

First Six Months of Fiscal 2024 Results Briefing Meeting: Summary of Q&A

Time and Date: 13:00 – 14:10 on Tuesday, October 31, 2023

Attendees: Nisshin Seifun Group Inc.

Kenji Takihara, President

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

Eiji Inoue, General Manager, Investor & Shareholder Relations Office

Q: It looks like the Group can achieve the final fiscal year targets (FY2027 targets) under the Medium-Term Management Plan ahead of schedule. What are your views on this?

A: We have steadily implemented the top priority measures for achievement of the Medium-Term Management Plan, and I really feel we have increased the likelihood of achieving the final fiscal year targets under the plan. The Medium-Term Management Plan incorporates a wide range of strategies, and I believe it is important that we implement them. I believe that in order to lay solid business foundations for FY2027, which is the final fiscal year of the Medium-Term Management Plan, we need to step up necessary investments and initiatives to expand business domains and there is still much we need to do.

Q: Looking at first-half results, the US flour milling business and Kumamoto Flour Milling Co., Ltd. appears to have performed more strongly than initially projected. Please explain why both businesses performed well.

A: The US flour milling business exceeded initial projections and maintained earnings comparable with FY2023, when business results were strong. This is because, in the face of persistent inflation, higher costs were successfully passed through to selling prices and sales and profit margins were maintained and because the management team in the US firmly took action including initiatives to improve productivity and procure raw materials. Kumamoto Flour Milling performed solidly because it has not only wheat flour but also products we do not have such as rice flour and buckwheat flour and because the Kyushu region, where Kumamoto Flour Milling operates, saw a rebound in wheat flour demand due to inbound tourism, etc.

Q: The Australia flour milling business appears to have steadily generated profit while there is a lack of robust demand. Please explain the kind of measures you will take in the future to improve earnings.

A: This fiscal year, we want to achieve our target of increasing operating profit by 800 million yen (year on year), by properly managing four variables, that is, costs, price revisions commensurate with costs, our assessment of demand following price revisions, and the measures in our Medium-Term Management Plan. I believe that creating demand is particularly important and we will make product proposals ourselves and also steadily implement sales promotion activities for in-store bakeries, which are major customers.

Q: Please explain the background to efforts to expand your share of India's yeast market.

A: After putting our plant into operation in August last year, we increased our share of India's yeast market to around 10% in the first six months and to around 15% in the space of a year. I believe this mainly attributable to products that leverage high levels of expertise developed in Japan to differentiate themselves from other products and the replacement of dry yeast imported into India with our products. However, further effort is required to expand our market share going forward and I think this will take some time.

Q: Why is the level of profit projected for the prepared dishes and other prepared foods business in the second half lower than actual profit in the first half? Also please explain if the profit margin can continue being improved going forward?

A: Our second-half projection reflects factors such as that the effect of price revisions will run their course and the minimum wage will increase from October. On the other hand, I believe that higher costs can be absorbed through the implementation of product proposals and productivity improvements and, in practice, we will focus on improving earnings with the second-half projection as the minimum profit level. Furthermore, in the medium and long term, I believe there is room for improvement in the profit margin as a result of increased productivity achieved through the utilization of digital technology and further automation, etc.

Q: Please explain about the future potential of the mesh cloth business.

A: The products of the mesh cloth business can be broadly divided into fiber mesh and metal mesh, and metal mesh is used in solar panel screen printing. This market has the potential to grow further in the future. Meanwhile, the powder technology of the engineering business is used not only in plant engineering but also in cutting-edge fields to finely grind various materials. I believe that collaboration between the engineering business and the mesh cloth business in such areas will be key moving forward.

Q: Please confirm your outlook for the cost environment in Japan and your sales strategies based on this assumption.

A: Wheat is our main raw material and the price at which the government sells imported wheat was lowered for the first time in three years in October. On the other hand, the cost of other commodities besides wheat are in an upward trend and we expect to see continued moderate inflation. I think it is important to figure out what kind of strategies we will take in face of moderate inflation, unlike the extreme food inflation caused by the Ukraine conflict, and we intend to step up sales in relation to profitable markets.

Q: With your earnings increasing at a faster pace than anticipated, please explain how you will approach improvement in capital efficiency.

A: We recently announced that we would be closing Oriental Yeast Co., Ltd.'s underutilized Saitama Plant, which manufactures flour paste, at the end of December this year and consolidating production at the Biwa Plant. We intend to actively implement such initiatives aimed at increasing production efficiency.

Q: Please explain your approach to shareholder returns.

A: We intend to fully use cashflow from operations and cash obtained from asset sales and other sources during the period of the Medium-Term Management Plan in investments and shareholder returns. Under the Medium-Term Management Plan, we plan to invest more aggressively to maintain EPS growth and we plan to use cash for strategic investment, including advancing environmental and digital investments, but we will also return profit to shareholders through dividends. Our initial annual dividend forecast for the fiscal year ending March 31, 2024 was 41 yen, which represented an increase of 1 yen per share from the previous fiscal year; however, in light of the first-half results, we have revised the annual dividend forecast to 42 yen, an increase of 2 yen. This will mean we have in effect increased the dividend for an eleventh consecutive fiscal year.