

First Six Months of Fiscal 2025 Results Briefing Meeting: Summary of Q&A

Time and Date: 13:00 – 14:00 on Friday, November 1, 2024

Attendees: Nisshin Seifun Group Inc.

Kenji Takihara, President

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

Tetsuya Shishikura, General Manager, Investor & Shareholder Relations Office

Q: You have revised your operating profit target for the final year of the Medium-Term Management Plan (FY2027) to 57 billion yen. Which businesses do you believe will drive profit to achieve this target? Will the overseas businesses contribute significantly in the long term?

A: The growth of overseas businesses is not the primary reason for the upward revision. That said, the improvement of the performance of the Australian flour milling business and the India yeast business will be major factors increasing profit. We also expect earnings to grow significantly in the processed food business. The mesh cloth and engineering businesses are also performing well. Given the current business environment, we aim to achieve the growth of profit in these businesses.

Q: I thought the Australia flour milling business was struggling. However, today's explanation made me feel that you are more confident about the growth of the business. Could you provide the background for this?

A: The market environment in Australia remains challenging, but our shipments have improved due to increased demand for foodstuffs used to prepare meals at home, which is associated with inflation. We anticipate that this environment will continue for some time to come. Our business analysis has revealed variations in the profitability of different products and different levels of efficiency of production lines, and we have found areas for improvement. This is another important factor. To date, we have primarily addressed sales issues. From this point forward, we will also enhance our production efforts to achieve results.

Q: What investments in the processed food business do you plan to make to increase profit levels and profitability?

A: To increase profit levels, we will first launch new products to increase sales of our products and expand our market share. Additionally, we aim to invest to enter new business domains. We currently do not manufacture all of our products in-house in the processed food business and are planning to make investments aimed at increasing productivity. We will also invest in initiatives that ensure profitability, including the development of new businesses and the expansion of sales both in Japan and overseas.

Q: Will generating profit be difficult due to your investments, or will you be able to achieve profit growth while actively investing?

A: We acknowledge concerns about increasing depreciation due to active investment, which leads to a short-term decline in earnings. We consider long-term profitability when prioritizing our investments. We can improve the production efficiency of certain businesses. If we achieve these improvements, the return on investment may outweigh the increase in depreciation in the short term. During the Medium-Term Management Plan period, we aim to achieve the numerical targets that we have presented. We will also invest to achieve profit growth that surpasses them.

Q: Could you describe your ROIC monitoring?

A: We explained a year ago that we would manage our ROIC effectively. We are internally managing the ROIC to improve it, evaluating both the numerator and the denominator.

Q: I believe the final year ROE target of 8% is not high. Considering this, is the current shareholder return sufficient? I also think that streamlining the balance sheet is necessary. What are your thoughts?

A: We acknowledge that an ROE of 8% is not high. We need to raise it. Our goal is to utilize all the cash generated by operating activities and the funds gained from the reduction of cross-shareholdings to invest and provide returns to our shareholders. We prioritize investing our cash to grow our business. We do not think we need to accumulate additional cash. If there are not sufficient investment projects, we will more actively return profits to our shareholders.

Q: Please explain how you plan to use the cash generated from operating activities and from the proactive reduction of cross-shareholdings. What are your thoughts on enhancing shareholder returns, including share buybacks?

A: We have no specific investments to disclose other than those we have already disclosed. We do not intend to accumulate additional cash and plan to utilize all the cash we have generated, including the funds obtained from the reduction of cross-shareholdings, during the Medium-Term Management Plan period to invest and return profits to our shareholders. We have not made any decisions regarding share buybacks. We have two and a half years remaining in the Medium-Term Management Plan period. Our priority is to implement our business and investment strategies.

Q: What are your thoughts on your PER and PBR levels?

A: We recognize that our PER and PBR are not high. We have not effectively communicated our initiatives aimed at growing our business and enhancing capital efficiency to the capital market. Considering this, when we announced our revision of the numerical targets of the current Medium-Term Management Plan, we stated our goals, to achieve profit growth, enhance shareholder returns and reduce cross-shareholdings. We aim to achieve results that demonstrate the changes in the Group, thereby meeting the expectations of the capital market, responding to its trust, and increasing PER and PBR.