



With two-way communication as our core, we are responding to the changing external environment and pursuing the ideal form of financial management as a 140-year-old company.

Managing Executive Officer
Toru Sakamoto

Financial impacts brought about by COVID-19

We have been promoting business activities to realize our Basic Policy of our Medium-term Management Plan "Innovation toward 2021," which is "Enhance Enterprise Value and Generate Sustainable Growth." However, due to the impact of COVID-19 on the food and beverage industry and a decline in demand for high-end products, our financial results for FY2020 showed a decrease in both net sales and operating income.

On the other hand, although the impact of COVID-19 on the Profit and Loss Statement for FY2020 was significant, we believe that the financial impact was minimal.

The role of the director responsible for finance is to ensure that credit lines are maintained and that the Group's overall cash position is secure. Under normal circumstances, the level of cash and deposits is between 10 billion yen and 20 billion yen, but ultimately, we were able to secure a larger amount of cash and deposits of about 30 billion yen. The impact of COVID-19

on the P/L statement really was significant, but thanks to the cooperation of various people both inside and outside the company, we succeeded in reducing working capital by about 12 billion yen. I believe that, in spite of the COVID-19 pandemic, the fact that we were able to achieve cash flow from operating activities at a level of 33.3 billion yen means that we are getting one step closer to building a stable financial base.

I have been involved in finance, corporate planning, and Investor Relations for around 30 years and have experienced a variety of crises and I feel that the Maruha Nichiro Group's ability to generate cash flow is becoming steadily more robust.

Irrespective of whether COVID-19 is brought under control or not, we will continue to aim to manage our business with an awareness of cash flow. And I believe that it is my unwavering mission to improve corporate value by maintaining the Group's creditworthiness, financial soundness, and increasing profitability. By analyzing risks and opportunities, we will continue to respond flexibly to the various environmental changes brought about by COVID-19.

Towards the Next Medium-Term Management Plan and Maruha Nichiro's Financial Framework

In the next Medium-term Management Plan, we will endeavor to address the question of whether the capital invested in the company is appropriately generating value and whether the company is sustainably creating corporate value by achieving a return on invested capital that exceeds the cost of capital. However, it is vital that all employees are convinced of this before proceeding. We are aware that it will not be an easy task, but if we do not work on it, no progress will be made. Therefore, we intend to carefully construct the next Medium-term Management Plan that includes accountability.

In addition, we believe that building a financial framework that illustrates our financial strategy, including cash and its allocation policy, is important for the next Medium-term Management Plan. Until now, we have yet to build a financial framework, but with our improved financial structure, we are now able to assemble one. The D/E ratio, which is also related to the optimal capital structure, is targeted at 1.5 times in the current Medium-term Management Plan. We anticipate that this will eventually reach a level close to that, and we expect to reach that level as early as possible in the next Medium-term Management Plan.

In preparation for the next Medium-term Management Plan, we will formulate allocation policies for cash flow in order to enhance corporate value and achieve sustainable growth in shareholder value. Specifically, to continue to secure the ability to raise funds, which is the source of the company's strength, we will closely examine the impact on the assumed credit rating and consider an optimal capital structure, including the level of interest-bearing debts. In addition, we are studying the allocation of the overall cash flow based on the optimal capital structure, while taking into account the balance between generating stable operating cash flow, investment in growth, and shareholder return.

We consider dialogue with stakeholders to be an important aspect in determining the allocation of cash flow. As we repeatedly engage in dialogue with stakeholders, centering on investors, we will deepen discussions about their expectations of our company, our strategy, and our approach to shareholder returns, and strive to gain their understanding and empathy so that they may become long-term shareholders of the company.

As for shareholder return, as a listed company, we believe the first responsibility we have is to maintain stable dividends no matter what happens. Based on the financial framework under consideration in the next

Medium-term Management Plan, we will actively consider shareholder returns by combining dividends per share and flexible share buybacks from the perspective of allocable cash flow.

Realization of Sustainable Growth and Integration of Financial and Non-Financial Activities

A company's management resources are finite, and this is a very significant topic of discussion in terms of how to balance each of its financial and non-financial activities. For example, we believe that if business executive officers and unit directors prioritize related non-financial activities while keeping an eye on business growth opportunities in front of them, it will impede their ability to increase economic value. I suppose this is what is called financial and non-financial halation.

However, this is a short-term perspective. If we look at phenomena from the perspective of backcasting from the long-term vision 10 years from now, which is the design policy of the current Medium-term Management Strategy "Innovation toward 2021" and the next Medium-term Management Plan, such halation should not occur. By promoting management that is integrated with sustainability, the competitiveness of the company will be enhanced over the medium to long term.

In the next Medium-term Management Plan, which begins next fiscal year, we will strive to achieve sustainable growth and integrate sustainability and management strategy. If discussions are based on the assumption that financial and non-financial activities are integrated, the KGIs and KPIs for both will be required when the activities are specifically embedded in the business. In the next Medium-term Management Plan, we will be formulating KGIs and KPIs that integrate financial and non-financial activities.

For the company, which has been in existence for 140 years, to grow even more sustainably, we believe it is critical to promote interactive dialogue between all stakeholders, and to comprehensively enhance and promote the sustainability of our earning power as a company as well as social sustainability.