

## First Six Months of Fiscal 2023 Results Briefing Meeting: Summary of Q&A

Time and Date: 13:00 – 14:20 on Friday, October 28, 2022

Attendees: Nisshin Seifun Group Inc.

Kenji Takihara, President

Eiichi Suzuki, Executive Officer, Division Executive, Finance and Accounting Division

Yu Nagaki, Executive Officer, Division Executive, Corporate Planning Division

Q: In terms of future management and M&A strategies, what lessons have you learned from an impairment loss in your flour milling business in Australia that you recently announced?

A: We take this impairment loss very seriously. We will use this as a springboard for steady profit growth. We acquired Allied Pinnacle Pty Ltd. (AP) in 2019. Prior to this acquisition, we had thorough internal discussions on matters such as future cash flows and concluded that AP was attractive. AP was of significance to us in terms of putting our business focus on Australia, a growing market, and having a base in Australia, from which Japan imports wheat, because at the time we did not have a base in Australia, although we already had in the U.S. and Canada. Imports to Asia were also a factor in our decision-making. We believe we were correct in the way we considered acquiring it in 2019. However, looking at the results, it is true that we could not foresee matters such as the COVID-19 pandemic and the Ukraine situation. We will closely examine future cash flows from a variety of perspectives in future acquisitions. We will make efforts to avoid this impairment from dampening our group's momentum to pursue mergers and acquisitions.

Q: Can you tell us how your business will change in the Australian milling business?

A: I became President in June 2022 and also serve as Director of AP. I am deeply involved in the Australia business through direct communication with the local team, an on-site visit in August and online attendance at the board meeting in September. By being deeply involved as President of Nisshin Seifun Group Inc., I hope to achieve the goals set out in Medium-Term Management Plan 2026. It's not a change, but I will take responsibility for the business.

Q: The operating profit target of 48.0 billion yen for fiscal 2027, the final year of Medium-Term Management Plan 2026, is to increase by 18.6 billion yen over 5 years from the base year of fiscal 2022. What is the breakdown of the increase?

A: First of all, we will be committed to achieving an increase of 10.3 billion yen in the Australia flour milling business, as a portion of 18.6 billion yen profit growth. In the domestic flour milling business, the acquisition of Kumamoto Flour Milling Co., Ltd. will have a positive impact on profits, although no specific figures have been disclosed yet. In the processed food business, by trying to expand sales of frozen foods and commercial-use products both in domestic and overseas markets, we believe we can greatly increase profits. In addition, we expect profits to increase in the India yeast business. In the mesh cloth business, we expect to see higher profits from mesh cloth for solar power and hydrogen production facilities. Based on these things, we believe our fiscal 2027 operating profit target, 48.0 billion yen, is achievable.

Q: Please elaborate on your profit increase plan for the Australia flour milling business in Medium-Term Management Plan 2026.

A: Australia is seeing a significant recovery in the flow of people, but the in-store bakery market itself, which is one of our major customers, has not recovered sufficiently yet. Our initiatives for business recovery are not based on the assumption that sales and the in-store bakery market will recover significantly. We will continue to improve our business performance through four initiatives we can do on our own (continual cost reductions, sales growth in core products that leverage our strengths, selection of profitable markets and branding), with the aim of achieving a profit increase of approximately 4.0 billion yen (excluding the decrease in the burden of amortization expenses) during the period under Medium-Term Management Plan 2026.

Of course, I think we will achieve more profits if the market recovers, but that is optimistic and not factored in.

Q: It can be read from a graph in Medium-Term Management Plan 2026 that you have a plan to increase profits from the India yeast business approximately more than 1.0 billion yen in fiscal 2027 compared with fiscal 2022. What are your thoughts on the operating profit margin for the India yeast business?

A: We expect sales to be around 7.0 billion yen and operating profit to be about 1.0 billion yen if the business runs at full capacity. We consider this business to be a highly profitable one and we will be able to firmly achieve a certain level of operating profit.

Q: From Medium-Term Management Plan 2026, I felt your strong determination with confidence to transform into a growth company. What is the basis for your confidence?

A: The Nisshin Seifun Group's core business is very powerful, and I think it is very important to make the most of it. Our group split off its businesses in 2001, and the present structure gives each business company the best fit for its industry. The target operating profit for the final year of Medium-Term Management Plan 2026 has been set out based on agreed figures through thorough discussions with the presidents of the respective business companies. We are sure that the group will be able to achieve the target by firmly implementing the initiatives outlined in Medium-Term Management Plan 2026.

Q: Medium-Term Management Plan 2026 states that you will work on cost reduction in a completely different sphere. Please elaborate on by how much and in what aspects you plan to reduce costs?

A: Almost no reduction effects are factored in in Medium-Term Management Plan 2026. It is what we will work on going forward. The flour milling business is a very labor-saving one, so rather than making improvements to this business, we will make labor-saving efforts in the prepared dishes and other prepared foods business, which has 10,000 employees including temporary workers. We will also pursue labor saving as part of our digital strategies.

Q: You are aiming for an ROE of 7% in fiscal 2027, the final year of Medium-Term Management Plan 2026. What level do you think your company's ROE should be at? As for TSR, what percentage do you think investors need?

A: For the domestic milling business we think the cost of capital is not high because it has low volatility. On the other hand, the overseas business has high volatility, so the cost of capital would be high. There may be a debate as to whether ROE of 7% is good or not, but first of all we will aim to reliably achieve 7% and then consider whether or not to go further. As for our stock price, I am not in a position to comment on its level, but I think that the stock price level was low as of June 28, when I took office as President.

Q: In terms of governance, what are your views on reducing cross-shareholdings and maintaining takeover defense measures?

A: As for cross-shareholdings, it is not a simple matter of losing all cross-shareholdings with customers, especially for companies engaging in business-to-business like our company. While making the necessary cuts, the board of directors will discuss and make a decision every year on the necessity of holding shares. As for takeover defense measures, we think that these need to be maintained under the current Japanese legal system. There is a possibility that in case of a large-scale acquisition of our shares, our company might be bought without us knowing who the acquirer is and for what purpose. Our company has an about 40% share of the domestic flour market, so there is a risk that flour supplies to Japan could be cut off if we were to be acquired by someone who did not disclose the purpose of the acquisition. We have the Corporate Value Committee in place which consists only of the Outside Directors of the Company. For any acquisition proposal to be submitted to us, the committee will deliberate and make a decision.

Q: Your outlook for full-year operating profit from the overseas processed food business was revised downward by 2.6 billion yen, and the main factor for it seems to be EPA-E, a raw material for pharmaceuticals. What is the outlook for EPA-E going forward?

A: We supply EPA-E to Amarin Corporation plc, but shipments from Amarin to the U.S. have been sluggish. Amarin has a large volume of unsold stock and therefore our shipments to it were very low in the first half. For the second half, we expect our shipments to be as close to zero as possible and our full-year forecast reflects this expectation.