



# First Half of the Fiscal Year Ending February 2019 (1H FY2/19) Results Briefing

From March 1 to August 31, 2018

WARABEYA NICHIO HOLDINGS CO., LTD.  
(2918)

October 11, 2018



# Overview of Financial Results for 1H FY2/19 and Full-year Forecast for FY2/19 (Consolidated Basis)



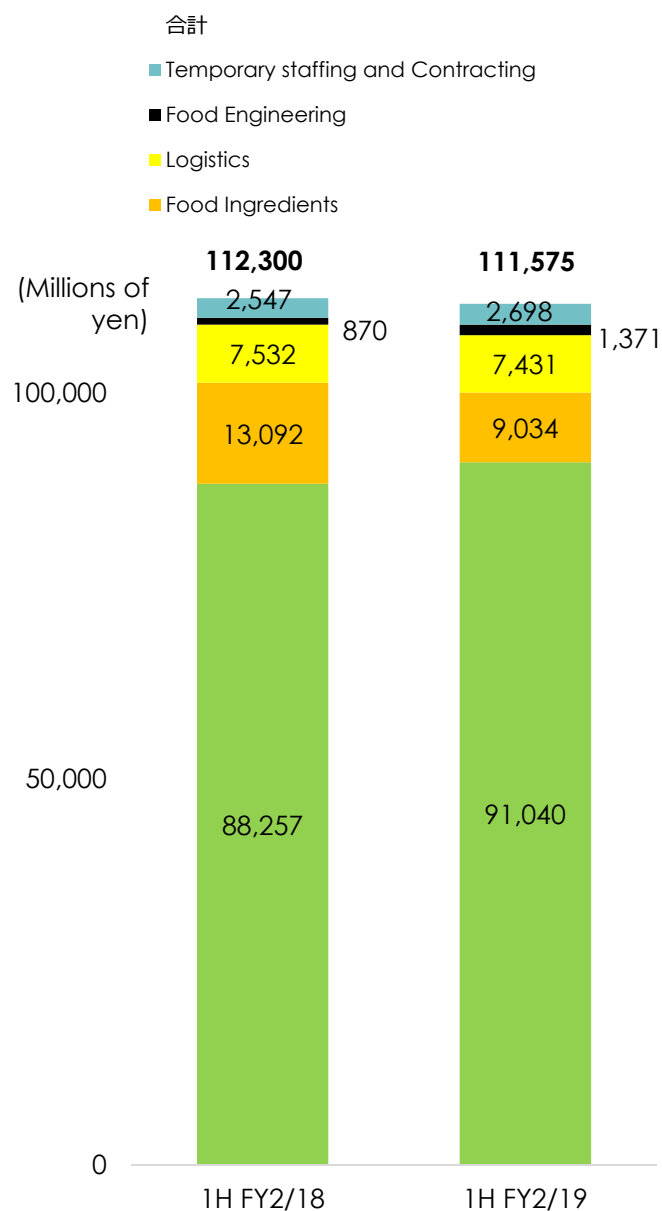
# Consolidated financial results for 1H FY2/19

(Millions of yen)

	1H FY2/18	1H FY2/19		YoY	Vs. Forecast at beginning of FY
	Results	Forecast at beginning of FY	Results		
<b>Net sales</b>	112,300 (100.0)	113,600 (100.0)	<b>111,575</b> <b>(100.0)</b>	-724 <-0.6>	-2,025 <-1.8>
<b>Operating profit</b>	3,211 (2.9)	3,000 (2.6)	<b>1,694</b> <b>(1.5)</b>	-1,516 <-47.2>	-1,306 <-43.5>
<b>Ordinary profit</b>	3,576 (3.2)	3,200 (2.8)	<b>2,011</b> <b>(1.8)</b>	-1,565 <-43.8>	-1,189 <37.1>
<b>Profit</b> (attributable to owners of parent)	2,147 (1.9)	1,775 (1.6)	<b>900</b> <b>(0.8)</b>	-1,246 <-58.1>	-875 <-49.3>
<b>EPS (Yen)</b> (attributable to owners of parent)	122.44	101.23	<b>51.33</b>	-71.11	-49.90

\* Figures in ( ) show sales ratio, and figures in < > show change (%).  
Forecast at beginning of FY announced on April 13, 2018.

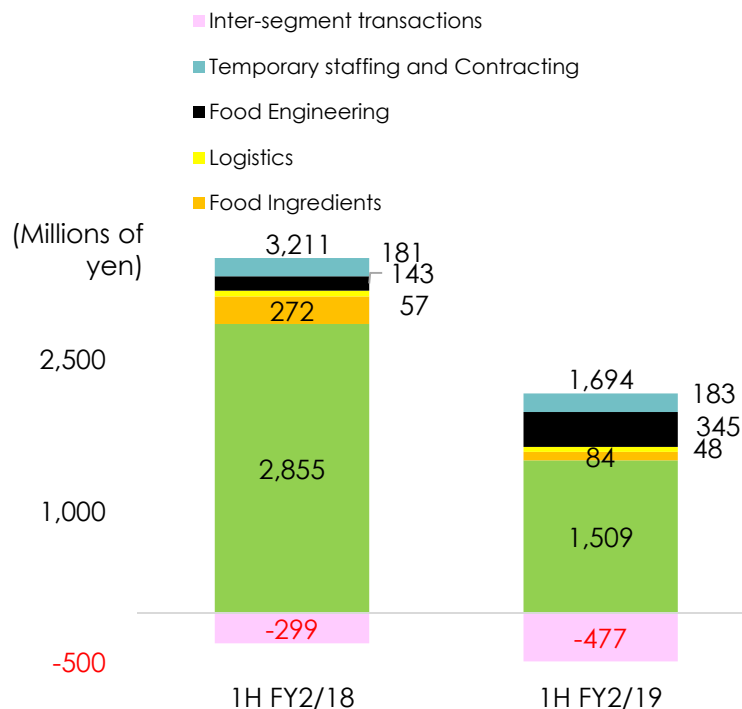
# Consolidated net sales by segment (YoY)



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

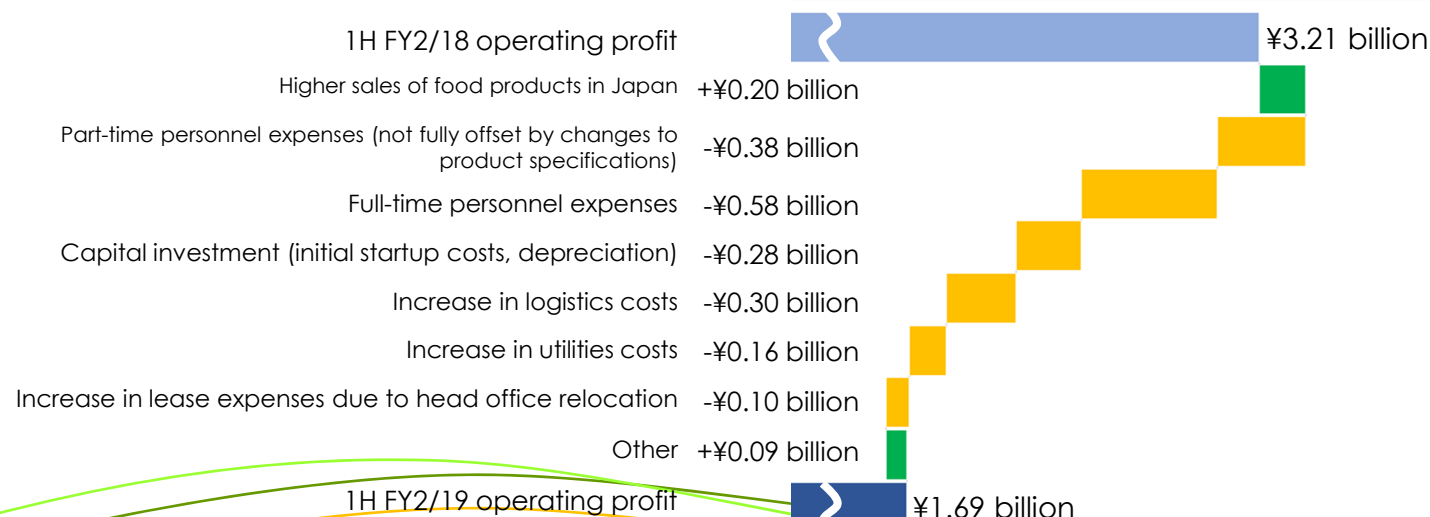
	1H FY2/18	1H FY2/19	Change	Change factors
<b>Total net sales</b>	112,300	<b>111,575</b>	-724 <-0.6>	
Food Products	88,257	<b>91,040</b>	2,782 <3.2>	Increase in delivery point stores. Made Prime Deli a consolidated subsidiary (+¥1.2 billion)
Food Ingredients	13,092	<b>9,034</b>	-4,058 <-31.0>	Decline in volume of processed marine products handled
Logistics	7,532	<b>7,431</b>	-100 <-1.3>	Return of Seven-Eleven store distribution routes
Food Engineering	870	<b>1,371</b>	501 <57.6>	Growth in orders for rice preparation equipment
Temporary staffing and Contracting	2,547	<b>2,698</b>	151 <5.9>	Increase in orders in temporary staffing and technical intern training business

# Consolidated operating profit by segment (YoY)



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

	1H FY2/18	1H FY2/19	Change
<b>Total operating profit</b>	3,211	<b>1,694</b>	-1,516 <-47.2>
Food Products	2,855	<b>1,509</b>	-1,345 <-47.1>
Food Ingredients	272	<b>84</b>	-188 <-68.9>
Logistics	57	<b>48</b>	-9 <-16.1>
Food Engineering	143	<b>345</b>	202 <140.9>
Temporary staffing and Contracting	181	<b>183</b>	2 <1.2>
Inter-segment transactions	-299	<b>-477</b>	-177 <->



**YOY -¥1.51 billion**  
**Change factors**

# Forecast and difference factors

(Millions of yen)

	1H FY2/19		Vs. Forecast	Difference factors
	Forecast at beginning of FY	Results		
<b>Net sales</b>	113,600	<b>111,575</b>	-2,025 <-1.8>	Food Ingredients Business - 1,790 Shortfall in volume of processed marine products handled

	Forecast at beginning of FY	Results	Vs. Forecast	Difference factors
<b>Operating profit</b>	3,000	<b>1,694</b>	-1,306 <-43.5>	
Food Products	2,660	<b>1,509</b>	-1,151 <-43.3>	See next slide
Food Ingredients	250	<b>84</b>	-165 <-66.1>	Sales missed target (shortfall in volume of processed marine products handled)
Logistics	150	<b>48</b>	-102 <-67.9>	Sales missed target (shortfall in sales from distribution business supplying Seven-Eleven stores) Increase in fuel prices
Food Engineering	243	<b>345</b>	102 <42.3>	Sales beat target (rice preparation equipment, etc.)
Temporary staffing and Contracting	148	<b>183</b>	35 <23.6>	Sales beat target
Inter-segment transactions	-453	<b>-477</b>	-24 <->	

\* Figures in < > show change (%).

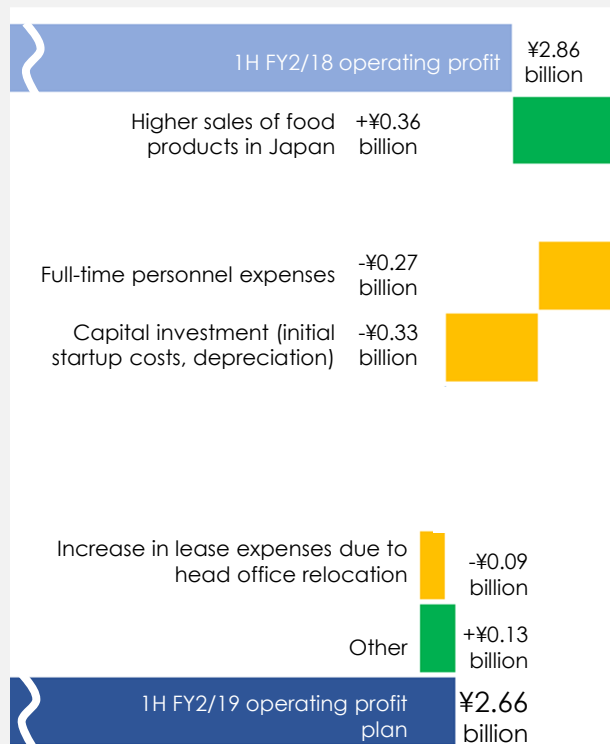
Forecast at beginning of FY announced on April 13, 2018.

# Forecast and difference factors

## Food Products Business Operating profit change factors

Forecast  
at beginning of FY  
YoY

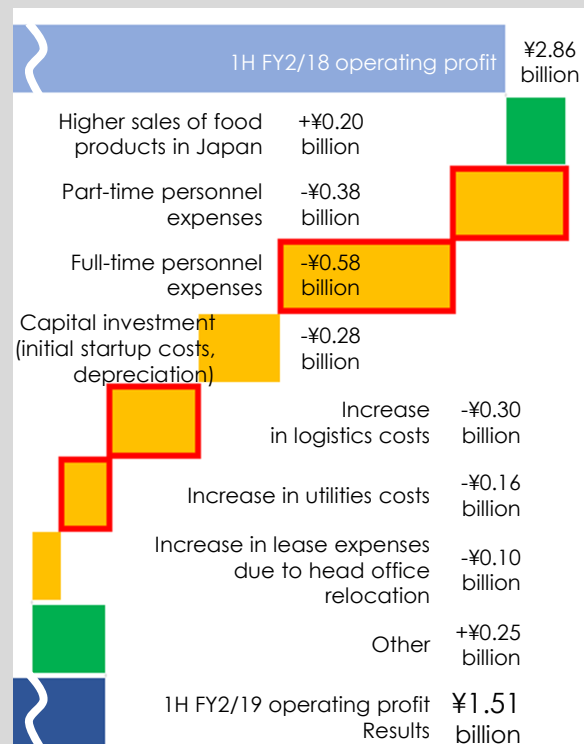
-¥0.20 billion



Results

YoY

-¥1.35 billion



Vs. Forecast  
at beginning of FY

Higher sales of food products in Japan	-¥0.16 billion
Part-time personnel expenses (not fully offset by changes to product specifications)	-¥0.38 billion
Full-time personnel expenses	-¥0.31 billion
Capital investment (initial startup costs, depreciation)	+¥0.05 billion
Increase in logistics costs	-¥0.30 billion
Increase in utilities costs	-¥0.16 billion
Increase in lease expenses due to head office relocation	-¥0.01 billion
Other	+¥0.12 billion
<b>Total</b>	<b>-¥1.15 billion</b>

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

(Millions of yen)

	1H FY2/18	1H FY2/19	Change
<b>Operating profit</b>	3,211 (2.9)	<b>1,694</b> <b>(1.5)</b>	-1,516 <-47.2>
<b>Non-operating income</b>	532 (0.5)	484 (0.4)	-48 <-9.1>
<b>Non-operating expenses</b>	167 (0.1)	<b>167</b> <b>(0.1)</b>	0 <0.1>
<b>Ordinary profit</b>	3,576 (3.2)	<b>2,011</b> <b>(1.8)</b>	-1,565 <-43.8>
<b>Extraordinary profit</b>	— (—)	126 (0.1)	126 <—>
<b>Extraordinary losses</b>	562 (0.5)	<b>706</b> <b>(0.6)</b>	143 < <b>25.6</b> >
<b>Profit before income taxes</b>	3,013 (2.7)	<b>1,431</b> <b>(1.3)</b>	-1,582 <-52.5>
<b>Total income taxes</b>	866 (0.8)	<b>506</b> <b>(0.5)</b>	-360 <-41.6>
<b>Profit (attributable to non-controlling interests)</b>	— (—)	<b>24</b> <b>(0.0)</b>	24 <—>
<b>Profit (attributable to owners of parent)</b>	2,147 (1.9)	<b>900</b> <b>(0.8)</b>	-1,246 <-58.1>

(Extraordinary losses)

Previous fiscal year: ¥0.56 billion

- Warabeya Nichiyo: Impairment losses for Kushiro Plant ¥0.37 billion
- Nichiyo: Provision of allowance for doubtful accounts related to Nichiman ¥0.18 billion

Current fiscal year: ¥0.7 billion

- Warabeya Nichiyo: impairment losses on some business assets ¥0.7 billion

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



# Consolidated balance sheets (YoY)

(Millions of yen)

[Assets]	End-FY2/18	End-1H FY2/19	Change
Current assets	30,952	<b>33,932</b>	2,979
Non-current assets	55,936	<b>58,021</b>	2,085
[Property, plant and equipment]	(48,830)	<b>(50,952)</b>	(2,122)
[Intangible assets]	(904)	<b>(1,214)</b>	(310)
[Investments and other assets]	(6,202)	<b>(5,854)</b>	(-347)
Total assets	86,888	<b>91,953</b>	5,065

(Millions of yen)

[Liabilities and net assets]	End-FY2/18	End-1H FY2/19	Change
Current liabilities	26,053	<b>31,510</b>	5,457
Non-current liabilities	16,548	<b>15,737</b>	-810
[Interest-bearing debt]	(14,708)	<b>(14,177)</b>	(-530)
Total liabilities	42,602	<b>47,248</b>	4,646
Total net assets	44,286	<b>44,704</b>	418
[Retained earnings]	(28,247)	<b>(28,544)</b>	(296)
Total liabilities and net assets	86,888	<b>91,953</b>	5,065

## Total assets as of end-1H FY2/19: approx. ¥5.0 billion increase

- Increase in current assets (notes and accounts receivable - trade):  
approx. ¥2.9 billion
- Increase in non-current assets (buildings and structures):  
approx. ¥2.0 billion

## Total liabilities/net assets as of end-1H FY2/19: approx. ¥5.0 billion increase

- Increase in current liabilities (notes and accounts payable - trade, etc.):  
approx. ¥5.4 billion
- Decrease in non-current liabilities (long-term lease obligations, etc.):  
approx. ¥0.8 billion
- Increase in net assets (retained earnings, non-controlling interests):  
approx. ¥0.4 billion

# Consolidated statements of cash flows

(Millions of yen)

	1H FY2/19
Profit before income taxes	1,431
Depreciation	2,643
Decrease (increase) in notes and accounts receivable – trade	-2,738
Decrease (increase) in inventories	-976
Increase (decrease) in notes and accounts payable – trade	1,801
Increase (decrease) in accounts payable – other	1,036
Other	862
<b>Subtotal</b>	<b>4,059</b>
Income taxes paid	-688
Other	277
<b>Cash flows from operating activities</b>	<b>3,648</b>
Purchase of property, plant and equipment	-1,581
Other	-1,232
<b>Cash flows from investing activities</b>	<b>-2,814</b>
<b>Cash flows from financing activities</b>	<b>-2,365</b>
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>-23</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>-1,554</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>5,203</b>
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	<b>325</b>
<b>Cash and cash equivalents at the end of period</b>	<b>3,974</b>

## Consolidated financial forecast for FY2/19 (vs. Forecast at beginning of FY)

	Forecast at beginning of FY (Millions of yen)		
	1H FY2/19	2H FY2/19	FY2/19
Net sales	113,600 (100.0)	111,000 (100.0)	224,600 (100.0)
Operating profit	3,000 (2.6)	1,000 (0.9)	4,000 (1.8)
Ordinary profit	3,200 (2.8)	950 (0.9)	4,150 (1.8)
Profit (attributable to owners of parent)	1,775 (1.6)	375 (0.3)	2,150 (1.0)



	Revised forecast (Millions of yen)		
	1H FY2/19 Results	2H FY2/19	FY2/19
Net sales	111,575 (100.0)	106,125 (100.0)	217,700 (100.0)
Operating profit	1,694 (1.5)	-194 (-0.2)	1,500 (0.7)
Ordinary profit	2,011 (1.8)	-261 (-0.2)	1,750 (0.8)
Profit (attributable to owners of parent)	900 (0.8)	-320 (-0.3)	580 (0.3)

	Difference			Factors
	1H FY2/19 Results	2H FY2/19 Forecast	FY2/19 Forecast	
Net sales	-2,025 <-1.8>	-4,875 <-4.4>	-6,900 <-3.1>	1H FY2/19 ◆ Net sales -Volume of processed marine products handled by Food Ingredients Business fell short of target ◆ Operating profit -Food Products Business unable to absorb increase in personnel expenses; energy prices and logistics costs also exceeded assumptions
Operating profit	-1,306 <-43.5>	-1,194 <-119.4>	-2,500 <-62.5>	
Ordinary profit	-1,189 <37.1>	-1,211 <-127.5>	-2,400 <-57.8>	
Profit (attributable to owners of parent)	-875 <-49.3>	-695 <-185.3>	-1,570 <-73.0>	Conditions in 1H likely to persist into 2H; revised sales forecasts for chilled bento meal boxes and other products and adjusted capital investment plans in the Food Products Business

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

Initial forecasts were announced on April 13, 2018



# Targeting Sustained Growth

# Operating environment and issues

## Operating environment

- ✓ Growth in ready meal market
  - ✓ Rising demand for chilled bento meal boxes
- } Intensifying competition

## Our position

- ✓ Facing tough competition for market share in the mainstay rice meal category
- ✓ Unable to offset rising manufacturing costs (personnel expenses, utilities costs, logistics costs etc.) with changes to product specifications

## Issues

- Increase sales per store
  - supply products that consumers value
- Address rising manufacturing costs
  - strengthen cooperation with business partners
- Respond to changes in the operating environment
  - overhaul business strategy

# Increase sales per store – Performance versus initial plan

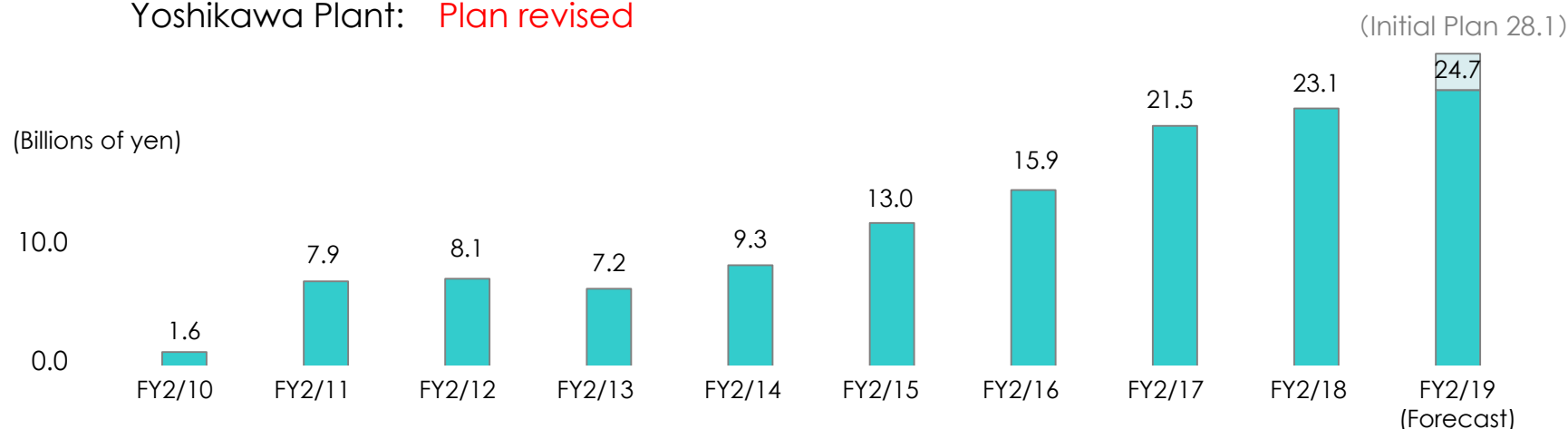
## Chilled bento meal boxes

2H sales forecasts and capital investment plans revised due to delays in new product development

Sakai Plant: Started operations in June 2018 (in line with plan)

Nagoya Plant: Scheduled to start operations in November 2018 (in line with plan)

Yoshikawa Plant: **Plan revised**



Keema curry with white cheese sauce ,  
on sale December  
¥498 (incl. tax)

A thick layer of cheese sauce,  
spicy keema curry and soft boiled egg

# Increase sales per store — Performance versus initial plan

## Onigiri rice balls

Sales missed target (-0.9% YoY) due to wind down of promotional campaign, declining market share



Continuing to introduce healthier products



Maitake mushroom onigiri rice ball  
with glutinous wheat, on sale November  
¥130 (incl. tax)

Contains dietary fiber equivalent to one lettuce  
Rich flavor from umami in soup stock



Glutinous wheat salad  
with tuna and cheese  
¥235 (incl. tax)



Glutinous wheat salad  
with root vegetables  
and chicken hijiki  
¥235 (incl. tax)



Selection of  
8 boiled vegetables  
¥321 (incl. tax)

# Address rising manufacturing costs – Performance versus initial plan

## Ingredient costs

Higher prices for rice and other ingredients absorbed by changes to product specifications

## Increase in personnel expenses

Labor cost ratio deteriorating due to lower share of onigiri rice balls in product mix

Changes in product specifications insufficient to absorb rise in average hourly wage for part time staff

Personnel costs rising due to improved compensation for full-time personnel, increase in headcount

## Higher utilities and logistics costs



Strengthen cooperation with Seven-Eleven

## Hosting technical intern trainees from overseas

Progressing as planned

## Developing and introducing labor-saving equipment



Progressively introducing machines to align onigiri rice balls in trays  
(Tokyo: October, Hokuriku: November)

Introducing machines to align chilled bento meal boxes in trays  
(Urawa: November)



# Respond to changes in the operating environment

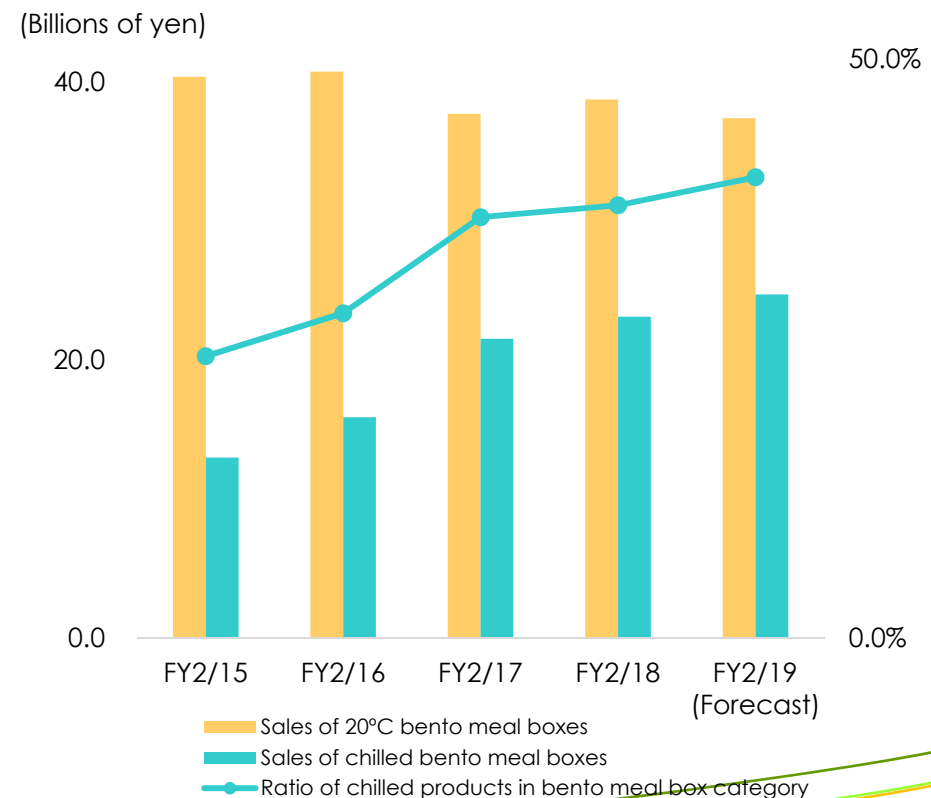
## Overhauling business strategy

Japan

- Increase ratio of chilled products in bento meal box category
- Review the production framework to ensure sustainable growth
- Expand business in new fields

### Points to consider

Realign plants, review organization and workforce, explore new business opportunities, etc.



# Respond to changes in the operating environment

## Overhauling business strategy

### Overseas

- Use proprietary technologies and expertise to expand into new markets

#### Current operations overseas

US

WARABEYA U.S.A. INC.  
Prime Deli Corporation

Outperforming targets  
Made a consolidated subsidiary in  
the current fiscal year, focusing on  
product development

China

Beijing Want-Yang Foods LTD.


Performing well, second plant  
scheduled to start operation this winter

Other

Considering expanding technical support



Management to disclose strategy for sustained  
growth and medium-term business plan at next  
results briefing



This document contains “forward-looking statements” based on the Company’s plans, forecast, business strategies and policies at the time of preparation. These statements include the Company’s managerial judgments and assumptions made based on information available before its announcement, and actual results may differ materially from those anticipated in the statements due to changes in various factors. Therefore, the Company undertakes no obligation to guarantee that these “forward-looking statements” including earnings forecast described in this document will be valid in the future.

## 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.

