



First Half of the Fiscal Year Ending February 2021 (1H FY2/21) Results Briefing

From March 1 to August 31, 2020

WARABEYA NICHIO HOLDINGS CO., LTD.
(2918)

October 9, 2020



Overview of Financial Results for 1H FY2/21



Consolidated financial results for 1H FY2/21

➤ **Net sales: decrease in sales across all segments**

- The expanding impact of the novel coronavirus disease (hereafter, the impact of COVID-19) on net sales was more or less as expected
- Decrease in volumes of Food Products mainly of cooked rice products and Food Ingredients for processed marine products

➤ **Operating profit: excluding the impact of COVID-19, the profitability of Food Products improved**

- Food Products: profitability improvement exceeded expectations due to factors such as the effect of reorganizing the production system
- Food Ingredients: booked loss on valuation of inventories due to the impact of COVID-19 and other factors

➤ **Profit: recorded a loss due to factors such as booking of extraordinary losses**

- Part of the extraordinary losses relates to plant reorganization expected at the beginning of the period
- Reassessing the recoverability of deferred tax assets in view of the impact of COVID-19

➤ **The impact of COVID-19: (initial assumption ⇒ first half results)**

Net sales: - ¥10.0 billion ⇒ - ¥9.2 billion, Operating profit: - ¥1.8 billion ⇒ - ¥2.2 billion

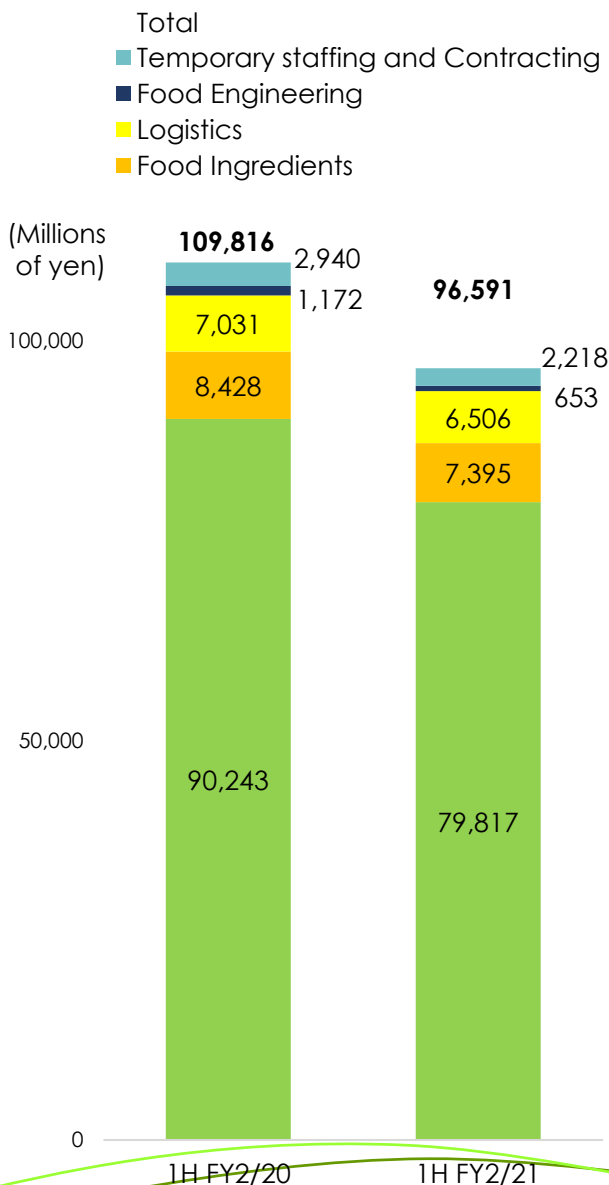
Consolidated financial results for 1H FY2/21

(Millions of yen)

	1H FY2/20	1H FY2/21		YoY	Vs. initial forecasts
	Results	Initial forecasts	Results		
Net sales	109,816 (100.0)	98,000 (100.0)	96,591 (100.0)	-13,225 <-12.0>	-1,408 <-1.4>
Operating profit	1,974 (1.8)	500 (0.5)	1,205 (1.2)	-769 <-39.0>	705 <141.1>
Ordinary profit	2,118 (1.9)	800 (0.8)	1,535 (1.6)	-583 <-27.5>	735 <92.0>
Profit (attributable to owners of parent)	674 (0.6)	-100 (-0.1)	-247 (-0.3)	-921 < - >	-147 < - >
EPS (Yen) (attributable to owners of parent)	38.40	-5.70	-14.14	-52.54	-8.44

* Figures in () show sales ratio, and figures in < > show change (%).
Initial forecasts were announced on April 10, 2020.

Consolidated net sales by segment (YoY)

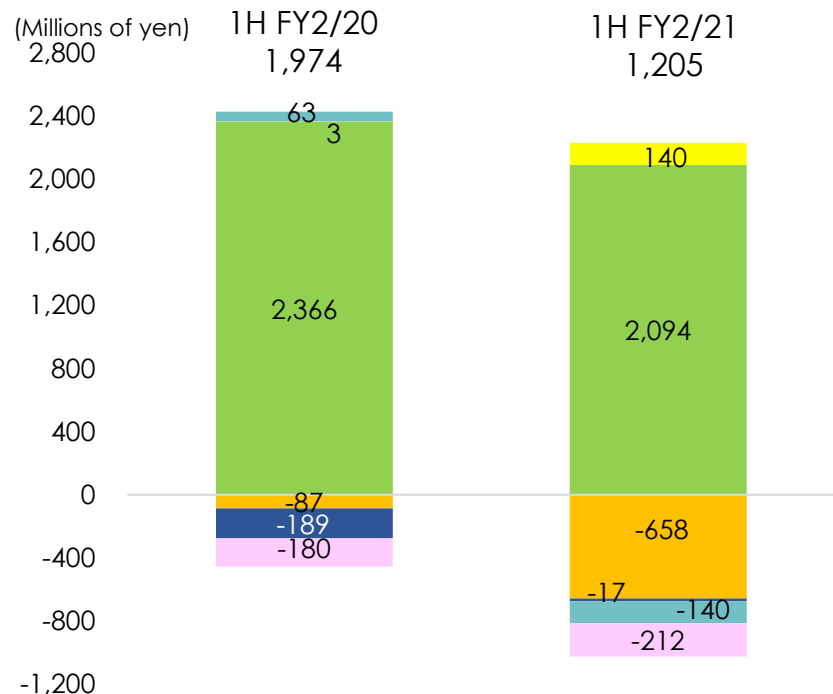


(Millions of yen)

* Figures in < > show change (%).

	1H FY2/20	1H FY2/21	Change	Change factors
Total net sales	109,816	96,591	-13,225 <-12.0>	Expanding impact of COVID-19: - ¥9.2 billion
Food Products	90,243	79,817	-10,426 <-11.6>	Decrease in sales concentrated on rice balls due to factors such as a reduction in outings and leisure
Food Ingredients	8,428	7,395	-1,033 <-12.3>	Decrease in volumes of processed marine products and processed chicken products
Logistics	7,031	6,506	-524 <-7.5>	Decrease in Seven-Eleven store distribution, etc.
Food Engineering	1,172	653	-519 <-44.3>	Drop in orders for large projects
Temporary staffing and Contracting	2,940	2,218	-721 <-24.5>	Decrease in orders for Temporary Staffing and Contracting

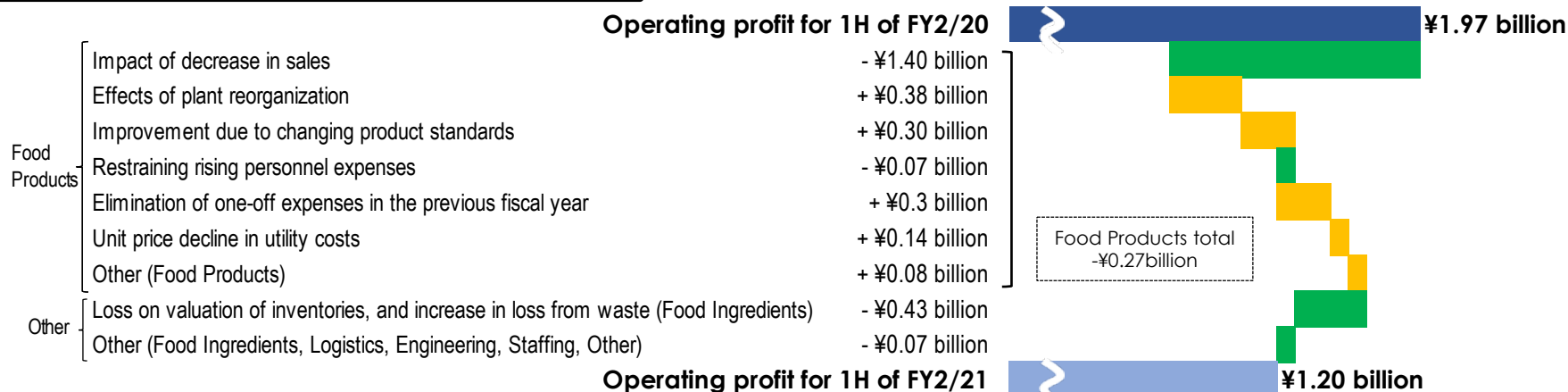
Consolidated operating profit by segment (YoY)



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

	1H FY2/20	1H FY2/21	Change
Total operating profit	1,974	1,205	-769 <-39.0>
Food Products	2,366	2,094	-271 <-11.5>
Food Ingredients	-87	-658	-571 <- >
Logistics	3	140	137 <- >
Food Engineering	-189	-17	172 <- >
Temporary staffing and Contracting	63	-140	-203 <- >
Inter-segment transactions	-180	-212	-31 <- >

YoY -¥0.76 billion Change factors



Reasons for difference with initial forecasts

(Millions of yen)

	1H FY2/21		Vs. forecast
	Initial forecast	Result	
Net sales	98,000 (100.0)	96,591 (100.0)	-1,408 <-1.4>

[Difference factors]	(Billions of yen)
Food Products Business	-0.66
Bento meal boxes, chilled bento meal boxes	-0.30
Onigiri rice balls, sushi	-0.50
Japanese confectionery	+0.20
Other items	-0.06
Food Ingredients Business	-0.14
Temporary staffing Business	-0.47

(Millions of yen)

	1H FY2/21		Vs. forecast
	Initial forecast	Result	
Operating profit	500 (0.5)	1,205 (1.2)	705 <141.1>

[Difference factors]	(Billions of yen)
Food Products Business	+1.32
Restraining rising personnel expenses	+ ¥0.27
Changing product standards	+ ¥0.20
Cost and expense reduction	+ ¥0.20
Effects of plant reorganization	+ ¥0.18
Food Ingredients Business	-0.66
Booked loss on valuation of inventories, and shortfall in sales	

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Initial forecasts were announced on April 10, 2020.

Non-operating profit/expenses and extraordinary income/losses (YoY)

(Millions of yen)

	1H FY2/20	1H FY2/21	Change
Operating profit	1,974 (1.8)	1,205 (1.2)	-769 <-39.0>
Non-operating income	418 (0.4)	518 (0.5)	100 <23.9>
Non-operating expenses	274 (0.2)	188 (0.2)	-85 <-31.0>
Ordinary profit	2,118 (1.9)	1,535 (1.6)	-583 <-27.5>
Extraordinary income	— (—)	61 (0.1)	61 < - >
Extraordinary losses	664 (0.6)	1,157 (1.2)	492 <74.1>
Profit before income taxes	1,454 (1.3)	440 (0.5)	-1,013 <-69.7>
Total income taxes	732 (0.7)	641 (0.7)	-91 <-12.5>
Profit (attributable to non-controlling interests)	47 (0.0)	46 (0.0)	-0 <-1.4>
Profit (attributable to owners of parent)	674 (0.6)	-247 (-0.3)	-921 < - >

1H of FY2/21

Non-operating income (Change) ¥0.10 billion

- Equity in earnings of affiliates (Beijing Want-Yang Foods Ltd.) ¥0.05 billion

1H of FY2/20

Extraordinary losses ¥0.66 billion

- Warabeya Nichiyo Co., Ltd.: Impairment losses for Kagawa Plant ¥0.63 billion

1H of FY2/21

Extraordinary income ¥0.06 billion

- Gain on sale of Prosystas Co., Ltd. former head office ¥0.06 billion

Extraordinary losses ¥1.15 billion

- Warabeya Nichiyo Co., Ltd.: Impairment losses for Iwate Plant ¥0.79 billion
- Nichiyo Fresh Co., Ltd.: Impairment losses ¥0.29 billion
- Nichiyo Co., Ltd.: Impairment losses ¥0.05 billion

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

Consolidated balance sheets (vs. end-FY2/20)

(Millions of yen)				(Millions of yen)			
[Assets]	End-FY2/20	End-1H FY2/21	Change	[Liabilities and net assets]	End-FY2/20	End-1H FY2/21	Change
Current assets	32,566	30,255	-2,311	Current liabilities	27,433	24,573	-2,859
Non-current assets	53,512	52,681	-831	Non-current liabilities	14,121	14,769	647
[Property, plant and equipment]	[45,673]	[44,446]	[-1,226]	[Interest-bearing debt]	[11,336]	[12,130]	[793]
[Intangible assets]	[936]	[861]	[-75]	Total liabilities	41,555	39,343	-2,212
[Investments and other assets]	[6,903]	[7,373]	[470]	Total net assets	44,523	43,593	-929
Total assets	86,078	82,937	-3,141	[Retained earnings]	[28,560]	[27,762]	[-797]
				Total liabilities and net assets	86,078	82,937	-3,141

Total assets as of end-1H FY2/21: approx. ¥3.1 billion decrease

- Decrease in current assets (cash and deposits, inventories, etc.): approx. ¥2.3 billion
- Decrease in non-current assets (buildings and structures, etc.): approx. ¥0.8 billion

Total liabilities/net assets as of end-1H FY2/21: approx. ¥3.1 billion decrease

- Decrease in current liabilities (Accounts payable - other, etc.): approx. ¥2.8 billion
- Increase in non-current liabilities (Long-term loans payable, etc.): approx. ¥0.6 billion
- Decrease in net assets : approx. ¥0.9 billion

Consolidated statements of cash flows

(Millions of yen)

	1H FY2/21		
Profit before income taxes	440		
Depreciation	2,407		
Impairment loss	1,157		
Decrease (increase) in notes and accounts receivable – trade	-916		
Decrease (increase) in inventories	671		
Increase (decrease) in notes and accounts payable – trade	50		
Increase (decrease) in accounts payable – other	-2,264		
Other	-228		
Subtotal	1,317		
Income taxes paid	-573		
Other	259		
Cash flows from operating activities	1,003	(Impact of bank holiday at end of FY2/20) △1,714	<u>Adjusted CF</u> 2,717
Purchase of property, plant and equipment	-2,598		
Proceeds from sales of property, plant and equipment	291		
Other	-61		
Cash flows from investing activities	-2,368	–	△2,368
Cash flows from financing activities	-348	–	△348
Effect of exchange rate change on cash and cash equivalents	-27	–	△27
Net increase (decrease) in cash and cash equivalents	-1,741	△1,714	△27
Cash and cash equivalents at the beginning of period	7,902	1,714	6,188
Cash and cash equivalents at the end of period	6,161	–	6,161

Full-year Forecast for FY2/21 (Consolidated Basis)



Expanding impact of COVID-19

1 Impact on business results for the current fiscal year

➤ Initial (April 2020) outlook

- Estimate assuming impact ends in the first half of the year
- Net sales: - ¥10.0 billion, Operating profit: - ¥1.8 billion

➤ Revised outlook

- Revised outlook assuming impact remains in the second half of the year
- Net sales: - ¥16.6 billion, Operating profit: - ¥3.3 billion

2 Response to the prolonged impact (first half implementation)

➤ Booked loss on valuation of inventories, impairment loss on non-current assets

➤ Reassessing recoverability of deferred tax assets

- Conducting a balance sheet review assuming a gradual recovery in performance

Profitability improves, but having reviewed the impact of COVID-19, net sales and profit attributable to owners of parent are revised downward

- **¥10.0 billion reduction in net sales from the initial forecast**
 - ¥7.4 billion impact of COVID-19 in the second half, initially unforeseen
- **Operating profit ¥0.4 billion, ordinary profit ¥0.45 billion revised upward**
 - Profitability improvement in the Food Products Business offsetting the impact of reduced sales
- **Profit revised downward by ¥0.4 billion from the initial forecast**
 - Revised downwards as extraordinary losses and increase in tax expenses incurred in first half could not be offset

Consolidated financial forecast for FY2/21

(Millions of yen)

	FY2/20 Results	FY2/21 Initial forecasts	FY2/21 Revised forecasts	YoY	Compared to initial forecast
Net sales	213,581 (100.0)	202,000 (100.0)	192,000 (100.0)	-21,581 <-10.1>	-10,000 <-5.0>
Operating profit	2,721 (1.3)	1,800 (0.9)	2,200 (1.1)	-521 <-19.2>	400 <22.2>
Ordinary profit	2,773 (1.3)	2,100 (1.0)	2,550 (1.3)	-223 <-8.1>	450 <21.4>
Profit (attributable to owners of parent)	1,010 (0.5)	700 (0.3)	300 (0.2)	-710 <-70.3>	-400 <-57.1>
EPS (Yen) (attributable to owners of parent)	57.55	39.88	17.15	-40.40	-22.73
The impact of COVID-19	◆ Net Sales ... -16,600 ◆ Operating profit ... -3,300				

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

Revised forecasts were announced on October 6, 2020.



MANAGEMENT CHALLENGES AND FUTURE INITIATIVES



Group challenges and initiatives

Changes in the external environment

- Emergence of a new lifestyle
- Increased competition in the ready-made meal market
- Slowdown in Seven-Eleven store openings
- Accelerating shifts to chilled and frozen cooked rice
- Risks of rising raw materials, personnel expenses, and logistics costs

Internal challenges for growth

- Improvement of plant utilization rates
- Response to increase in production costs
- Expansion of net sales
- Profitability improvement in businesses other than Food Products



Initiatives for sustainable growth

- 1** Productivity improvement and revenue expansion in domestic food products business
- 2** Profitability improvement in businesses other than Food Products
- 3** Participation in growth categories and further expansion of overseas business



① Productivity improvement and revenue expansion in domestic food products business

➤ **Changing product standards**

- Changing materials, manufacturing, and increasing value of products
- Conducting regular price negotiations
- Product development with consideration to manufacturing efficiency

➤ **Reviewing profit profile**

- Optimizing personnel, reviewing dispatched employee ratios
- Reviewing nighttime operations (shift to daytime)
- Promote the introduction of labor-saving machinery

Operating profit for FY2/21 expected to improve by ¥0.6 billion due to adjustments in product standards and profit profile

① Productivity improvement and revenue expansion in domestic food products business

➤ Reorganizing the production system (plant consolidation)

- Iruma Plant: closed in October 2019; Tochigi Plant: closed in February 2020

The closure of two plants and the consolidation of production sites is expected to deliver a greater than expected increase in profits* of approx. ¥0.7 billion in FY2/21 (as at April 2020).



Higher than expected manufacturing efficiency at plants to which production has been transferred is expected to deliver an increase in profits* of approx. ¥1.0 billion in FY2/21.

※The increase here includes the elimination of one-off expenses incurred in the previous fiscal year

- Further reorganization of the production system remains under consideration and will be announced as soon as it is determined

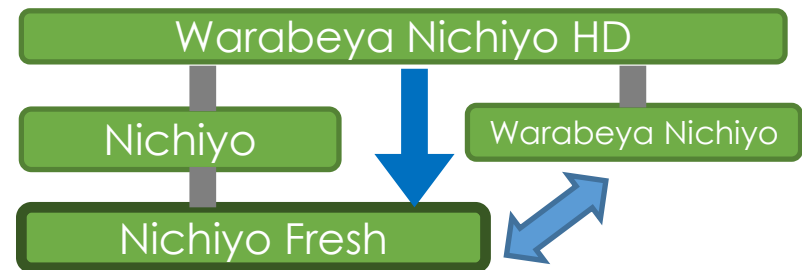
② Profitability improvement in businesses other than Food Products

➤ The expanding impact of COVID-19 has put pressure on profits

- Magnifying the decrease in profits of Food Ingredients Business and Temporary Staffing and Contracting Business
- Food Engineering Business saw a decrease in profit when excluding one-off expenses in the same period of the previous fiscal year

➤ Initiatives for profitability improvement

- Food Ingredients Business:
Reorganization of Nichiyo Fresh Co.
⇒ Promote development of consumer products by strengthening cooperation within the Group



- Food Engineering Business: Reorganization of Prosystas Co.
⇒ Specializing in external sales business
⇒ Strengthen collaboration with Food Products Business, and strengthen the ability to develop new machinery
⇒ Strengthening the purchasing function

③ Participation in growth categories and further expansion of overseas business

➤ Responding to changing consumer behavior and participating in growth categories

- Changing consumer behavior in the COVID-19 crisis :
 - ✓ Increase in sales of Japanese confectionery through developing products that match demand from nest-dwelling consumption and preference for petite luxury
- Need for longevity : Responding to demand for products with greater longevity, from the perspective of food loss and other factors, with the development of chilled cup soup, various types of frozen cooked rice, etc.

A rich Uji matcha parfait for matcha lovers



③ Participation in growth categories and further expansion of overseas business

Continue to invest business resources in growth areas

- Beijing Want-Yang Foods Ltd. is a company accounted for using the equity method from the current fiscal year
- Steady growth despite the expanding impact of COVID-19
- Use the successes of TEXAS, USA as role models in future overseas development

➤ **Beijing Want-Yang Foods** (a company accounted for using the equity method)

(Thousands of yuan, %)

*Figures in < > show change (%)

Want-Yang	1H of FY12/19	1H of FY12/20	Change
Net sales	68,238	68,532	294 <0.4>

➤ **WARABEYA TEXAS**

(Thousands of dollars, %)

*Figures in < > show change (%)

TEXAS	1H of FY12/19	1H of FY12/20	Change
Net sales	14,303	14,913	609 <4.3>

➤ **WARABEYA USA (Hawaii)**

(Thousands of dollars, %)

*Figures in < > show change (%)

USA	1H of FY12/19	1H of FY12/20	Change
Net sales	19,351	17,774	△1,576 <△8.1>

Next Medium-term Business Plan

For sustainable growth

➤ **Next Medium-term Business Plan**

- The current fiscal year saw several temporary, negative factors associated with the expanding impact of COVID-19, which will be eliminated from the next fiscal year
- Taking into account the external environment and these factors, a new Medium-term Business Plan is scheduled to be announced next spring

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**.

Management Philosophy

We will pursue the highest level of customer satisfaction and promote innovation.

We will strive to be a company that society can trust by committing to compliance standards and conducting our business in a highly transparent manner.

We will strive to be an eco-friendly company at which our employees can obtain personal growth and job satisfaction.

