shipped about 1-1.5 years from now, creating a time lag. While we aim for double-digit profit growth, achieving this within the current mid-term plan period is difficult, and we see the Aquaculture Business Unit's growth pattern as gradually increasing profit levels over 5-10 years as we expand the business.

Q. Why has the Aquaculture business not returned to 2 billion yen in operating income, despite achieving 1.6 billion yen in the FY Ended March 2023?

The key issue is cost. Alongside the surge in feed costs, logistics costs have risen significantly. Our aquaculture sites are in very remote locations, resulting in very high logistics costs. For example, from our main Amami Oshima aquaculture site, fish are first transported to Kagoshima and then again to Tokyo, making logistics costs extremely high.

Note: This document is not a complete record of all questions and answers from the small meeting Q&A session, but a partial excerpt that has been edited by Maruha Nichiro Corporation.