



First Half of the Fiscal Year Ending February 2020 (1H FY2/20) Results Briefing

From March 1 to August 31, 2019

WARABEYA NICHIO HOLDINGS CO., LTD.
(2918)

October 8, 2019



Overview of Financial Results for 1H FY2/20 and Full-year Forecast for FY2/20 (Consolidated Basis)



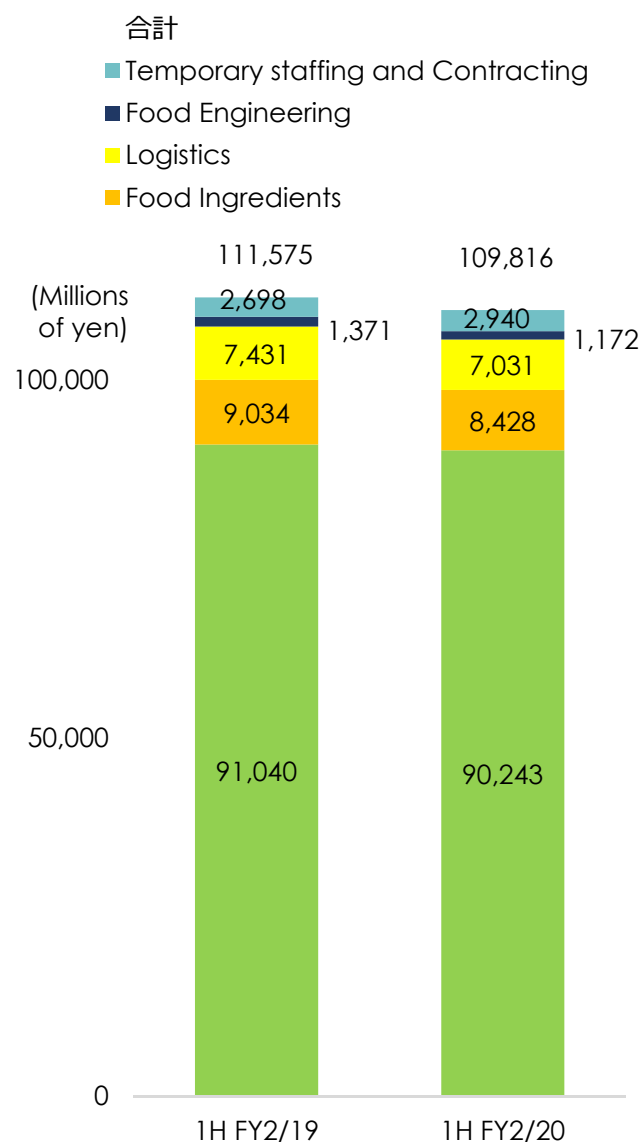
Consolidated financial results for 1H FY2/20

(Millions of yen)

	1H FY2/19	1H FY2/20		YoY	Vs. initial forecasts
	Results	Initial forecasts	Results		
Net sales	111,575 (100.0)	112,000 (100.0)	109,816 (100.0)	-1,758 <-1.6>	-2,183 <-1.9>
Operating profit	1,694 (1.5)	1,600 (1.4)	1,974 (1.8)	279 <16.5>	374 <23.4>
Ordinary profit	2,011 (1.8)	1,860 (1.7)	2,118 (1.9)	107 <5.3>	258 <13.9>
Profit (attributable to owners of parent)	900 (0.8)	590 (0.5)	674 (0.6)	-226 <-25.1>	84 <14.2>
EPS (Yen) (attributable to owners of parent)	51.33	33.61	38.40	-12.93	4.79

* Figures in () show sales ratio, and figures in < > show change (%).
Initial forecasts were announced on April 12, 2019.

Consolidated net sales by segment (YoY)



(Millions of yen)

* Figures in < > show change (%).

	1H FY2/19	1H FY2/20	Change	Change factors
Total net sales	111,575	109,816	-1,758 <-1.6>	
Food Products	91,040	90,243	-796 <-0.9>	Lower sales in rice meal range
Food Ingredients	9,034	8,428	-605 <-6.7>	Drop in eel and processed chicken volumes
Logistics	7,431	7,031	-399 <-5.4>	Decline in deliveries to Seven-Eleven stores
Food Engineering	1,371	1,172	-198 <-14.5>	Drop in orders for large projects
Temporary staffing and Contracting	2,698	2,940	242 <9.0>	Increase in orders in temporary staffing and technical intern training business

Consolidated operating profit by segment (YoY)

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

	1H FY2/19	1H FY2/20	Change	Change factors (Billions of yen)
Total operating profit	1,694	1,974	279 <16.5>	
Food Products	1,509	2,366	856 <56.7>	Impact of lower sales -0.10 Increase in personnel expenses -0.39 Increase in utilities, logistics costs and other costs -0.07 Improvement due to changes in product standards +0.80 Productivity gains +0.30 Absence of special factors booked in previous fiscal year +0.23 Overseas operation +0.09
Food Ingredients	84	-87	-172 <-203.3>	Booking of inventory valuation losses (0.12), lower sales
Logistics	48	3	-44 <-92.2>	Lower sales, higher personnel expenses
Food Engineering	345	-189	-535 <-154.9>	Decline in sales to the Food Products Business, provision of allowance for doubtful accounts (0.20)
Temporary staffing and Contracting	183	63	-120 <-65.6>	Decline in sales to the Food Products Business, increase in personnel expenses
Inter-segment transactions	-477	-180	296 <->	Drop in inter-segment transactions

Reasons for difference with initial forecasts

(Millions of yen)

	1H FY2/20		Vs. forecast
	Initial forecast	Result	
Net sales	112,000 (100.0)	109,816 (100.0)	-2,183 <-1.9>

[Difference factors]

(Billions of yen)

Food Products Business	-1.59
Bento meal boxes, chilled bento meal boxes	-1.50
Onigiri rice balls, sushi	-0.60
Other delicatessen items	+0.65
Food Ingredients Business	-0.53
Logistics Business	-0.22

(Millions of yen)

	1H FY2/20		Vs. forecast
	Initial forecast	Result	
Operating profit	1,600 (1.4)	1,974 (1.8)	374 <23.4>

[Difference factors]

(Billions of yen)

Food Products Business	+0.82
Changes in product standards	+0.40
Productivity gains	+0.30
Overseas businesses	+0.15
Food Ingredients Business	-0.18
Booking of inventory valuation losses	
Food Engineering Business	-0.20
Provision of allowance for doubtful accounts for some receivables	

* Figures in () show sales ratio, and figures in < > show change (%).
Initial forecasts were announced on April 12, 2019.

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

(Millions of yen)

	1H FY2/19	1H FY2/20	Change
Operating profit	1,694 (1.5)	1,974 (1.8)	279 <16.5>
Non-operating income	484 (0.4)	418 (0.4)	-65 <-13.6>
Non-operating expenses	167 (0.1)	274 (0.2)	106 <63.9>
Ordinary profit	2,011 (1.8)	2,118 (1.9)	107 <5.3>
Extraordinary income	126 (0.1)	— (—)	-126 <-100.0>
Extraordinary losses	706 (0.6)	664 (0.6)	-42 <-5.9>
Profit before income taxes	1,431 (1.3)	1,454 (1.3)	23 <1.6>
Total income taxes	506 (0.5)	732 (0.7)	226 <44.7>
Profit (attributable to non-controlling interests)	24 (0.0)	47 (0.0)	23 <96.9>
Profit (attributable to owners of parent)	900 (0.8)	674 (0.6)	-226 <-25.1>

1H FY2/19

Extraordinary losses ¥0.70 billion

- Warabeya Nichiyo: impairment losses on some business assets ¥0.70 billion

1H FY2/20

Extraordinary losses ¥0.66 billion

- Warabeya Nichiyo: Impairment losses for Kagawa Plant ¥0.63 billion

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

Consolidated balance sheets (vs. end-FY2/19)

(Millions of yen)				(Millions of yen)			
[Assets]	End-FY2/19	End-1H FY2/20	Change	[Liabilities and net assets]	End-FY2/19	End-1H FY2/20	Change
Current assets	27,178	33,740	6,562	Current liabilities	24,487	28,903	4,416
Non-current assets	57,457	53,941	-3,516	Non-current liabilities	15,906	14,713	-1,192
[Property, plant and equipment]	[49,625]	[46,161]	[-3,463]	[Interest-bearing debt]	[14,176]	[12,182]	[-1,994]
[Intangible assets]	[1,112]	[995]	[-117]	Total liabilities	40,393	43,616	3,223
[Investments and other assets]	[6,720]	[6,784]	[64]	Total net assets	44,242	44,064	-177
Total assets	84,635	87,681	3,045	[Retained earnings]	[28,254]	[28,220]	[-34]
				Total liabilities and net assets	84,635	87,681	3,045

Total assets as of end-1H FY2/20: approx. ¥3.0 billion increase

- Increase in current assets (cash and deposits, notes and accounts receivable – trade, etc.): approx. ¥6.5 billion
- Decrease in non-current assets (buildings and structures, etc.): approx. ¥3.5 billion

Total liabilities/net assets as of end-1H FY2/20: approx. ¥3.0 billion increase

- Increase in current liabilities (notes and accounts payable – trade, accounts payable – other, etc.): approx. ¥4.4 billion
- Decrease in non-current liabilities (long-term lease obligations, etc.): approx. ¥1.1 billion
- Decrease in net assets : approx. ¥0.17 billion

Consolidated statements of cash flows

(Millions of yen)

	1H FY2/20
Profit before income taxes	1,454
Depreciation	2,738
Decrease (increase) in notes and accounts receivable – trade	-3,937
Decrease (increase) in inventories	-143
Increase (decrease) in notes and accounts payable – trade	2,154
Increase (decrease) in accounts payable – other	1,970
Other	1,755
Subtotal	5,991
Income taxes paid	-123
Other	253
Cash flows from operating activities	6,122
Purchase of property, plant and equipment	-1,219
Proceeds from sales of property, plant and equipment	1,399
Other	78
Cash flows from investing activities	258
Cash flows from financing activities	-3,039
Effect of exchange rate change on cash and cash equivalents	-24
Net increase (decrease) in cash and cash equivalents	3,316
Cash and cash equivalents at the beginning of period	2,439
Cash and cash equivalents at the end of period	5,756

Consolidated financial forecast for FY2/20

Initial net sales forecast revised down by ¥5.5bn, no change to profit forecasts

(Millions of yen)

	FY2/19 Results	FY2/20 Revised forecasts	Change
Net sales	215,696 (100.0)	214,000 (100.0)	-1,696 <-0.8>
Operating profit	1,526 (0.7)	2,500 (1.2)	973 <63.8>
Ordinary profit	1,766 (0.8)	2,700 (1.3)	933 <52.8>
Profit (attributable to owners of parent)	610 (0.3)	700 (0.3)	89 <14.7>
EPS (Yen) (attributable to owners of parent)	34.78	39.88	5.10
Change factors (Billions of yen)	◆Net sales: Lower sales in rice meal range in Food Products Business, weaker sales in Food Ingredients Business and Logistics Business ◆Operating profit: Food Products Business +1.33, other businesses -0.36 See slide 18 for details.		

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

Revised forecasts were announced on October 4, 2019.



PROGRESS IN 1H FY2/20 AND FUTURE MEASURES

Measures in 1H

Major changes in operating environment

- Competition intensifying in ready-to-eat meal market
- Slower pace of store openings by Seven-Eleven Japan
- Accelerating shift to chilled rice meal products
- Rising personnel and logistics costs
- Higher prices for ingredients (rice, dried seaweed)

Internal issues to address to achieve growth

- Increase plant capacity utilization
- Respond to rising production costs
- Move into new growth regions and categories



Measures to generate sustained growth

1 Improve productivity and restore profitability in existing domestic businesses

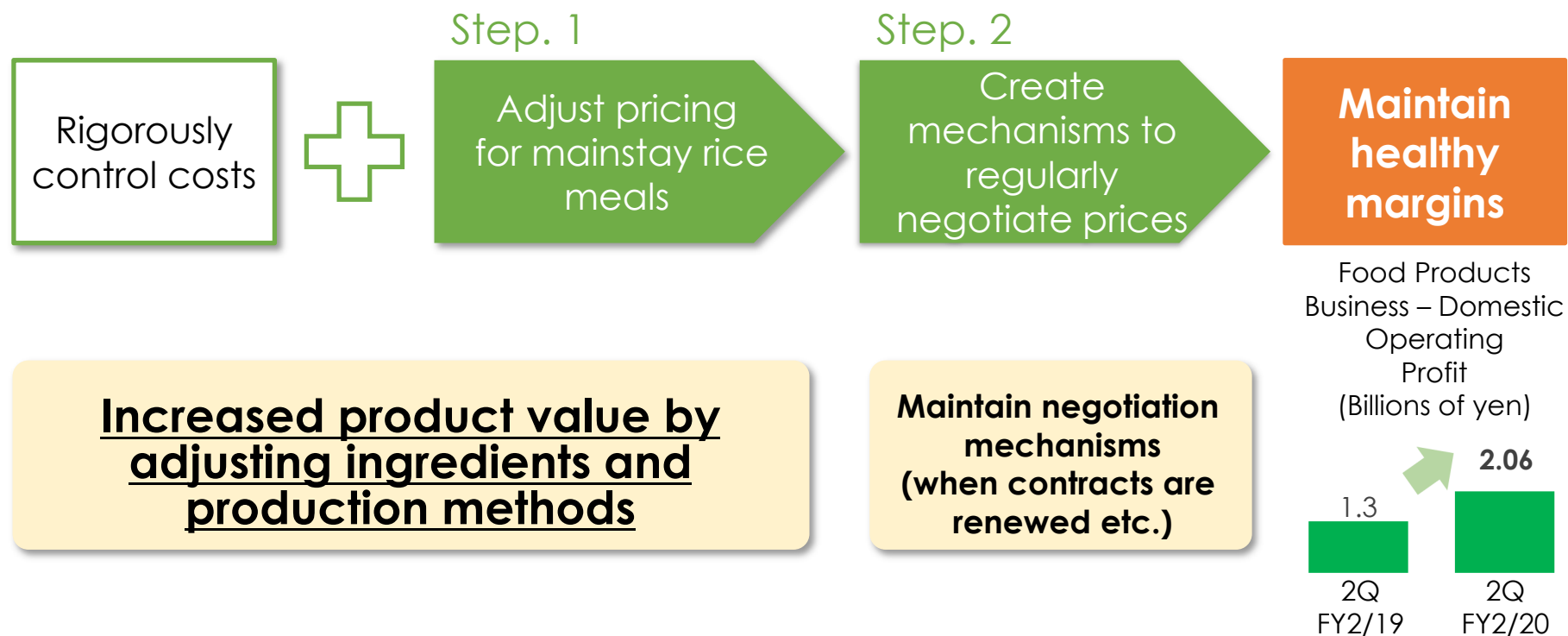
Positive impact, steady recovery in profits

2 Expand overseas businesses

Sales and profits both strong

① Improve productivity and restore profitability in existing domestic businesses

➤ Maintain healthy margins



Changes to product standards increased operating profit in the domestic Food Products Business by ¥0.8bn year on year and lifted the profit margin by 1ppt

① Improve productivity and restore profitability in existing domestic businesses

➤ **Rebuild the production system**(overhaul the earnings structure)

- Optimized headcount, reduced ratio of temporary workers (-4ppt year on year)
- Streamlined manufacturing processes, improved efficiency
- Introduced labor-saving equipment
- Cut fixed expenses

➤ **Carefully examine investment decision criteria**

Productivity savings of roughly ¥0.3bn

① Improve productivity and restore profitability in existing domestic businesses

➤ Rebuild the production system (consolidate and close plants)

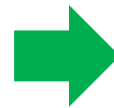
Iruma Plant Scheduled to close in October 2019

Opened: August 1992
Net sales: ¥3.5 billion (FY2/19 results)
Product lines: Delicatessen items

Tochigi Plant Scheduled to close in February 2020

Opened: December 1987
Net sales: ¥3.4 billion (FY2/19 results)
Product lines: 20°C bento meal boxes, onigiri rice balls and sushi

Production transferred to other plants in the area



Improvement in profitability due to closure of loss-making plants

Increase in operating rates and efficiency at plants where production has been transferred

Closure of two plants, consolidation of production sites projected to improve profits by roughly ¥0.2bn in FY2/21

① Improve productivity and restore profitability in existing domestic businesses

Future Measures

➤ **Maintain healthy margins**

- Maintain and increase margins (cost control, production control)
- Develop products that consumers value

➤ **Rebuild the production system**

- Rapidly complete factory consolidation and closures
- Launch new food categories

(New Product Development Division set up by Warabeya Nichiyo Co., Ltd. in September 2019)

➤ **Generate profits in all areas of the Group**



Chicken and daikon radish pottage ¥338 (excl. tax)

② Expand overseas businesses

Continue to channel business resources into growth fields

➤ **WARABEYA TEXAS** (name changed from Prime Deli)

Establish a successful model for North America

Development

Improve quality of mainstay products
(breakfast menu items, sandwiches)

⇒ No. of meals sold in 1H +10% year on year

Launch a steady stream of new products
(products for hot display cases)

Production

Establish production systems for when new
products go on sale and are marketed

Transfer production know-how to local
employees



(Thousands of dollars, %) * Figures in < > show change (%)

WARABEYA TEXAS	1H FY12/18	1H FY12/19	FY12/19 (Forecast)
Net sales	11,192	14,303 <27.8>	26,529 <9.5>

➤ **Beijing Want-Yang Foods**

(Not treated as an equity-method affiliate)

(Thousands of yuan, %) * Figures in < > show change (%)

Beijing Want-Yang Foods	1H FY12/18	1H FY12/19	FY12/19 (Forecast)
Net sales	58,756	68,239 <16.1>	141,455 <12.9>

➤ **WARABEYA U.S.A.**

(Thousands of dollars, %) * Figures in < > show change (%)

WARABEYA U.S.A.	1H FY12/18	1H FY12/19	FY12/19 (Forecast)
Net sales	18,459	19,351 <4.8>	38,501 <4.0>

Revisions to FY2/20 forecasts

(Billions of yen)

	FY2/19	FY2/20 Initial forecasts	FY2/20 Revised forecasts
Consolidated net sales	215.6	219.5	214.0
YoY change	-3.4	+3.9	-1.6
Consolidated operating profit	1.52	2.50	2.50
YoY change	-2.20	+0.97	+0.97

Forecast higher profits year on year on changes in product standards, productivity gains

Operating profit change	Initial forecasts	Revised forecasts	Difference	Difference factors
Impact of sales growth	+0.36	-0.17	-0.53	Lower sales in domestic Food Products Business
Personnel expenses	-0.81	-0.75	+0.06	Lower ratio of temporary workers
Changes in product standards	+0.96	+1.50	+0.54	Higher than start-of-year forecast
Productivity gains, cost reduction	+0.11	+0.60	+0.49	Rigorous labor management, reduction in personnel through automation
Plant realignment	—	-0.43	-0.43	Closure of Tochigi Plant
Overseas, non-Food Product businesses	+0.34	+0.22	-0.12	Strong performance overseas, inventory valuation losses in Food Ingredients Business, provision of allowance for doubtful accounts in Food Engineering Business
Total	+0.97	+0.97	—	

* Initial forecasts were announced on April 12, 2019, and revised forecasts were announced on October 4, 2019.

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.

