

First Half of the Fiscal Year Ending February 2018 (1H FY2/18) Results Briefing

WARABEYA NICHIO HOLDINGS CO., LTD.
(2918)

October 11, 2017



Overview of Financial Results for 1H FY2/18 and Full-year Forecast for FY2/18 (Consolidated Basis)



Consolidated financial results for 1H FY2/18

(Millions of yen)

	1H FY2/17	1H FY2/18		YoY	Vs Forecast at beginning of FY
	Results	Forecast at beginning of FY	Results		
Net sales	109,658 (100.0)	113,700 (100.0)	112,300 (100.0)	2,641 <2.4>	-1,400 <-1.2>
Operating income	3,027 (2.8)	3,400 (3.0)	3,211 (2.9)	184 <6.1>	-188 <-5.5>
Ordinary income	3,287 (3.0)	3,550 (3.1)	3,576 (3.2)	288 <8.8>	26 <0.8>
Profit (attributable to owners of parent)	1,644 (1.5)	2,350 (2.1)	2,147 (1.9)	502 <30.6>	-202 <-8.6>
EPS (Yen) (attributable to owners of parent)	93.78	133.99	122.44	28.66	-11.55

* Figures in () show sales ratio, and figures in < > show change (%).
Estimates for 1H FY2/18 announced on April 14, 2017.

Forecast and difference factors

(Millions of yen)

	1H FY2/18		Vs. Forecast
	Forecast at beginning of FY	Results	
Net sales	113,700 (100.0)	112,300 (100.0)	-1,400 <-1.2>

[Difference factors]

Food Products Business	-1,090
Chilled bento meal boxes	-730
Bread products	-630
Food Ingredients, Logistics, Other Businesses	-300

(Millions of yen)

	1H FY2/18		Vs. Forecast
	Forecast at beginning of FY	Results	
Operating income	3,400 (3.0)	3,211 (2.9)	-188 <-5.5>

[Difference factors]

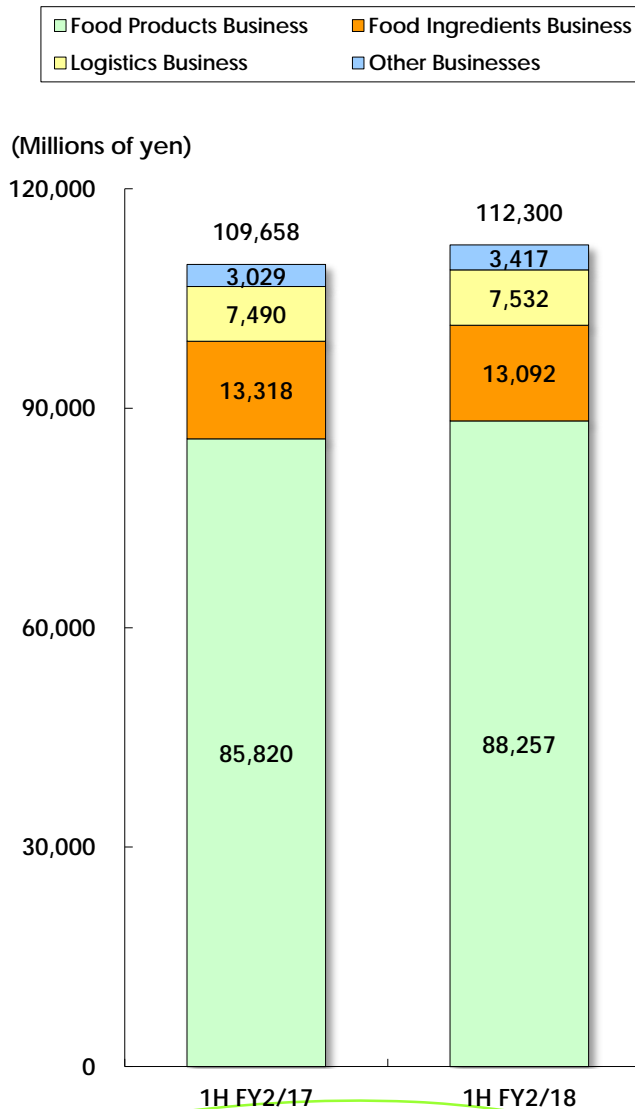
Food Products Business	-210
Food Ingredients, Logistics, Other Businesses	+20

* Figures in () show sales ratio, and figures in < > show change (%).
Estimates for 1H FY2/18 announced on April 14, 2017.

Consolidated net sales by segment (YoY)

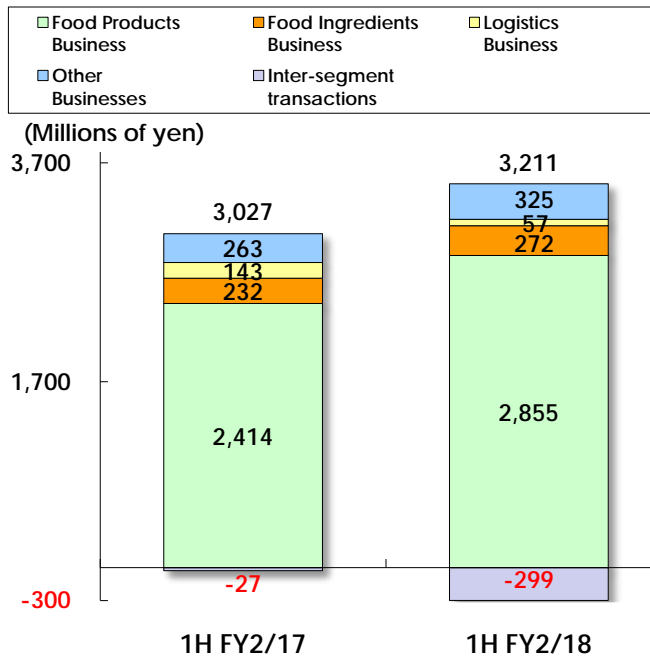
(Millions of yen)

* Figures in < > show change (%).



	1H FY2/17	1H FY2/18	Change	Change factors
Total net sales	109,658	112,300	2,641 <2.4>	
Food Products	85,820	88,257	2,437 <2.8>	Strong sales of onigiri rice balls and chilled Japanese sweets
Food Ingredients	13,318	13,092	-225 <-1.7>	Lower sales of fish roe and processed chicken products
Logistics	7,490	7,532	41 <0.6>	Slowing sales growth in combined distribution business supplying Seven-Eleven
Other	3,029	3,417	387 <12.8>	Rising orders in temporary staffing business

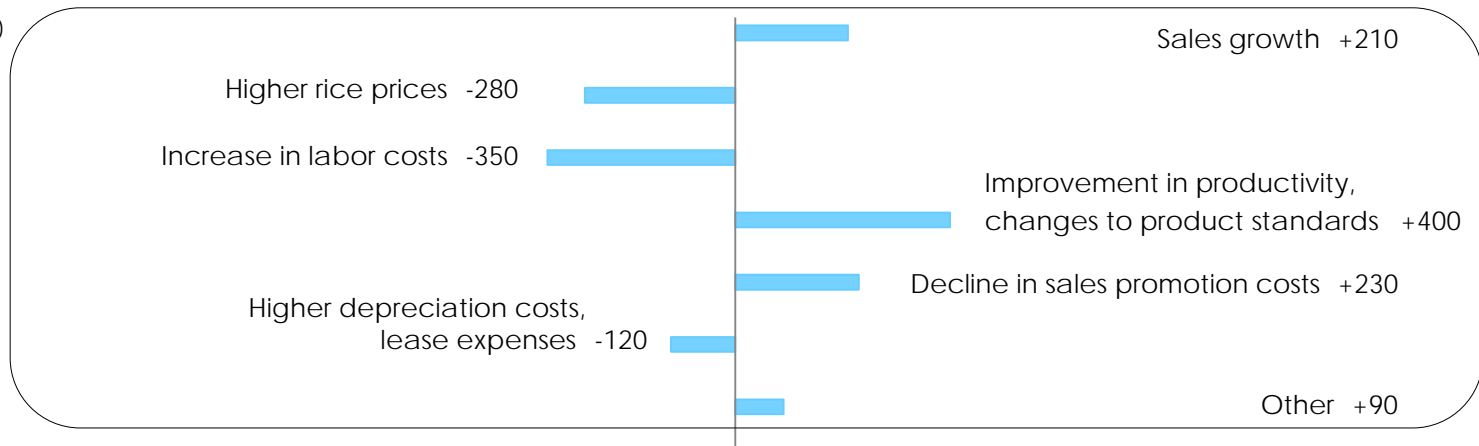
Consolidated operating income by segment (YoY)



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

	1H FY2/17	1H FY2/18	Change
Total operating income	3,027	3,211	184 <6.1>
Food Products	2,414	2,855	441 <18.3>
Food Ingredients	232	272	40 <17.3>
Logistics	143	57	-86 <-60.1>
Other	263	325	61 <23.2>
Inter-segment transactions	-27	-299	-272 <->

(Millions of yen)



Negative impact on profits -750

Total YoY: approx. +180

Positive impact on profits +930

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

(Millions of yen)

	1H FY2/17	1H FY2/18	Change
Operating income	3,027 (2.8)	3,211 (2.9)	184 <6.1>
Non-operating income	483 (0.4)	532 (0.5)	48 <10.0>
Non-operating expenses	223 (0.2)	167 (0.1)	-56 <-25.1>
Ordinary income	3,287 (3.0)	3,576 (3.2)	288 <8.8>
Extraordinary income	- (-)	- (-)	- <->
Extraordinary losses	450 (0.4)	562 (0.5)	112 <25.0>
Profit before income taxes	2,837 (2.6)	3,013 (2.7)	176 <6.2>
Total income taxes	1,193 (1.1)	866 (0.8)	-326 <-27.3>
Profit (attributable to owners of parent)	1,644 (1.5)	2,147 (1.9)	502 <30.6>

(Extraordinary losses)

Previous fiscal year:	450
• Nichiyo: Provision for loss on business of subsidiaries and associates due to fixed asset impairment losses for Frevo Farm Co., Ltd.	
Current fiscal year:	560
• Warabeya Nichiyo: Impairment losses related to Kushiro Plant	370
• Nichiyo: Provision of allowance for doubtful accounts related to Nichiman	180

(YoY change in tax expenses)	-320
Application of tax effect accounting for provisions related to Frevo Farm Co., Ltd.	-370
Application at previous fiscal year-end	+150
Application in current fiscal year	-210

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Consolidated balance sheets (YoY)

(Millions of yen)

[Assets]	End-FY2/17	End-1H FY2/18	Change
Current assets	36,316	38,584	2,267
Non-current assets	47,561	50,572	3,011
[Property, plant and equipment]	[41,427]	[44,080]	[2,653]
[Intangible assets]	[920]	[962]	[42]
[Investments and other assets]	[5,213]	[5,529]	[315]
Total assets	83,877	89,157	5,279

(Millions of yen)

[Liabilities and net assets]	End-FY2/17	End-1H FY2/18	Change
Current liabilities	26,660	30,689	4,028
Non-current liabilities	14,040	13,998	-41
[Interesting-bearing debt]	[12,730]	[13,510]	[779]
Total liabilities	40,700	44,688	3,987
Total net assets	43,176	44,468	1,291
[Retained earnings]	[26,858]	[28,301]	[1,442]
Total liabilities and net assets	83,877	89,157	5,279

Consolidated statements of cash flows for 1H FY2/18

(Millions of yen)

	1H FY2/18
Profit before income taxes	3,013
Depreciation	2,471
Decrease (increase) in notes and accounts receivable – trade	-3,682
Decrease (increase) in inventories	693
Increase (decrease) in notes and accounts payable – trade	2,226
Increase (decrease) in accounts payable – other	792
Other	455
Subtotal	5,971
Income taxes paid	-473
Other	297
Cash flows from operating activities	5,794
Purchase of property, plant and equipment	-3,899
Other	-757
Cash flows from investing activities	-4,656
Cash flows from financing activities	-2,190
Effect of exchange rate change on cash and cash equivalents	-120
Net increase (decrease) in cash and cash equivalents	-1,172
Cash and cash equivalents at the beginning of period	10,937
Cash and cash equivalents at the end of period	9,764

Consolidated financial forecast for FY2/18 (vs. Forecast at beginning of FY)

	Forecast at beginning of FY (Millions of yen)		
	1H FY2/18	2H FY2/18	FY2/18
Net sales	113,700 (100.0)	107,300 (100.0)	221,000 (100.0)
Operating income	3,400 (3.0)	1,200 (1.1)	4,600 (2.1)
Ordinary income	3,550 (3.1)	1,150 (1.1)	4,700 (2.1)
Profit (attributable to owners of parent)	2,350 (2.1)	150 (0.1)	2,500 (1.1)



Revised forecast (Millions of yen)		
1H FY2/18 Results	2H FY2/18	FY2/18
112,300 (100.0)	107,300 (100.0)	219,600 (100.0)
3,211 (2.9)	939 (0.9)	4,150 (1.9)
3,576 (3.2)	874 (0.8)	4,450 (2.0)
2,147 (1.9)	353 (0.3)	2,500 (1.1)

	Difference			Factors
	1H FY2/18 Results	2H FY2/18 Forecast	FY2/18 Forecast	
Net sales	-1,400 <-1.2>	0 <0.0>	-1,400 <-0.6>	1H FY2/18 ◆ Net sales -Growth weaker than expected in Food Products Business (Sales of chilled bento meal boxes, sales in Chukyo region missed guidance targets) ◆ Operating income -Capacity utilization rates at some plants lower than expected -Increase in ingredient prices
Operating income	-188 <-0.2>	-261 <-0.2>	-450 <-0.2>	
Ordinary income	26 <0.0>	-276 <-0.3>	-250 <-0.1>	
Profit (attributable to owners of parent)	-202 <-0.2>	202 <0.2>	0 <0.0>	2H FY2/18 ◆ Net sales -In line with start of year guidance ◆ Operating income -Delays in improving profitability at new plants -Increase in ingredient prices

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



Strategies Going Forward

Initiatives for 2H FY2/18

Shortfall in sales in Food Products Business

1. Sales of chilled bento meal boxes missed guidance target
 - Hamburger boxed meals switched from chilled category to 20°C category
 - Intensifying competition
2. Sales in Chukyo region missed guidance target
 - Decline in sales share due to intensifying competition

1. Initiatives to address sales shortfall for chilled bento meal boxes

(1) Renew popular basic chilled bento meal boxes

Pork cutlet rice bowl (katsu-don): overhaul ingredient procurement and preparation processes
→ Reduce prices while maintaining flavor

Chicken and egg rice bowl (oyako-don): change kaeshi sauce base (mixture of soy sauce, sugar and mirin)
→ Improve quality and flavor



Premium pork cutlet rice bowl
¥580 (incl. tax)



Special pork cutlet rice bowl
(-)



Chicken and egg rice bowl
with fluffy egg
¥450 (incl. tax)



Chicken and egg rice bowl
with fluffy egg
¥450 (incl. tax)

1. Initiatives to address sales shortfall for chilled bento meal boxes

(2) Launch new products

(Curry with fried minced cutlet, spicy shrimp rice bowl, rice omelet, etc.)



Curry with fried minced cutlet
¥498 (incl. tax)



Spicy shrimp rice bowl (planned)
¥498 (incl. tax)

2. Initiatives to address sales in Chukyo region

(1) Reinforce product development system
(deploy personnel)

→ Maintain recovery trend in market share

→ Reinvigorate and grow sales and profits

2. Initiatives to address sales in Chukyo region

(2) Launch new products

Reinforce onigiri rice ball product development



Mixed onigiri rice balls with
directly wrapped seaweed (chicken)
(jikamaki mazemeshi omusubi)
¥130 (incl. tax)
Available from August 14

Renew local specialty
products



Grilled chicken bento meal box
(keichan yaki)
¥498 (incl. tax)
Available from mid-November



Joint initiatives
with Nichiyo Co., Ltd.
Produce locally
for local consumption



Fluffy whitebait rice meal
(fukkura shirasu gohan)
¥298 (incl. tax)
Available from September 5

Maintain recovery trend in market share
Lay groundwork for turnaround from 2H FY2/18

Initiatives to tackle underlying issues

Issue 1: Labor shortage, rising labor costs

- Continue to take on trainees from overseas
- Roll out work style reforms to retain staff
- Implement further shift to automation and labor-saving systems
- In-house production → procurement from external suppliers

Issue 2: Rising ingredient prices

- Review product standards

Long-term initiatives

1. Expand into new categories

Test sales of smoothies started at five stores in Tokyo metropolitan area (from September 26)

2. Continue to invest to drive growth

- Installed new chilled bento meal boxes production line at Sagamihara Plant (October 2017)
- Install new chilled bento meal boxes production line at Sakai Plant (scheduled for March 2018)
- Install new chilled Japanese sweets production line at Nagoya Plant (scheduled for June 2018)
- Expand Tokyo Plant (scheduled for November 2018)
- Open temperature-controlled business site in Iruma (operations scheduled to start February 2018)

3. Launch food loss project

Fulfill corporate social responsibility and improve profit margins

Other initiatives

**Decision taken to make Prime Deli Corporation (PD) a subsidiary
WPM Foods* to successively acquire additional shares in PD**

1. Change in investment stake

As of October 11, 2017 → October 2017 (planned) → January 2019 (planned)
19.3% 90% 100%

2. PD scheduled to become a consolidated subsidiary in FY2/19

(Reference)

PD's FY3/17 results

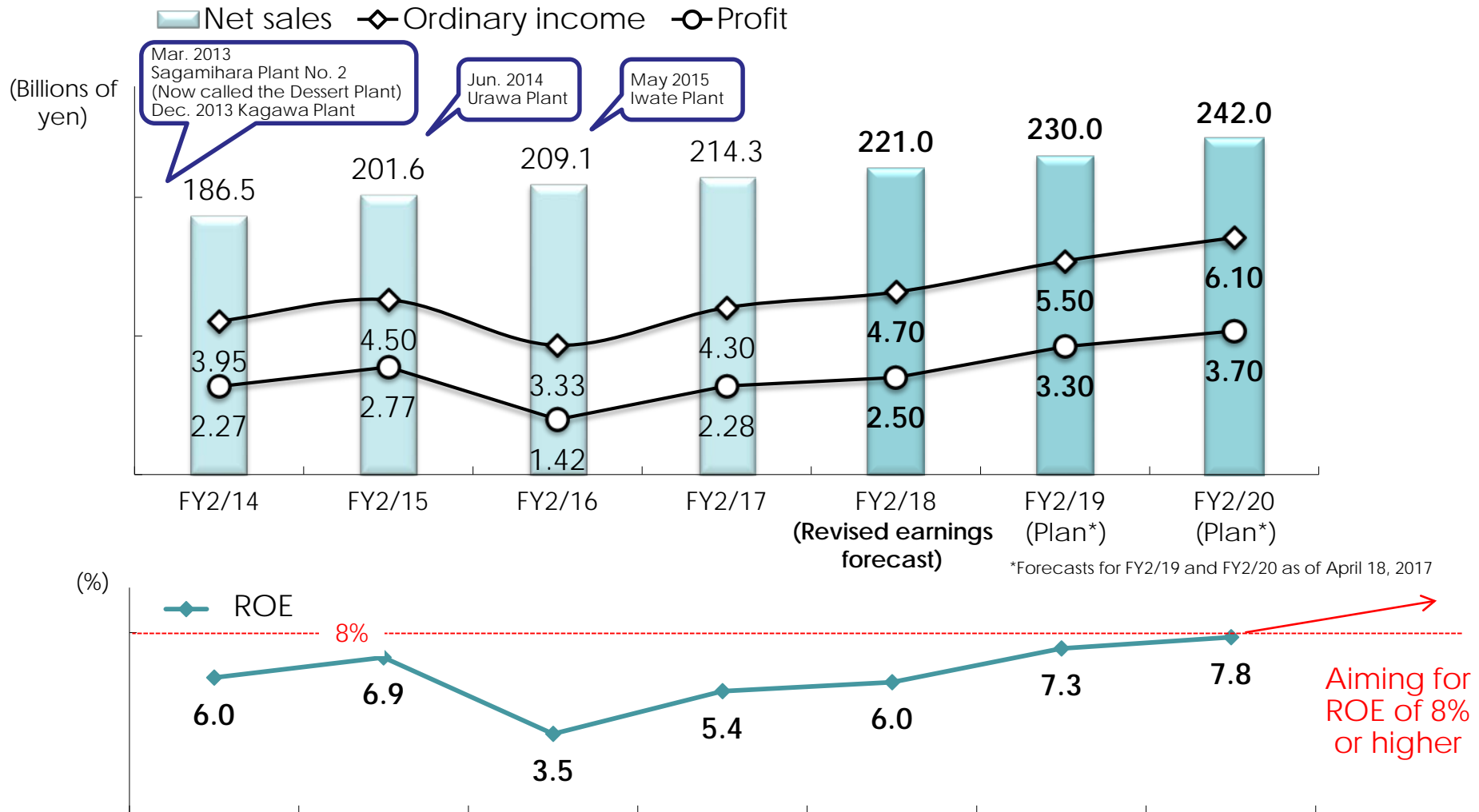
Net sales: US\$25.933 million (roughly ¥2.9 billion)

Operating income: US\$2.102 million (roughly ¥0.23 billion) 1 USD = 113 JPY

*WPM Foods is a joint venture between a US subsidiary of Mitsui & Co., Ltd. and the Company's wholly owned US subsidiary WARABEYA U.S.A., INC.

The Company has a stake of 70% in the joint venture

Medium-term management plan (consolidated)



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.

Overseas

Beijing Want-Yang Foods Ltd.

Beijing Riyang Xinrong Co., Ltd.

WPM Foods, LLC