

Q&A at Fiscal 2021 Business Segment IR Meeting
(Food Industry Group)

Date	June 3, 2021 (Thu.) 16:00 to 17:30	
Presenters	Norio Saigusa	Group CEO
	Ken Yamaguchi	General Manager, Group CEO Office
	Yoshihiro Shimazu	General Manager, Group Administration Dept.
	Koji Kishimoto	Division COO, Food Sciences Div.
	Shuji Kobayashi	Division COO, Food Resources Div.
	Yasumasa Kashiwagi	Division COO, Produce & Marine Products Div.
	Kazuo Ito	Division COO, Global Fast Moving Consumer Goods Div.
	Tatsuhiko Terada	General Manager, Investor Relations Dept.

Questions and Answers

Q. Cermaq's earnings have been quite volatile in recent years. What is the profit breakdown among Divisions, and which business is growing?

A.

- The profit of each department directly controlled by the group and Division is roughly 10 billion yen each.
- It is only in recent years that Cermaq's earnings has become volatile. Between FY2016 and FY2018, Cermaq was steadily generating around 18 billion yen of profit. Earnings in FY2020 were extremely disappointing due to COVID-19, but we expect Cermaq to grow in the future.
- The food sciences business and livestock business are both growing steadily. Moreover, the grains, animal feed and livestock business is generating extremely stable profits.

Q. You mention the growth of the food sciences business. However, profits of Mitsubishi Corporation Life Sciences and Nihon Shokuhin Kako are not. In which areas, and through what initiatives, are you seeing the growth?

A.

- Mitsubishi Corporation Life Sciences (“MCLS”), the nucleic acid-based yeast extract business has been growing in the past years, and MCLS is going to ramp up capacity in its Saiki Plant in Kyushu. Demand in this area is extremely strong globally, and we expect growth in this business. MCLS is the leading company in the yeast, they can expand business globally. As demand for plant-based meat and alternative meat grows, MCLS’s sales in the U.S. is increasing, thanks to its unique products. In addition, MCLS has a strong business platform in the U.S., with sales offices that have partial manufacturing functions, and is seeking to expand its business by positioning the U.S. as its core market. Moreover, the cosmetics business, which is also expected to grow, has been integrated into MCLS this fiscal year.
- Nihon Shokuhin Kako’s performance in FY2020 was strong, thanks to the decline in corn prices and fuel costs, and other factors.
- Moreover, in the pharmaceuticals raw materials business, Fujifilm Diosynth Biotechnologies, the joint venture with Fuji Film, is steadily expanding as it seeks to become the top player globally. In the field of agrochemicals, Deccan Fine Chemicals, which is engaged in agrochemical raw materials in India, is growing to become a world class company. The growth in global demand for agrochemicals is slowing, but Deccan Fine Chemicals is producing core materials which it supplies to the top agrochemical manufacturers around the world, and is well-prepared for the expected growth in global demand.

Q. How will the profits of each Division change, as you move towards the mid-to-long term profit goal of 60 billion yen.

A.

- Our growth drivers include the salmon farming business, the grains, animal feed and livestock business, and the food sciences business, which account for approximately 60% of your current profits. Through asset replacements, investments, etc., we plan to grow these businesses so that they generate around 70-80% of profits.

Q. For businesses other than the growth drivers, do you plan to shrink the asset size while aiming to improve profitability? And for the growth driver businesses, do you plan to increase both asset size as well as profit level?

A.

- We have been working on the unprofitable and low-growth Group companies. We will list up each of the businesses, assets, etc. to which we cannot expect to contribute going forward, and proceed with the Group's asset replacement.
- In terms of actual examples of asset replacement, we divested from the mineral water business that Princes of the UK used to own. We entered into this business because we believed Princes acquiring and managing the business will turn it profitable, and we could make sufficient contribution to its earnings. However, because the business entered the phase of stable operation, the mineral water business was sold in FY2020. This is a good example of asset replacement in the cyclical growth model.

Q. What impact do price fluctuations in the salmon farming business, as well as in commodities such as grains, animal feed, etc., have on your earnings? Do you plan to achieve the mid-to-long term profit goal of 60 billion yen through profitability improvement, by controlling price fluctuations of commodities to a certain extent, based on the fact that you have built up the entire value chain? Or will your future image be disrupted by commodity price fluctuations?

A.

- Commodity price fluctuations have both positive and negative effects.
- In order to become more tolerant to price volatility, it is extremely important to improve productivity at each Group company. For example, Cermaq, the salmon farming company, is always working on improving its productivity, such as enhancing the quality of non-standard products that used to be sold at a very low price, and turning them into processed foods, raising the utilization of its processing plant, and improving efficiency of the feeding operations. It is also working on streamlining its underutilized assets, as well as various cost reductions, etc. On the sales side, Cermaq is strengthening its coverage of processed

foods such as frozen sliced fish, for which there is relatively less price volatility, in order to stabilize the sales price. We intend to strengthen our resistance to commodity price fluctuations through such measures.

Q. The FY2020 results were affected by COVID-19, but what do you think is your current fundamental earnings level? What is the expected timeline and asset size for achieving the mid-to-long term profit goal of 60 billion yen? Do you plan to keep the level of assets where it is today, by asset replacement etc., or do you plan to grow the asset level?

A.

- The result for FY19 was 53.4 billion yen, and FY20 was 39.4 billion yen. Since it can be said that the fundamental earnings level should include one-off gains and losses, there should be a debate on the definition of fundamental earnings level. Given the background, we set the FY21 forecast at 41 billion yen. We believe that the current fundamental earnings level should be between 40 billion and 50 billion.
- As for the mid-to-long term profit goal of 60 billion yen, the intention is to achieve it in FY2024, which is during the next Midterm Management Plan period. This growth will mainly be organic growth.
- Total assets as of the end of FY2020 was approximately 1.7 trillion yen. While there will be disposals through asset replacement, there will also be investments, and the asset size will remain almost unchanged from the 1.7 trillion yen as of the end of FY2020.

Q. You say you will further accelerate asset replacements, including the assessment of loss-making or low-growth businesses. The policy of replacing assets has started since Mr. Kakiuchi was appointed President. What are the things that you have yet been unable to do, and what do you need to further accelerate going forward?

A.

- Our Group has 63 companies subject to consolidation. We are assessing each of these 63 companies, and listing up loss-making or low-growth companies, as well as companies for which revenue will remain flat over 10 years. We will retain Group companies that serve functions necessary to the supply chain, as well as parts that can be expected to grow in the future.

- As for the speed with which the process is carried out, our impression is that asset replacements take an extremely long time, due to the various factors involved. However, we will proceed with asset replacements with strong determination. In FY2020, we consolidated the sugar production industry, which we see as an example of asset replacement.

Q. For Olam International Ltd. (“Olam”), you invested more than 100 billion yen in 2015 to make it an equity method affiliate. After 5 years since the investment, how do you evaluate this project? From the outside, the project seems somewhat far off from managing a business, but what is your future policy regarding Olam?

A.

- Unfortunately, in FY2020 there was the impairment loss for the palm business in Gabon, which had a significant impact on the Group’s profit. However, during the 5 years we confirmed our views that Olam has an extremely strong business foundation in its core businesses, including coffee, cocoa, nuts and other Africa businesses.
- Our stake is a little under 20%, and because Olam is a public company, we as shareholder have sent in 2 Directors to the Board. Olam has 6 business administration committees, and those 2 individuals are participating in all of the 6 committees. Moreover, we have sent 3 staff, and would like to contribute to improving Olam’s corporate value as one of the shareholders.

Q. Other than booking profits from Olam in accordance with your stake, is there profit contribution from related businesses such as trading etc.?

A.

- We have set up a joint venture with Olam in Japan called MC Agri Alliance, and are engaged in the trading of coffee, cocoa, nuts etc. to Japan.
- Moreover, we believe Olam’s strengths lie in the field of sustainability. With our investment in Olam, we began the “imperfect” business in Omotesando, Tokyo, from a sustainability standpoint, although it is not yet contributing to profits.

Q. What are your thoughts on the parent/child listing of Nihon Shokuhin Kako and Nitto Fuji Flour Milling?

A.

- We plan to continue working on corporate value improvement, as shareholder, while also complying appropriately with guidelines etc. on listed subsidiaries.

Q. Cermaq, which is involved in the salmon farming business, is one of your growth drivers. The business has been impacted significantly by market price fluctuations. As you seek to ramp up production volume further, I expect the business to become even more volatile. How will you cope with this volatility, as you pursue the mid-to-long term profit goal of 60 billion yen?

A.

- Cermaq's strength lies in the fact that it has production facilities in both the northern as well as the southern hemisphere. Production volume in the northern hemisphere is slightly less than the demand, so we would like to increase production in the northern hemisphere.
- In terms of coping with volatility, we believe the key is to improve productivity over competitors. Cermaq's earnings were sluggish in FY2020, due to weak pricing, but for FY2024, out of the profit goal of 60 billion yen, we hope to generate around 20 billion yen through Cermaq. We expect the volatility in commodities to continue to have both positive and negative effects on the salmon farming business. The key will be to improve productivity while maintaining volume.

Q. You mention how you will maintain the asset size of 1.7 trillion yen while you seek to achieve the mid-to-long term profit goal of 60 billion yen. What is the policy on asset replacements?

A.

- In the grains, animal feed and livestock business, which we position as a representative example of profitability improvement, we have core companies such as Nosan Corp. and Itoham Yonekyu Holdings, which have a certain level of market share and industry presence, on the supply chain. However, at the level of each company, there still is room for improvements in efficiency. Our aim is to improve profitability of the

overall supply chain, which will be done by achieving higher productivity and profitability of each individual business. For loss-making or low-growth businesses, we will look carefully at each company, including from the above perspective, and make our decisions.

Q. What is the status of de-carbonization in the Food Industry Group?

Do you have GHG reduction targets for 2024 or 2030?

A.

- Since our Group has a solid and seamless supply chain from upstream to downstream, we will address the social issue of GHG emissions from the perspective of the entire supply chain, rather than simply have each Group company address the issue.
- In logistics for example, one of the challenges is to improve efficiency of ship and truck transportation. On the manufacturing side, we need to gradually switch power sources required in the manufacturing process to renewable energy. The farming and livestock industries receive a lot of attention in relation to GHG emissions. Farming takes place throughout the world, and the government is expected to use various technologies to decarbonize, so we will carefully monitor the outcome. The Group is already working on plant-based meat, which is more environment friendly than regular meat, and we will also watch the status on commercializing cultivated meat. As an example of decarbonization, Japan Farm Corp. in Kyushu is working on making effective use of resources through a recycling model. Together with biomass power generation making effective use of poultry waste from farms as fuel, Japan Farm produces and sells composted organic fertilizers using its factory on the site of its pig farm, from the fermentation process of pig waste.
- Moving forward in food distribution DX, which we are currently working on, will initiate collaboration with up-stream and mid-stream parts of the supply chain, and we plan to reduce GHG emissions by making our demand forecasting more accurate and reducing food loss. Pursuing DX will lead to a reduction in GHG emissions, and therefore EX, but things are still in the trial phase, and we will consider setting actual reduction targets going forward.

Q. In terms of the Myanmar business conducted by the Developing Markets Office, based on the unfavorable situation in Myanmar, what is the current status and future outlook?

A.

- We have a joint venture company called Lluvia in Myanmar, which handles daily necessities such as food products, food resources, etc. Although the impact of the local situation on the business has been minimal, it is true that Myanmar is in turmoil due to the coup, and we will continue to monitor the situation.

Q. In terms of improving the profitability of the Food Resources Division, outlined on page 11, you explain how you plan to do so using the value chain. With various companies in the value chain, how do you achieve profit growth?

A.

- Our competitiveness lies in the line of businesses that make up the strong supply chain, covering the entire process upstream to downstream, from the procurement of materials to processing, manufacturing and sales. Current profits are stable at around 20 billion yen, including the grains business, and we plan to further reinforce the business. The key strength in this business is the fact that we connect the grains that we procure from the U.S., Brazil and Australia to various Group companies such as Nosan Corp. and Nitto Fuji Flour Milling.
- In our retail business, we have Kentucky Fried Chicken, as well as working on the alliance with Lawson, although the business is part of another Group of Mitsubishi Corp. In the area of product development, we will also pursue synergies of the entire Group, and apply it to the whole supply chain to achieve growth.

Q. In this supply chain, you end up importing to Japan in a lot of the businesses. It is hard to imagine how you will grow profits by targeting the Japanese consumer market. How do you plan to grow profits?

A.

- Japanese market certainly is the core of the supply chain. However, with geopolitical tensions between the U.S. and China, we conduct the

soybeans business not only in the U.S. but also in Brazil, and export soybeans from Brazil to China, as well as being engaged in other businesses.

- Japan is a major importer of food resources, and we are continuing our stable supply, while doing business with various countries, based on the stable flow, and making use of cost competitiveness etc. through our buying power and utilizing large vessels. We plan to continue growing our profits through businesses with other countries.

Q. What was the investment cashflow of the Food Industry Group in FY2020?

A.

- The total amount of new and renewal investments, and disposals & collections for the entire firm in FY2020 was approximately 800 billion yen and 450 billion yen respectively. The cashflow of the Group is close to 10% of those figures.