Fiscal 2024 Results Briefing Meeting: Summary of Q&A

Time and Date: 13:00 – 14:00 on Monday, May 20, 2024	
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: I have questions about the domestic flour milling business. Please explain why profitability improved in FY2024 and why profit is forecast to decline in FY2025.

A: There are multiple factors for the profitability improvement of the domestic flour milling business in FY2024. The main factors include the effect of the new consolidation of Kumamoto Flour Milling Co., Ltd., the implementation of price revisions including a belated pass-through to selling prices of cost increases in the previous fiscal year, and an improvement in the product mix, which had worsened due to the COVID-19 pandemic. Temporary factors include the fact that bran prices remained strong.

On the other hand, we forecast profit to decline in FY2025. This reflects a downturn from the strong performance in FY2024 and increases in costs including personnel costs and electricity cost. Moving forward, we plan to make various investments in the domestic flour milling business, so the burden of depreciation and amortization is expected to increase. However, we want to improve profitability further, such as through synergy with Kumamoto Flour Milling Co., Ltd.

Q: You said that you will not reflect increases in labor costs, electricity cost, and other costs in the FY2025 price revisions in the domestic flour milling business. Why is that?

A: We revise the wheat flour price twice a year. Basically, we only reflect changes in wheat prices in the price revisions. We did not have a practice of reflecting other costs in the revisions. While we plan to reflect the increase in transportation cost in the price revision planned in July this year, we will not factor in increases in other costs.

Q: I have questions about the purchase of leased assets in the Australia flour milling business, including land, buildings, and production equipment. When will it have an impact and how great will the impact be in monetary terms?

A: In the Australia flour milling business, lands, buildings, production equipment, and other assets of most plants are leased. We may purchase these assets in the future. At present, we have yet to decide whether to purchase them or not. We regard it as one of the options for using cash on hand. We have yet to decide when and for how much we will purchase, because the decision will be made upon discussion with contract counterparties.

Q: Do you position the period from FY2025 to FY2027 as the final fiscal year of the Medium-Term Management Plan as a period for solidifying the foundation or as one for profit growth, when you consider whether to revise numerical targets for the final fiscal year of the Medium-Term Management Plan in the future?

A: We would like to consider whether to revise the numerical targets for FY2027, as the final fiscal year of the Medium-Term Management Plan, within this first half, and present the results of the consideration in the interim results briefing for FY2025. To continue achieving profit growth into FY2027 and beyond, we want to accelerate investments during the remaining period of the Medium-Term Management Plan, including FY2025, thereby building a solid business foundation. At the same time, we will strive to achieve profit growth.

Q: You plan to create cash flows from operating activities at around 250 billion yen during the five-year period of the Medium-Term Management Plan. If the amount of cash flows from operating activities is greater than the initial plan, will you use all of it for investments?

A: We think that we do not need to accumulate any more cash on hand. Basically, cash flows from operating activities and cash obtained from sales of assets including cross-shareholdings will be used for investments first. We plan to use all of the cash for investments and shareholder returns.

Q: You said that you will make investments aggressively. Are you conscious of profitability and capital efficiency when you make investment decisions?

A: There are various types of investment. For example, the construction of the new development base (Yoga Office (tentative name)) that we announced today will not itself generate profit in the short term. However, it will result in a workplace environment where employees can work energetically, thereby producing profits over the long term. Investment in the environment and DX have a similar aspect. We would therefore like to make investment decisions from diverse perspectives while also being conscious of profitability and capital efficiency.

Q: I think that your policy of reducing cross-shareholdings by more than 15 billion yen in the coming three years is slower than the expectations of the capital market. Can’t you reduce them more quickly?

A: We think that reducing cross-shareholdings by 15 billion yen in the coming three years itself is not easy. However, this is the result of our commitment to external parties, so we would like to proceed with it responsibly. We understand that the capital market demands higher speed, but we will first reduce them by 15 billion yen and then move forward by internally discussing whether further reductions are possible or not.

Q: I think that while your business performance is getting better, you are facing a challenge of improving capital efficiency. What do you think about this?

A: Regarding ROE, I think that we need to have a certain level of equity capital as a company that supports the food infrastructure. To improve capital efficiency, we have taken steps such as closing the Saitama Plant in the yeast and biotechnology business in the previous fiscal year. We will also proceed with reducing cross-shareholdings. In addition, we want to increase ROE by taking measures in the aspects of both equity and returns, including further profit growth.