

Fiscal 2021 Results Briefing Meeting: Summary of Q&A

Time and Date: 13:00–14:20 on Wednesday, May 19, 2021

Attendees: Nisshin Seifun Group Inc.

Nobuki Kemmoku, Representative Director and President

Masashi Koike, Managing Executive Officer, Division Executive, Corporate Planning Division

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

Q. It was mentioned that becoming more able to respond to changes in the market environment has been a challenge since before COVID-19 pandemic. Could you explain that in detail?

A. We believed that becoming more able to respond to changes in the market environment was a challenge related to the domestic market mainly. Our company was hit by COVID-19 pandemic at a point where we had recently come to recognize that our ability to respond to changes in the world had weakened slightly, and so our response was a little delayed while we considered how to deal with the situation remotely. To overcome these challenges, we will review our sales approaches and analyze the market from a more detailed perspective over the next several years.

Q. Could you explain to me about linking systems globally and tell me the estimated amount of system investment?

A. There may be an ideal form of global unification of core systems, but our company has not unified the systems of companies acquired through M&A; what we have done is to connect each company's system with our company's system for accounting purposes. Our challenge is to unify core systems on a global basis, but it does not necessarily mean that we will unify all of them. Given the fact that our subsidiaries are different in terms of their industry sector and business type, we are discussing how to decide which systems need to be unified and how to link them. We believe that the cost will depend on the outcome of such discussion.

Q. What are the operating profit projections for the first half of the year?

A. The operating profit for the first half of the year is expected to recover to a certain extent in the flour milling business in Japan and Australia and the prepared dishes and other prepared foods business. However, as for the processed food business in Japan, we expect to see a rebound as a result of significantly reducing the sales promotion cost in response to a sharp increase in demand in the first half of the previous year and spending a large amount on advertising expenses in the second half of the previous year. The volume of shipment of raw materials for pharmaceuticals to the United States in the first half of the year is expected to decrease year-on-year more than in the second half of the year, due to the impact of COVID-19 and other factors in the United States. Therefore, the (consolidated) operating profit for the first half of the year is expected to be on a par with that in the previous year.

Q. What will be the impact of the rise in the market prices of wheat on business results?

A. In the flour milling business in Japan, the impact on our business results will be neutral because, when wheat prices increase, we ask our business partners to revise the prices based on our long-adopted rules. The same applies to our overseas flour milling business. With regard to the processed food business, as prices of various items are rising, we are currently discussing internally within the group whether we can absorb these increases through our own efforts or whether we will have to ask our business partners to revise prices.

Q. Please explain why it will take one to two years to see a recovery in the flour milling business in the United States and two to three years to do so in Australia, and I would also like to know the future growth story.

A. In the United States, the business performance deteriorated in fiscal 2019 due to intensifying sales competition, but we managed to recover the business performance in fiscal 2020. However, as our clients are facing changing environment conditions due to the impact of COVID-19, we would like to take another year to work on building a solid business base. At the same time, in an effort to ensure future growth, we will increase the sales volume of wheat flour in response to population growth. We will also expand our product lineup by, for example, offering products with particular characteristics such as prepared mix, organic flour and cereal flour of a different kind. In Australia, demand fell due to the impact of COVID-19 at a point when problems became apparent a year after the acquisition, and then the impact from the problems increased, which in turn caused the business performance to deteriorate. In addition, as there were restrictions on travel from Japan to Australia due to COVID-19, it was difficult to communicate. However, the situation has been improving gradually and we will work on resolving the problems in the current fiscal year and over the next two to three years. Considering the need to broaden our range of clients, next to the large supermarket chains, we are looking at supplying raw materials/ingredients to the smaller, up-and-coming supermarket chains and stores such as convenience stores, etc. We also believe that exports to other countries have potential, so we aim to grow through these combined efforts.

Q. I would like to know whether the increase in the market prices for wheat was the factor that resulted in the closure of plants of your clients in the United States and the loss of trade in Australia.

A. The closure of plants of our clients in the United States was probably due to changes in the market environment caused by COVID-19 pandemic. And the loss of trade in Australia was probably due to slightly intensifying competition resulting from COVID-19 pandemic.

Q. Is it possible to reduce costs further in the flour milling business in Australia?

A. In addition to reducing distribution and storage costs as part of the Distribution Improvement Project that we have been working on since the previous fiscal year, we believe there is still room to reduce raw material procurement costs. In the current fiscal year, we expect to continue benefiting from the personnel review and the consolidation of inefficient production lines, which we implemented in the previous fiscal year, and we will reduce labor costs by further automating production lines.

Q. What is the outlook for the profitability of the prepared dishes and other prepared foods business in the next fiscal year and beyond?

A. We aim to achieve a profitability that is higher than the projection for this fiscal year by increasing efficiency through automation and expanding sales of high-value-added products.

Q. What is your company aiming to achieve under the next mid-term plan?

A. I cannot say anything specific about the next mid-term plan, but we will aim for an operating profit of over 30 billion yen, which was the target set in the previous medium-term management plan.