Fiscal 2023 Results Briefing Meeting: Summary of Q&A

Time and Date: 15:00 – 16:10 on Monday, May 15, 2023
Attendees: Nisshin Seifun Group Inc.
Kenji Takihara, President
Eiichi Suzuki, Executive Officer, Division Executive, Finance and Accounting Division

Q: The Australia flour milling business has been steadily improving its earnings. Please explain the background to the results achieved in the fourth quarter of fiscal 2023 and the sustainability of the earnings improvement in fiscal 2024.

A: Our earnings improved considerably in the fourth quarter of fiscal 2023 versus the same period of the previous year. As a result of multiple price revisions in fiscal 2023, price revisions caught up with cost increases to some extent in the fourth quarter. The increase in profit was also due to a rebound from the weak earnings in the fourth quarter of fiscal 2022 caused by supply chain disruptions. In the Australia flour milling business, the outlook for food inflation is becoming more visible. And since the business has clarified and working on what it needs to do, we believe its future is quite bright. We would like to firmly address the 0.8 billion yen increase in forecast operating profit for fiscal 2024 (year-on-year change, excluding the decrease in depreciation and amortization burden) that we have put forth.

Q: You are increasing production capacity in the U.S. flour milling business, but I am concerned there will be an oversupply in the U.S. market as before. Please share your thoughts on that point.

A: We have decided to expand our plants in Los Angeles (California) and Saginaw (Texas). The decision was made to expand these two plants because of their high operating rates and expected market growth. Since the investment in the Los Angeles Plant is small, we do not expect any supply-demand issues to emerge. We plan to boost production capacity at the Saginaw Plant in Texas by 600 tons per day, which will increase its production capacity by approximately 40%. Yet, looking holistically we do not believe the Texas Plant will face a supply glut, given the state's growing population. Also, the flour supply in Texas is not sufficient to meet demand, and flour is being brought in from other states.

Q: Regarding the India yeast business, you mentioned in your Medium-Term Management Plan that you are aiming for a 30% share of the yeast market in India and expect this to contribute to profits. How has the business been recently?

A: The Indian market is the largest in the world with a population of approximately 1.4 billion. Its bread market is expected to grow at a CAGR of about 6%. Fiscal 2023 was the timing in which we launched the new plant. Although the business is in the red, it is aiming for a profit increase of about 0.6 billion yen in fiscal 2024 through sales expansion. Looking at the current situation, costs have risen considerably compared to the original business plan. Normally, we would raise prices, but since we are a new market entrant, our first priority is to expand sales rather than revise prices. So it will take some time before we can move into the black. The India yeast business has already captured about 10% share of the Indian market, and we seek to raise this to 20% by the end of fiscal 2024. By continuing to drive sales expansion, we would like to achieve a 30% market share by the end of the Medium-Term Management Plan period.

Q: Your profit plan for the domestic processed food business for fiscal 2024 is to recover profits that fell in fiscal 2023. Please tell me how you intend to achieve that plan.

A: Following the wheat price revision in April, we will raise the prices of processed food products in July. Although there is a risk of a decline in demand, we will address this by implementing new product development and advertising strategies. In addition, we announced price reductions from September for pasta made in Japan, indicating a change in the cost inflation situation from the previous fiscal year. We intend to implement sales expansion measures to recover shipments lost in fiscal 2023, and to regain the portion of costs incurred in that year through price revisions and other measures in fiscal 2024.

Q: <u>I believe you have invested considerable marketing costs since January 2022 in the domestic processed food business to popularize the Nisshin Seifun Welna brand. I would like to know the effects and results of such investment.</u>

A: Although there are figures for specific results that have been confirmed internally, the details are not disclosed. We believe our brand recognition is still in its developing and that brand strategy investments still need to be made.

Q: <u>Please tell me the status of Nisshin Pharma's shipments of EPA-E, a raw material for pharmaceuticals.</u>

A: EPA-E shipments to the U.S. in fiscal 2023 declined significantly from the previous year. Currently, we are approaching the E.U. and other regions and implementing initiatives beyond these regions as well. However, at this point, the outlook for EPA-E shipments to each region is not yet clear, and our profit plan for fiscal 2024 set flat year-on-year.

Q: <u>You have stated that all funds from the sale of cross-shareholdings will be earmarked for investments. Under what conditions would you be willing to allocate more to shareholder returns?</u>

A: For the fiscal year ending March 2023, we originally questioned if we should increase the dividend in a loss-making year. However, we were confident in the earnings outlook and therefore decided to increase the dividend. We will also increase the dividend for the fiscal year ending March 2024. That said, during the period of the Medium-Term Management Plan, we plan to invest firmly in growth, and we hope to use the cash we will earn from those areas. If that investment falls short of expectations, we believe the timing will arise to enhance shareholder returns.

Q: <u>The ROE target for the final year of the Medium-Term Management Plan is 7%. I would like to confirm whether there is a plan to further raise the ROE target.</u>

A: First of all we would like to achieve the 7% target for the final year of the Medium-Term Management Plan. At this juncture, we do not intend to change our final year target of 7% during the Medium-Term Management Plan period. But of course we are not going to be satisfied with 7%.

Q: <u>As you have started to adopt ROIC management, please describe the issues you are facing regarding ROIC for each of your businesses.</u>

A: Regarding ROIC, we have discussed at the Group Management Committee that we should implement it from fiscal 2024. At this point, there is no consensus as to which businesses have which issues, and we would like to confirm these issues after one to two years of initiatives.