

First Half of the Fiscal Year Ending February 2017 (1H FY2/17) Results Briefing

WARABEYA NICHIO HOLDINGS CO., LTD.



(2918)

October 7, 2016



Overview of Financial Results for 1H FY2/17 and Full-year Forecast for FY2/17 (Consolidated Basis)



Consolidated financial results for 1H FY2/17

(Millions of yen)

	1H FY2/16	1H FY2/17		YoY	Vs Forecast at beginning of FY
	Results	Forecast at beginning of FY	Results		
Net sales	108,430 (100.0)	111,200 (100.0)	109,658 (100.0)	1,227 <1.1>	-1,541 <-1.4>
Operating income	2,386 (2.2)	2,800 (2.5)	3,027 (2.8)	640 <26.8>	227 <8.1>
Ordinary income	2,677 (2.5)	2,900 (2.6)	3,287 (3.0)	610 <22.8>	387 <13.4>
Profit attributable to owners of parent	1,890 (1.7)	1,750 (1.6)	1,644 (1.5)	-246 <-13.0>	-105 <-6.0>
EPS (Yen) (attributable to owners of parent)	107.47	99.78	93.78	-13.69	-6.00

* Figures in () show sales ratio, and figures in < > show change (%).

Estimates for 1H FY2/17 announced on April 13, 2016.

Forecast and difference factors

(Millions of yen)

	1H FY2/17		Vs. Forecast
	Forecast at beginning of FY	Results	
Net sales	111,200 (100.0)	109,658 (100.0)	-1,541 <-1.4>

[Difference factors]

Food Products Business	-1,650
Rice Ball	-1,700
Sushi	-200
Delicatessen items	-300
Chilled Japanese sweets	+600
Food Ingredients, Logistics, Other Businesses	+110

(Millions of yen)

	1H FY2/17		Vs. Forecast
	Forecast at beginning of FY	Results	
Operating income	2,800 (2.5)	3,027 (2.8)	227 <8.1>

[Difference factors]

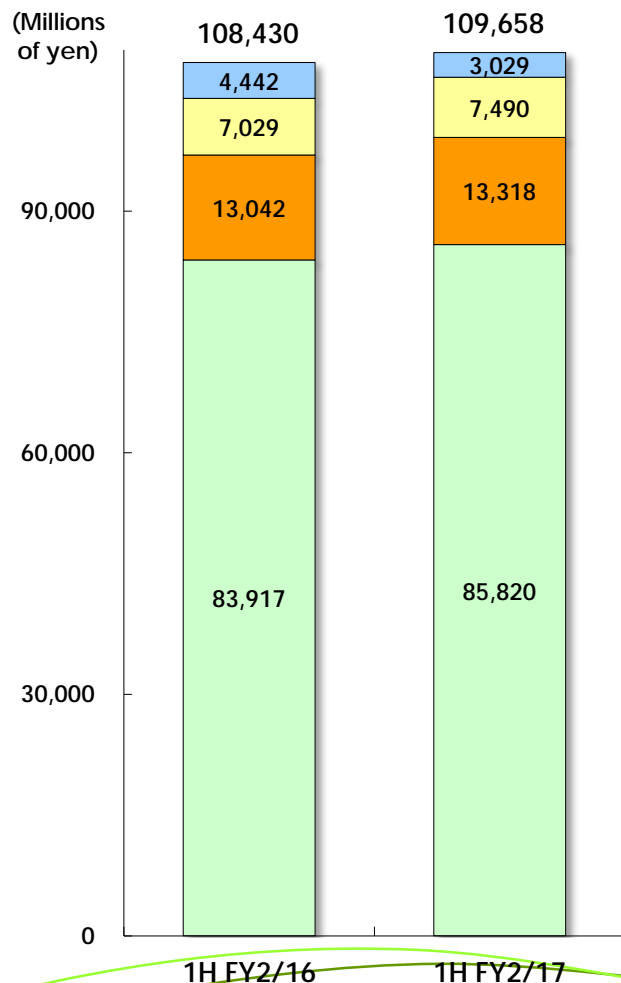
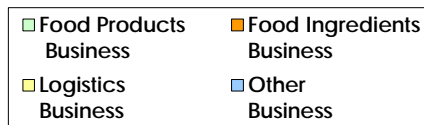
Food Products Business	+170
Of which, Sales shortfall at existing plants	-140
Of which, Decline in utilities costs	+240
Of which, New Plants	+110
Food Ingredients, Logistics, Other Businesses	+60

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Estimates for 1H FY2/17 announced on April 13, 2016.

Consolidated net sales by segment (YoY)

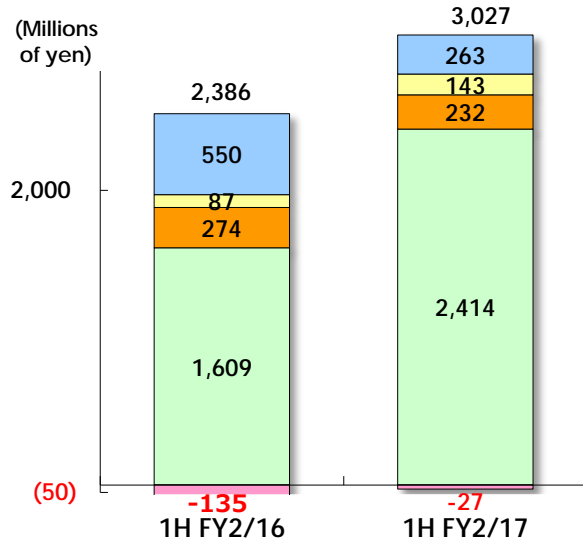
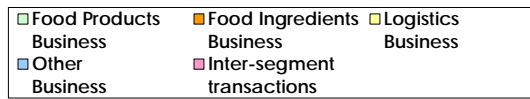
(Millions of yen)

* Figures in < > show change (%).



	1H FY2/16	1H FY2/17	Change	Change factors
Total net sales	108,430	109,658	1,227 <1.1>	
Food Products	83,917	85,820	1,902 <2.3>	Increased delivery point stores and increased sales growth for chilled boxed meals, bread products and chilled Japanese sweets
Food Ingredients	13,042	13,318	276 <2.1>	Higher sales of fish roe, salmon and trout
Logistics	7,029	7,490	461 <6.6>	Growth in transaction volume in joint distribution business supplying Seven-Eleven
Other	4,442	3,029	-1,412 <-31.8>	Pullback in sales in Food Manufacturing Equipment Business after large orders in the same period of the previous fiscal year

Consolidated operating income by segment (YoY)



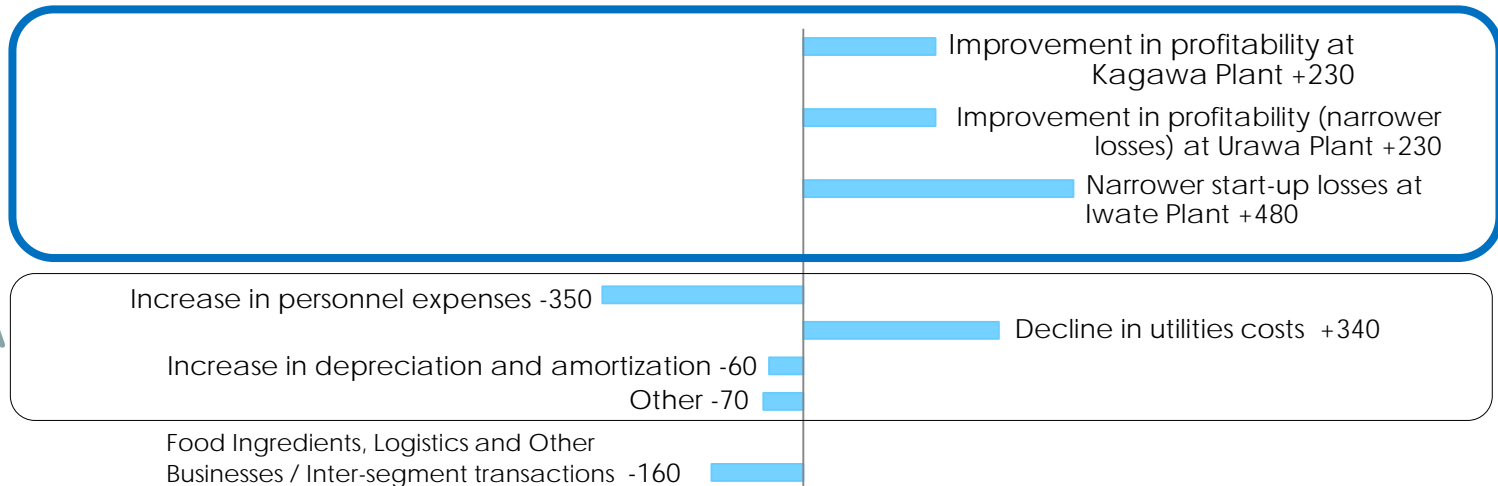
(Millions of yen) * Figures in < > show change (%).

	1H FY2/16	1H FY2/17	Change
Total operating income	2,386	3,027	640 <26.8>
Food Products	1,609	2,414	804 <50.0>
Food Ingredients	274	232	-41 <-15.1>
Logistics	87	143	56 <63.8>
Other	550	263	-287 <-52.1>
Inter-segment transactions	-135	-27	108 <->

(Millions of yen)

Operating income from three new plants up 940 million YoY

Operating income from existing plants down 140 million YoY



Food Products Business

Negative impact on profits -640

Total YoY: approx. -640

Positive impact on profits +1,280

Non-operating income/expenses and extraordinary income/losses in 1H FY2/17

(Millions of yen)

	1H FY2/16	1H FY2/17	Change
Operating income	2,386 (2.2)	3,027 (2.8)	640 <26.8>
Non-operating income	443 (0.4)	483 (0.4)	40 <9.0>
Non-operating expenses	153 (0.1)	223 (0.2)	70 <45.9>
Ordinary income	2,677 (2.5)	3,287 (3.0)	610 <22.8>
Extraordinary income	— (—)	— (—)	— <—>
Extraordinary losses	132 (0.1)	450 (0.4)	317 <240.2>
Income before income taxes	2,545 (2.3)	2,837 (2.6)	292 <11.5>
Current income taxes	654 (0.6)	1,193 (1.1)	538 <82.4>
Profit attributable to owners of parent	1,890 (1.7)	1,644 (1.5)	-246 <-13.0>

(Current fiscal year) 450
Nichiyo: Provision for loss on business of subsidiaries and associates due to fixed asset impairment losses for Frevo Farm Co., Ltd.

(YoY change) 538
(1) Decrease in tax breaks on capital investment 324
(2) Provision for loss on business of subsidiaries and associates outside the scope of tax-effect accounting 159

* Figures in () show sales ratio, and figures in < > show change (%).

Consolidated balance sheets at end-1H FY2/17

(Millions of yen)

[Assets]	End-FY2/16	End-1H FY2/17	Change
Current assets	30,235	37,326	7,091
Fixed assets	47,099	48,040	940
[Tangible fixed assets]	(41,345)	(41,969)	(623)
[Intangible assets]	(689)	(943)	(254)
[Investments and other assets]	(5,064)	(5,127)	(62)
Total assets	77,334	85,367	8,032

(Millions of yen)

[Liabilities and net assets]	End-FY2/16	End-1H FY2/17	Change
Current liabilities	23,423	29,187	5,763
Long-term liabilities	12,381	13,938	1,557
[Interest-bearing debt]	(10,886)	(11,980)	(1,094)
Total liabilities	35,805	43,126	7,320
Total net assets	41,529	42,240	711
[Common stock]	(8,049)	(8,049)	-
Total liabilities and net assets	77,334	85,367	8,032

Total assets as of end-1H FY2/17: approx. ¥8.0 billion increase

- Increase in current assets (notes and accounts receivable - trade, etc.): approx. ¥7.0 billion
- Increase in fixed assets: approx. ¥0.9 billion

Total liabilities/net assets as of end-1H FY2/17: approx. ¥8.0 billion increase

- Increase in current liabilities (notes and accounts payable, etc.): approx. ¥5.7 billion
- Increase in long-term liabilities: approx. ¥1.5 billion
- Increase in net assets (retained earnings, other comprehensive income, etc.): approx. ¥0.7 billion

Consolidated statements of cash flows for 1H FY2/17

(Millions of yen)

	1H FY2/17
Income before income taxes	2,837
Depreciation and amortization	2,320
Decrease (increase) in notes and accounts receivable - trade	-3,894
Decrease (increase) in inventories	-487
Increase (decrease) in notes and accounts payable - trade	1,954
Increase (decrease) in accounts payable - other	567
Other	2,123
Subtotal	5,421
Income taxes paid	-283
Other	278
Cash flows from operating activities	5,415
Purchase of tangible fixed assets	-843
Other	-567
Cash flows from investing activities	-1,411
Cash flows from financing activities	-1,175
Effect of exchange rate change on cash and cash equivalents	-93
Net increase (decrease) in cash and cash equivalents	2,736
Cash and cash equivalents at the end of period	9,229

Consolidated financial forecast for FY2/17 (vs. Forecast at beginning of FY)

	Forecast at beginning of FY (Millions of yen)		
	1H FY2/17	2H FY2/17	FY2/17
Net sales	111,200 (100.0)	105,800 (100.0)	217,000 (100.0)
Operating income	2,800 (2.5)	500 (0.5)	3,300 (1.5)
Ordinary income	2,900 (2.6)	500 (0.5)	3,400 (1.6)
Profit attributable to owners of parent	1,750 (1.6)	-150 (-0.1)	1,600 (0.7)

Revised forecast (Millions of yen)		
1H FY2/17 Results	2H FY2/17	FY2/17
109,658 (100.0)	105,342 (100.0)	215,000 (100.0)
3,027 (2.8)	672 (0.6)	3,700 (1.7)
3,287 (3.0)	662 (0.6)	3,950 (1.8)
1,644 (1.5)	155 (0.1)	1,800 (0.8)

	Difference			Factors
	1H FY2/17 Results	2H FY2/17 forecast	FY2/17 forecast	
Net sales	-1,542 <-1.4>	-458 <-0.4>	-2,000 <-0.9>	1H FY2/17 ◆ Net sales – Sales of rice products missed target ◆ Operating income – Utilities costs lower than initial forecast – Operating income at new plant higher than initial forecast – Food Ingredients, Logistics, and Other Businesses in line with targets
Operating income	227 <8.1>	172 <34.4>	400 <12.1>	
Ordinary income	387 <13.3>	162 <32.4>	550 <16.2>	
Profit attributable to owners of parent	-106 <-6.1>	305 <->	200 <12.5>	2H FY2/17 ◆ Net sales – Generally in line with target ◆ Operating income – Upward revision for Food Products Business – Food Ingredients, Logistics, and Other Businesses generally in line with targets

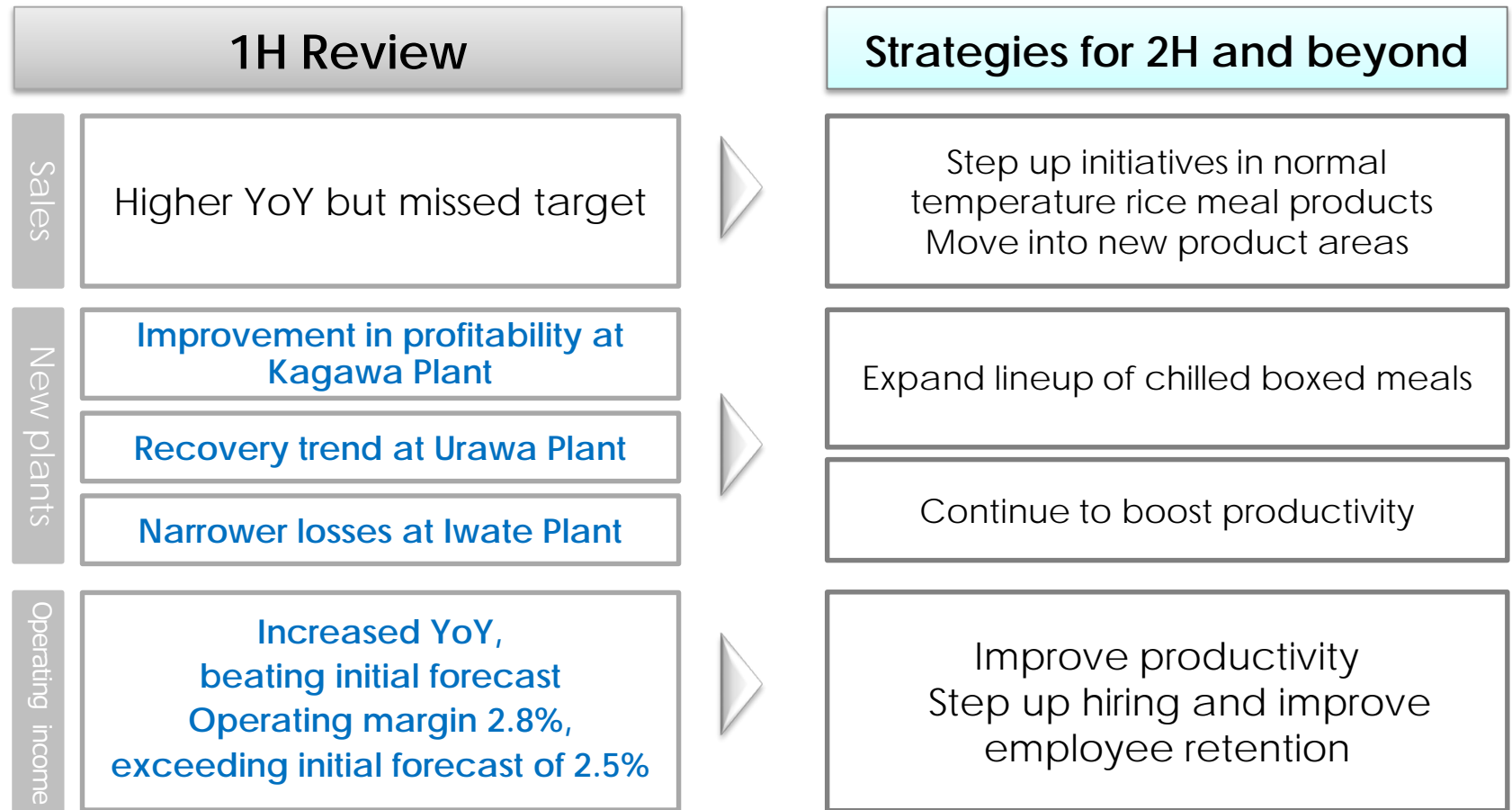
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Strategies Going Forward

Initiatives for 2H FY2/17



1H Review, strategies for 2H and beyond



- ✓ Achieved efficiency gains in 1H due to reorganization (integrated management in product development and manufacturing)
- ✓ Targeting further gains in 2H by integrating manufacturing subsidiaries and leveraging advantages of the Holding Company structure

Sales : performance in 1H and initiatives going forward

Chilled bento meal boxes: strong sales

- Strengthened lineup of new rice bowl meals and separate-type chilled bento meal boxes Increased capacity at existing plants; full-scale product development with installation of new processing stage in superheated steam line



20°C bento meal boxes : decline in sales due to shift to chilled bento meal boxes

- Sales declined YoY in 1H but still an important product range in terms of in-store lineups; we will continue to develop new products in the 20°C boxed meal category, which can deliver levels of flavor not possible in other categories



Rice balls: generally steady YoY

- Basic ingredients and packages renewed on 26 September; Continue to develop new products that offer high levels of customer satisfaction



Chilled Japanese Sweets: strong sales

- Proposed a series of new sweets with strong seasonal themes
- Developed new type of Japanese sweets employing patissiers with know-how from western confectionery have become popular with consumers



Other

- Moved into new product areas

New product initiatives (1): Oyako-don (chicken and egg rice bowl) renewal

Fluffy egg Oyako-don:
launched November 24, 2014



¥430 (inc. tax)



Fluffy and soft egg Oyako-don:
rolled out from October 3, 2016



¥450 (inc. tax)

➤ Chicken preparation (marinating) process

A special vacuum tumbler was used to ensure the marinade flavor reached reaching the center of the meat, enhancing the flavor of the chicken

➤ Improved stock flavor

We worked closely with two leading food manufacturers to develop a stock base with a rich, matured flavor

➤ Soft boiled egg

Working with a leading food manufacturer, we carefully selected a larger soft boiled eggs to create a product with a richer egg flavor



New product initiatives (2): developing our range of Japanese sweets

- Confectionery stores are seeing strong demand for Japanese sweets incorporating western confectionery techniques
- We are also stepping up the development of new products with western sweet flavors employing patissiers → A new gooey pancake with white rare cheese filling developed by one of our female employees has become very popular with consumers
- Using our fully automated dorayaki (pancake) manufacturing machine, which requires minimal staff supervision, we have rolled out a range of new products since the October 2014 such as a new pancake product filled with fresh cream; we plan to launch a new pancake with chocolate cream filling in October this year.



New plants : performance in 1H and initiatives for 2H

➤ Earnings at Kagawa Plant, Urawa Plant and Iwate Plant in 1H FY2/17

Change in profits YoY at new plants (millions of yen)

	YoY	(Ref) Full-year operating income forecasts
Kagawa	+230	(-50)
Urawa	+230	(-50)
Iwate	+480	(-500)
Total	+ 940	(-600)

➤ Kagawa Plant

The plant performed ahead of targets in terms of both sales and profit in 2H, supported by an increase in the number of stores supplied, higher sales of Chilled Bento meal boxes and increased efficiency; the plant is aiming for further improvement in 2H through ongoing efficiency gains

➤ Urawa Plant

The plant achieved profitability on a monthly basis in 1H due to higher sales of Chilled Bento meal boxes and tight cost control; in 2H the plant plans to increase production line capacity and develop distinctive new products

➤ Iwate Plant

The plant's operating loss narrowed at a faster pace than forecast due to the drop out of startup costs and rising capacity utilization as the number of stores supplied increased; the plant will continue to focus on improving profitability in 2H



Kagawa Plant

(started operations in December 2013)

Production Capacity:

Maximum 200,000 meals per day

Products: Rice-based products and noodles



Urawa Plant

(started operations in June 2014)

Production Capacity :

Maximum 100,000 meals per day

Products: Chilled Bento meal boxes



Iwate Plant

(started operations in May 2015)

Production Capacity :

Maximum 250,000 meals per day

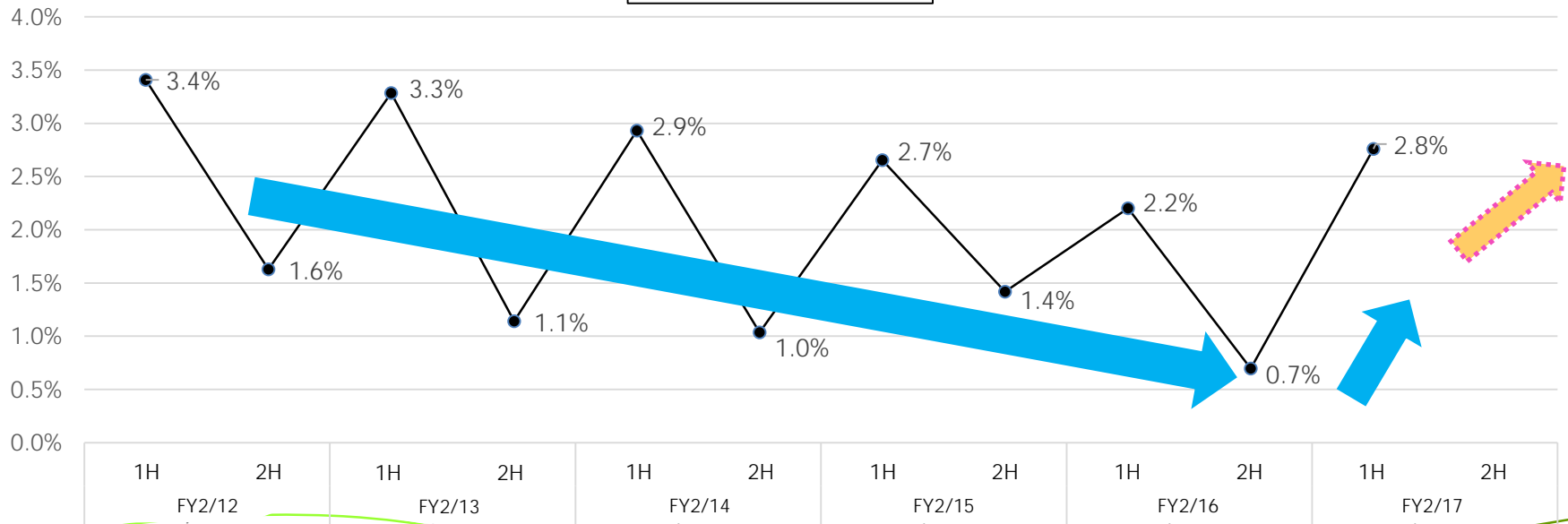
Products: Rice-based products, noodle and delicatessen items

Operating income: initiatives to improve the operating margin

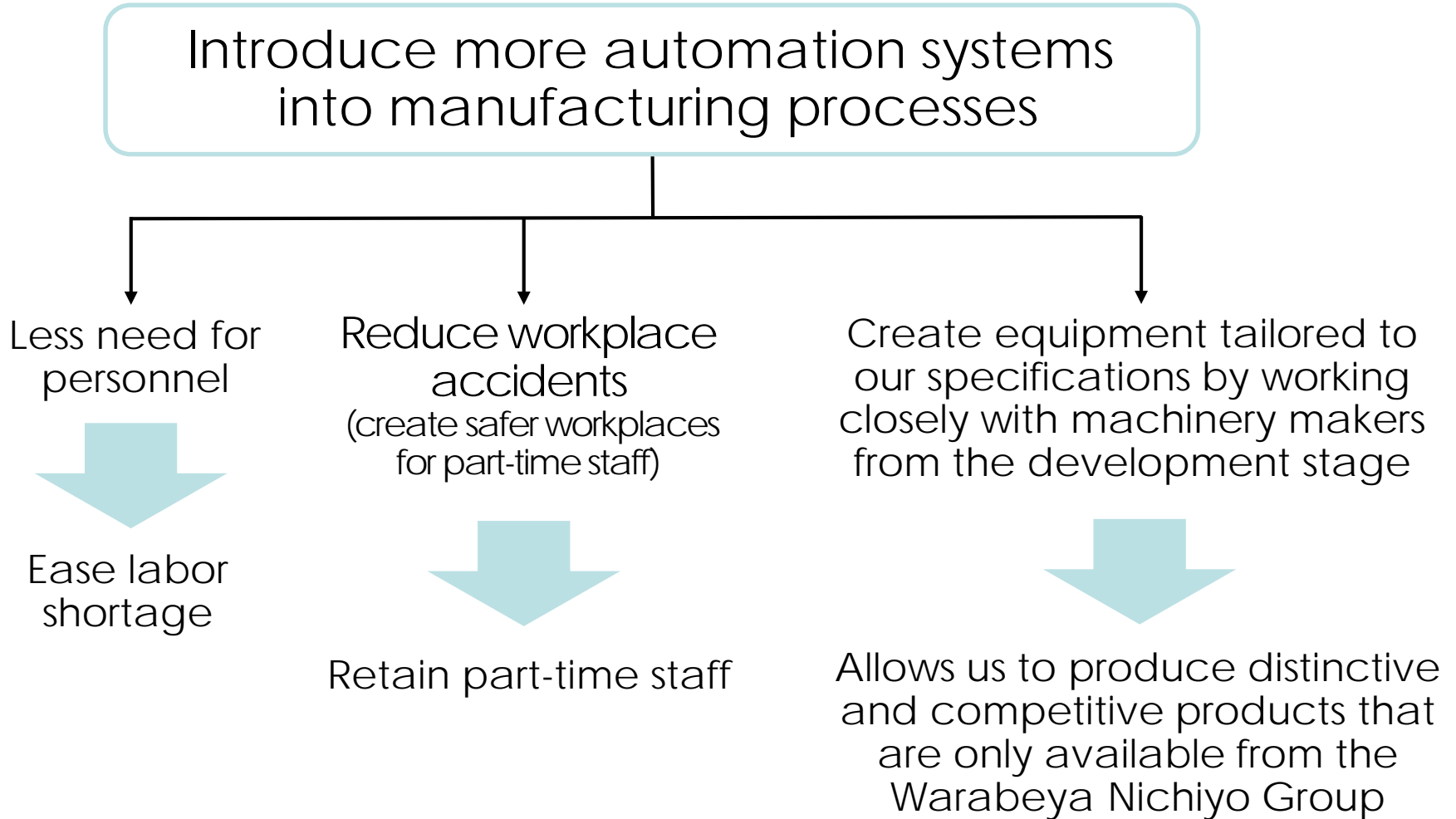
- Use headquarters system (integrated management in product development and manufacturing) to tighten cost control
- Narrow down number of products
- Introduce more automation systems into manufacturing processes
- Retain part-time staff to improve skills

We will implement these and other initiatives to boost profit margins

Operating margin



Reinforce production capabilities




Initiatives to tackle the labor shortage: step up hiring and improve employee retention

- Use the integration of subsidiaries and the adoption of the Holding Company structure as an opportunity to overhaul personnel systems and improve staff employment conditions
- Two major new projects launched
 - 💖 Happy Woman Project: support female employees so that they remain motivated over the long term
 - ★ Warabeya Family Project: deepen links between employees, their families and the Company

Reinforce the business base to support new growth

Changes in the operating environment

- ✓ FamilyMart UNY Holdings established September 1, 2016
- ✓ Lawson to become a consolidated subsidiary of Mitsubishi Corporation in January 2017 through a tender offer

- 
- ✓ Adoption of the Holding Company structure (September 1, 2016):
 - Speed up decision-making and strengthen quality assurance systems through integrated management of manufacturing operations
 - Optimally allocate human resources and improve efficiency by integrating back office departments
 - ✓ Revaluation of assets
 - FY2/2016: impairment losses on the Ueda Plant and Minami Alps Plant
 - 1H FY2/17: Provision for loss on business of subsidiaries and associates (Frevo Farm Co., Ltd.)



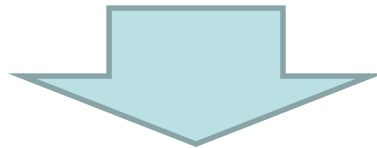
We aim to grow together with Seven-Eleven by reinforcing the Group's business base and continuing to supply competitive products

- Improving information disclosure
 - Revamped website on September 1, 2016
 - Published last 10 fiscal years of securities filings and earnings reports
 - Published last three fiscal years of presentation materials
 - Upgraded English language website

- Reinforcing corporate governance
 - Issued a report in response to new Corporate Governance Code (July)
 - Considering appointment of more outside directors
 - Planning to introduce a platform for exercising voting rights and provide English language version of Shareholder Convocation

Outlook for FY2/18 and beyond

- We raised our forecasts for FY2/17 to factor in the strong performance in 1H
In 2H, we plan to identify issues and develop initiatives to drive growth from FY2/18 onward
- Issues that need to be tackled
 - Rising labor costs: increases in the minimum wage and labor shortages are driving up costs
 - Growing shift to chilled products: expand production capacity responding to rising demand for chilled items
 - Developments in the operating environment: competition intensifying in the convenience store sector



We aim to overcome these and other issues to achieve our ROE target of more than 8% during the course of the next three-year medium-term management plan, due to be announced with FY2/17 results

GROUP PHILOSOPHY

We will contribute to the healthy and enjoyable eating habits of our customers
by providing a sense of safety and peace of mind
in addition to valuable products and services.

Warabeya
Nichiyo

Warabeya
USA

NICHIYO

Warabeya
Nichiyo HLDGS.

Bestrans

PROSYSTAS

Socialink

Other
affiliated
companies

[Japan]

Nichiyo Fresh Co., Ltd.

Sun Foods Yokokura Co., Ltd.

Nichiman Co., Ltd.

Frevo Farm Co., Ltd.

[Overseas]

Beijing Want-Yang Foods Ltd.

Beijing Riyang Xinrong Co., Ltd.