

Sixth Medium-Term Business Plan (FY2018-FY2020)

House Foods Group Inc.



May 14, 2018
<https://housefoods-group.com/>

Review of Fifth Medium- Term Business Plan (FY2015-FY2017)

Summary of Results under the Fifth Medium-Term Business Plan



Billion yen	Fourth Medium-Term Plan	Fifth Medium-Term Plan			
	Final year Results	Final year Target	FY2017		
			Results	Vs. Target (%)	
Net sales	231.4	274.0	291.9	+17.9	(106.5)
Operating profit	8.7	15.0	16.3	+1.3	(108.6)
ROS	3.8%	5.5%	5.6%	+0.1Pt	
ROA (excl. the effects of business combination) *1	3.9%	5.3%	4.7%	-0.6Pt	
			7.4%	+2.1Pt	
ROE (excl. the effects of business combination) *2	3.3%	5.0%	3.8%	-1.2Pt	
			5.3%	+0.3Pt	

*1 Excluding the effects of goodwill and intangible assets and the amount of amortization arising from business combination.

*2 Excluding the effects of extraordinary income (loss) arising from business combination and the amortization of goodwill

Billion yen	Net sales				
	Fourth Medium-Term Plan Results	Fifth Medium-Term Plan Target	FY2017		
			Results	Vs. Target (%)	
Total	231.4	274.0	291.9	+17.9	(106.5)
Spice / Seasoning / Processed Food Business	122.7	136.0	139.9	+3.9	(102.9)
Health Food Business	37.2	38.0	31.6	-6.4	(83.2)
International Food Business	24.5	30.0	22.9	-7.1	(76.2)
Restaurant Business	Of which, Restaurant Business: 6.7	12.0	52.0	+40.0	(433.1)
Other Food Related Business	58.6	70.0	61.0	-9.0	(87.2)
Adjustment (elimination)	-11.6	-12.0	-15.5	-3.5	-

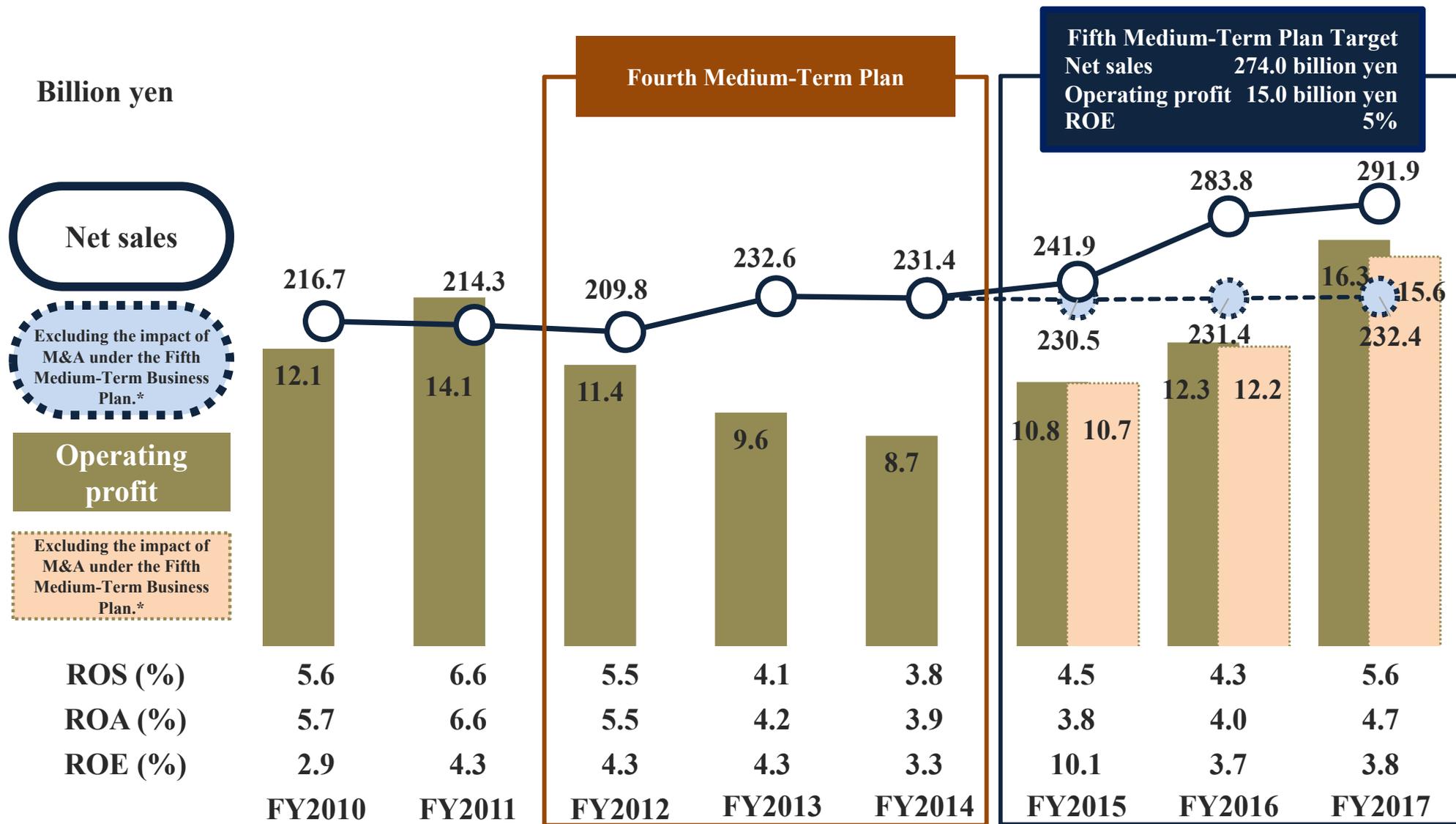
Billion yen	Operating profit				
	Fourth Medium-Term Plan Results	Fifth Medium-Term Plan Target	FY2017		
			Results	ROS	Vs. Target (%)
Total	8.7	15.0	16.3	5.6%	+1.3 (108.6)
Spice / Seasoning / Processed Food Business	6.7	10.0	12.1	8.6%	+2.1 (120.8)
Health Food Business	0.7	2.0	0.9	2.9%	-1.1 (45.4)
International Food Business	0.9	2.0	2.8	12.5%	+0.8 (142.4)
Restaurant Business	Of which, Restaurant Business: -0.1	0.7	-0.4	-0.8%	-1.1 -
Other Food Related Business	-0.8	0.8	1.9	3.1%	+1.1 (233.2)
Adjustment (elimination)	1.2	-0.5	-1.0	-	-0.5 -

* The outcome of the Fourth Medium-Term Business Plan and the targets under the Fifth Medium-Term Business Plan reflected the segment categories after review upon the new establishment of the Restaurant Business segment.

Summary of Results under the Fifth Medium-Term Business Plan



Both net sales and operating profit achieved the targets
 (net sales: contribution of M&A/ operating profit: improved profitability of the existing business)
ROE failed to achieve the target, partly due to the burden of amortization of goodwill, etc.
 (if the impact of goodwill, etc. is excluded, the target ROE will be achieved)

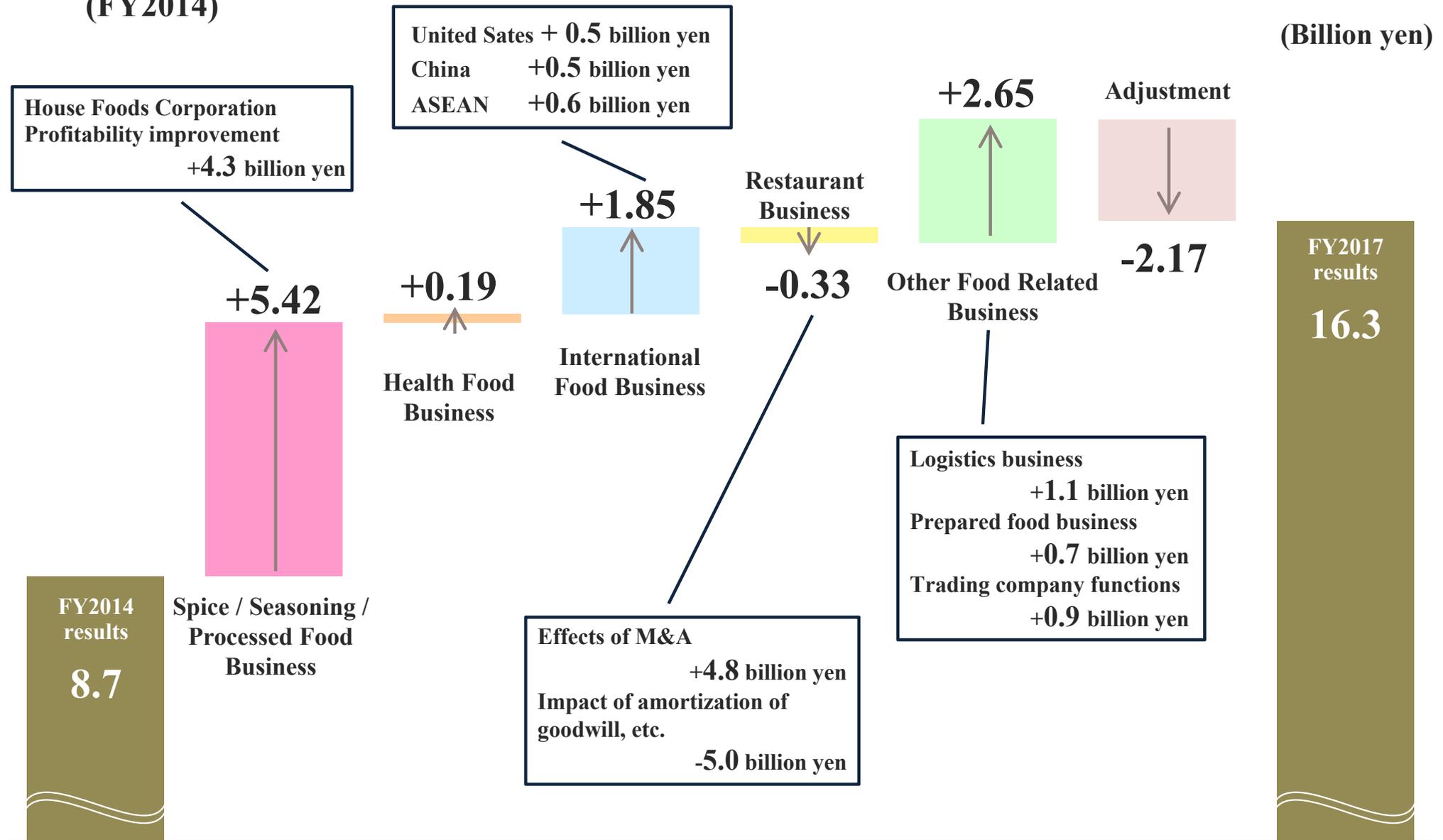


* Net sales: excluding Ichibanya (consolidated), Gaban (consolidated) and Malony. * Operating profit: excluding Ichibanya (consolidated, amortization of goodwill, etc. reflected), Gaban (consolidated) and Malony. (The results of Ichibanya for FY2017 include the results of the business in China and Taiwan, which was transferred to Ichibanya from the Company.)

Summary of Results under the Fifth Medium-Term Business Plan



◇ Operating profit: difference from the results of the Fourth Medium-Term Business Plan (FY2014)



Summary of Results under the Fifth Medium-Term Business Plan



- Both net sales and operating profit achieved the targets.

Net sales: contribution due to the effect of M&A (Ichibanya, Gaban, Malony)

Operating profit: improvement of profitability of the existing business

- Expansion of the value chain: including different cultures and different business models

- Two themes are underway in the new business: the challenge of commercialization under the Sixth Medium-Term Business Plan

- “The HOUSE WAY BOOK” was released in three languages: Japanese, English and Chinese:

The values common to the Group are shared for a stronger unifying force

Domestic business

- The profitability of the Spice / Seasoning / Processed Food Business improved (ROS: 5.4% under the Fourth -> 8.6% under the Fifth)
(Price revision, increased ability to control costs)
- In the Health Food Business, *Ukon No Chikara* suffering an uphill battle had a major impact.
- In the Other Food Related Business, each company proceeded with the initiatives to improve profitability.

International business

- Together with business expansion, the revenue base was strengthened (ROS: 5.6% under the Fourth -> 12.5% under the Fifth)
- The establishment of the sales and production systems, which would be the foundation for a future leap, was advanced.
- The International Food Business, which was conducted as a franchisee, was reorganized when Ichibanya entered the Group and was placed under the management of Ichibanya (in China and Taiwan).

The reforms are still underway, although the actions to become a “high quality company” were implemented.

Realization of the Group’s diversity

Acquisition of group management to create synergies by mixing different cultures and multiple business models, from “addition” to “multiplication”!

Sixth Medium-Term Business Plan (FY2018-FY2020)

Sixth Medium-Term Business Plan Frame



Meaning of existence in society (p. 31)

Review of the past business (pp. 8-12)

Given environmental conditions (p. 32)

Ideal of the House Foods Group
**Striving to become a high quality company that provides
 “Healthy Life Through Foods”**

Establishment not only from a business perspective but also from a wider perspective

For
**Employees and Their
 Families**

Achievement of diversity

For
Customers

Domestic mature market and
 overseas growth market

Build-up of the core of the value
 chain

Build-up of R&D functions
 Creation of new business

Expansion of growth and
 strengthening of foundation overseas

For
Society

Establishment of the recycling-
 oriented model

Contribution to a society of
 healthy longevity

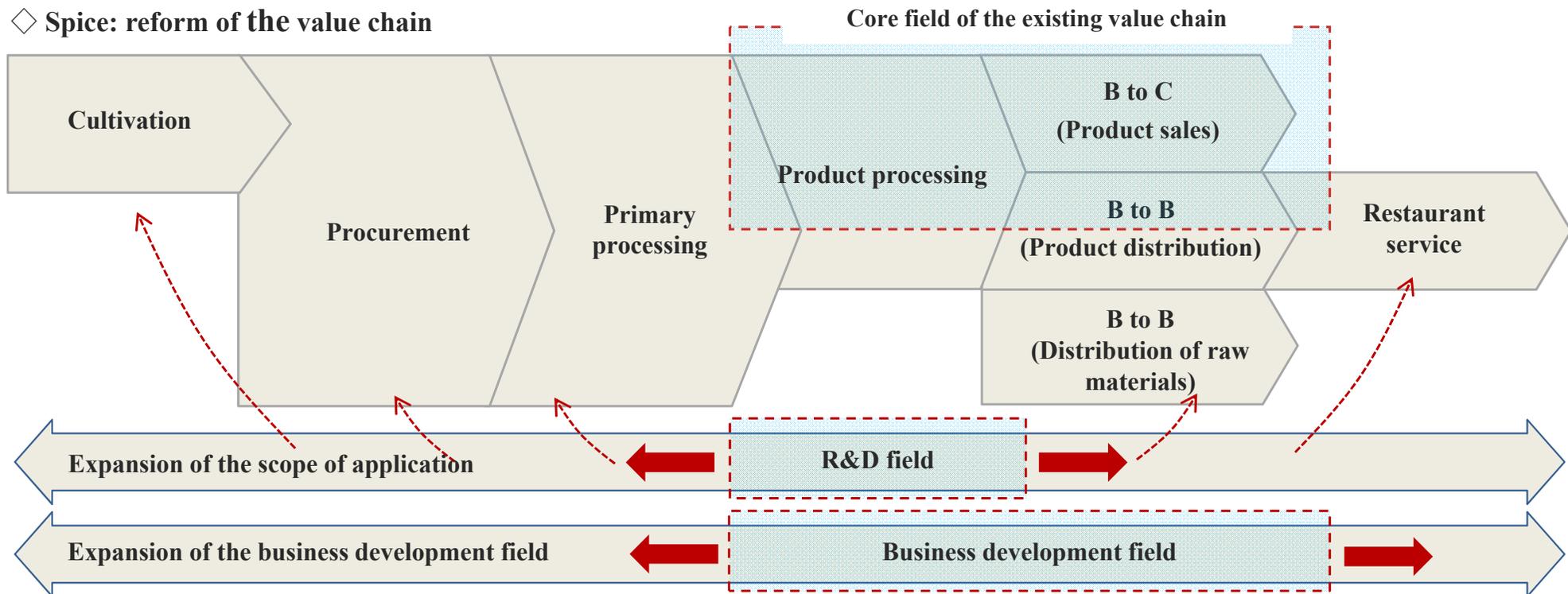
Through the fulfilment of the three responsibilities described above, the Group will strive to
 become a “high quality company.”

Sixth Medium-Term Business Plan (~ Seventh Medium-Term Business Plan)

For Customers: Build-up of the core of the value chain



◇ Spice: reform of the value chain



Start of the three initiatives to be conducted beyond the boundaries within the Group (GOT) (~ Seventh Medium-Term Business Plan)

Reforms of procurement of spices



[Establishment of the value chain with a competitive advantages]

- Integration of the functions of cultivation, procurement and primary processing
- Development of technologies to make the most of spices in a wide range of grades
- Initiatives for “sustainable procurement”

Production optimization



[Establishment of the Group’s optimum production system]

- Optimization of the Group’s production bases both in Japan and abroad and increase of competitiveness
- Securing of business continuity and eco-friendly activities
- Initiatives to reduce CO2

Establishment of the B to B system for spices



[Reorganization of the Group’s B to B business]

- Establishment of the systems for ensuring the optimization of the Group
- Establishment of the model for solution spices (processing technologies x stable procurement of high-quality raw materials)

For Customers:

Build-up of R&D functions / Creation of new business



◇ Build-up of R&D functions: **To become a research institute that creates innovations**

R&D management reforms

Increase of the ability to create and achieve innovations

Plan for input of R&D resources

- Research and development costs: Increase in costs to build up functions (FY2017: increase of about ¥500 million)
- Human resources: Work for future $\geq 50\%$

Demonstration of leadership in R&D ~ Promotion of joint creation strategy ~

- Open innovation
- Link with the value chain
- Deep cultivation of core technologies and expansion of the areas matching the business

Development of an environment in which to create innovations

- Build-up of capabilities of an organization to create innovations
- Integration of research bases
- Renovation of the research center in Chiba

Creation of new business

Setting of the growing-up business

- Defining the two themes examined and reviewed under the Fifth Medium-Term Business Plan as the growing-up business for their commercialization



Acceleration of open innovation

- House Foods Group innovation fund (scale: ¥5 billion at maximum; period: 5 years)
Together with the promotion of open innovation, work on the development of human resources of the Group by dispatch to the venture companies in which investments are made

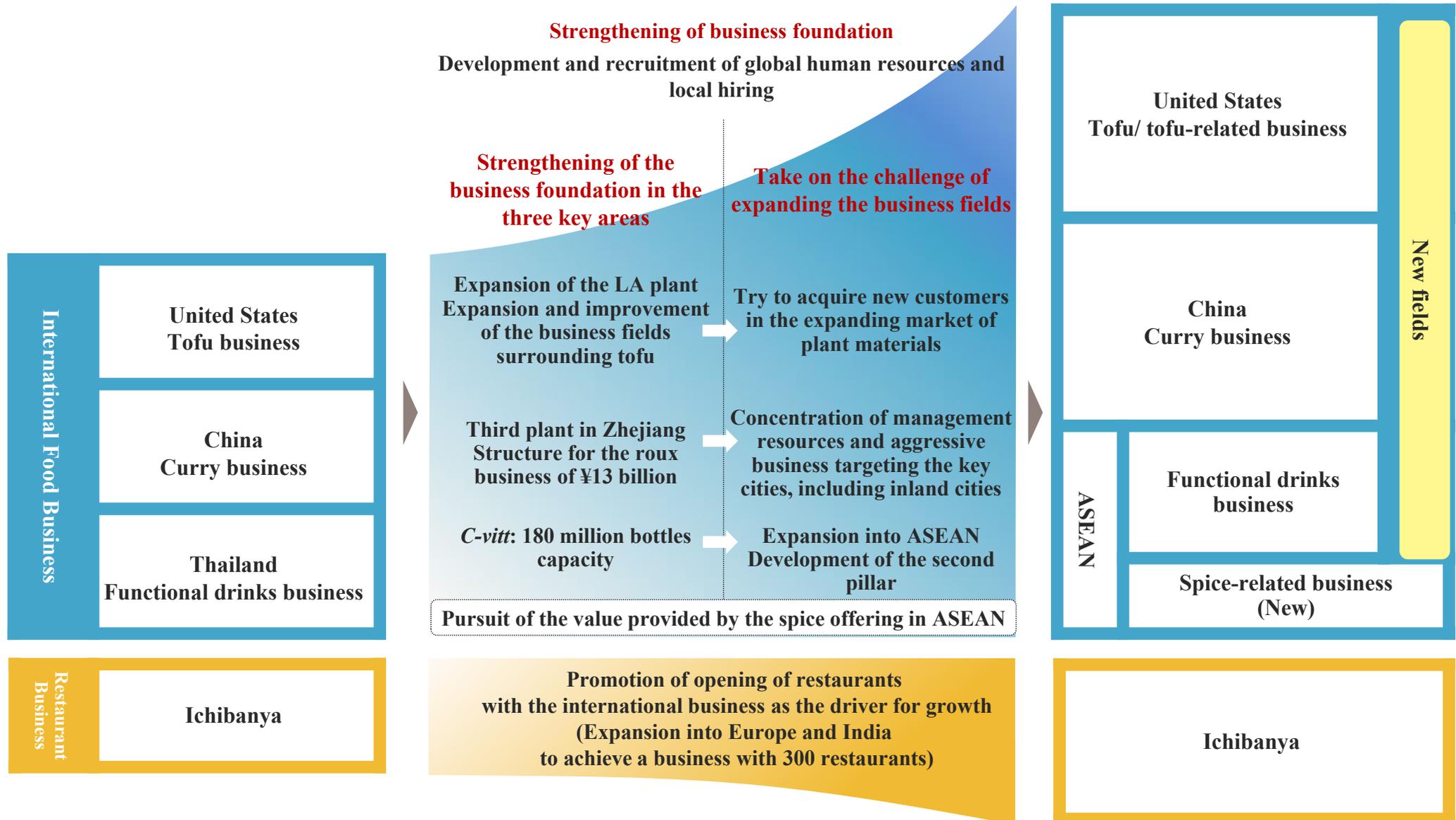
For Customers:

Expansion of growth and strengthening of foundation overseas



◇ Business expansion of the international business (toward 2023)

Ratio of the international business
 Net sales **20%** · Operating profit **30%**



For Customers:

Expansion of growth and strengthening of foundation overseas



◇ Strengthening of the foundation for the international business and creation of demand

The international business, which is the core growth business (International Food Business and Restaurant Business), leads the Group's growth

(Ratio of the international business for FY2023: 20% for net sales and 30% for operating profit)

<p>United States Tofu business</p>	<p>Steady growth of tofu and tofu-related products in the United States and its surrounding area</p> <ul style="list-style-type: none"> - Expansion and improvement of the business fields surrounding tofu and pursuit of the possibility of soybeans and other value-added materials - Cultivation of potential demand by placing greater focus on food service products
<p>China Curry business</p>	<p>Deepening of the business to make Japanese-style curry popular, and expansion of the business fields</p> <ul style="list-style-type: none"> - Deep cultivation: strengthening of the activities to spread knowledge about the correct method of cooking in accordance with the kitchen situations in China (increase of the rate of repetition) - Expansion of the business fields: aggressive concentrated business focusing on the selected 100 key cities (increase of the ratio of purchase experience) Target ratio of the food service products: 30% (increase in contacts with Japanese-style curry and increase in experience of eating)
<p>Business in ASEAN</p>	<p>(1) Functional drinks business in Thailand <i>C-vitt</i>: securing of the largest share in the functional drinks market</p> <ul style="list-style-type: none"> - Establishment of 180-million-bottle capacity per year (FY2017: 90 million bottles), strengthening of traditional trades - Development of the second brand (multivitamins) <p>(2) Launch of new business by taking advantage of the Group's value chain for spices</p> <ul style="list-style-type: none"> - Curry business will pursue the possibility from B to B (Halal/ non-Halal)
<p>Restaurant Ichibanya</p>	<p>Expansion with profitability</p> <ul style="list-style-type: none"> - Promotion of opening of restaurants and additional increase in profitability of existing restaurants - Establishment of the business with 300 restaurants

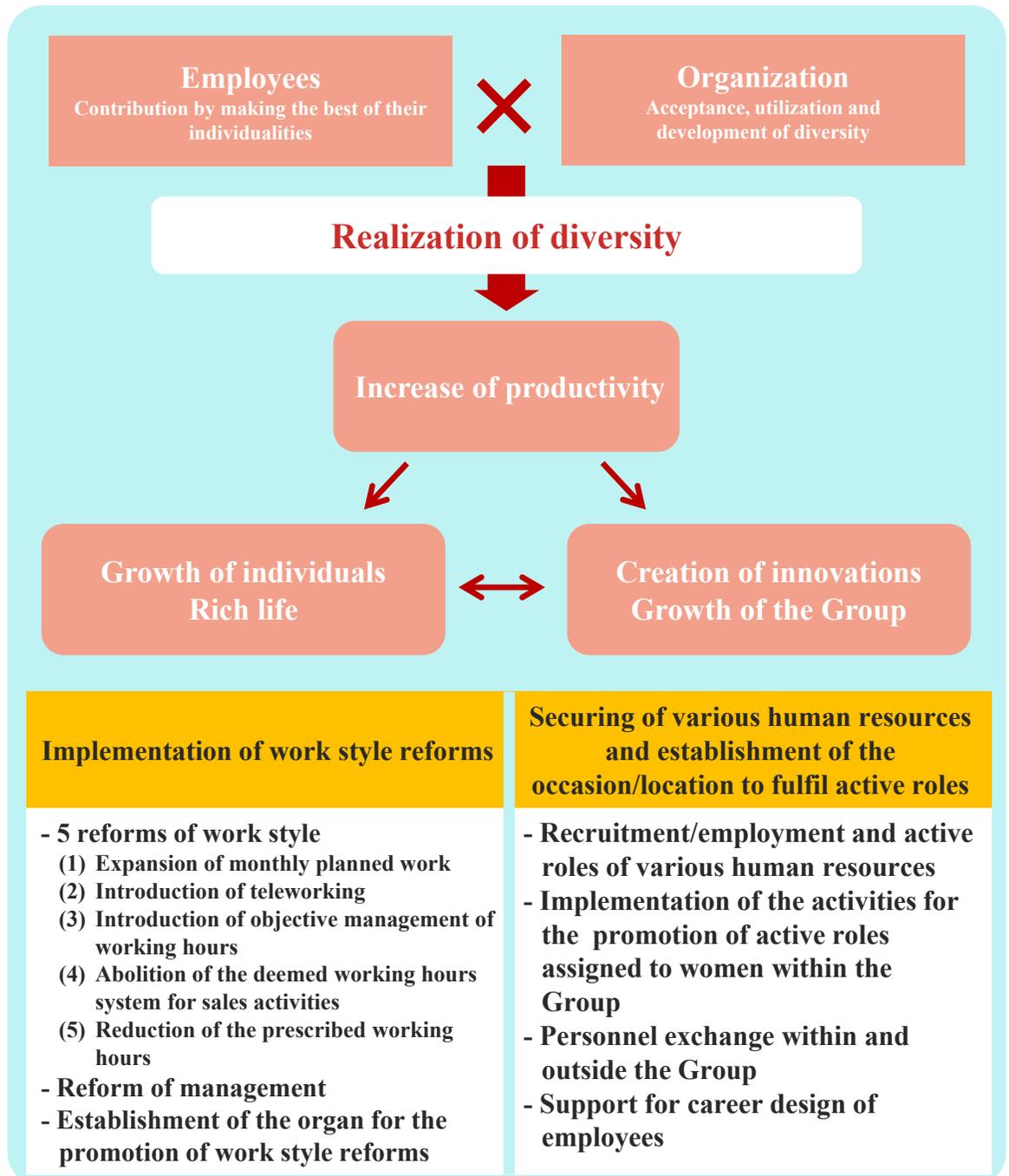


For Employees and Their Families

◇ Given conditions for human resources and the Group's issues

External factors	Decrease in the working-age population
	Increase in employees who work limited hours (restrictions due to childcare, nursing care, etc.)
	Request for correction of long working hours
	Life design in the time of the 100-year life
	Increased job mobility

Internal factors	Spread of the Group's diversity (different cultures and different business models)
	Advancement of aging of employees
	Input of human resources in new domestic business and international business



Without achieving diversity, neither companies nor Japan will subsist.

For Society



◇ CSR through main business

Group philosophy

Through food, we aim to be a good corporate citizen, connecting and collaborating with people to create smiles in their lives.

Group CSR policy

We will perform the three responsibilities as a corporate citizen and create smiles and relationships through the food business.

Creating **S**miles & **R**elationships

We will contribute to the good health of people and the earth through the food business and achieve a sustainable society.

Establishment of the recycling-oriented model

◇ Effective use of limited resources

- Reduction of CO2 by efficient use of energy
 - Target for 2030: 25% reduction in Japan (as compared to 2013)
- Reduction of waste
 - Target for 2030: 16.5% reduction in Japan (as compared to 2013)
 - Achievement of zero emissions

◇ Sustainable procurement

- Procurement considering the environment, human rights, the economy, etc.
- Initiatives starting with palm oil and paper resources

Achievement of a society of healthy longevity

◇ Achievement of healthy eating habits

- “Curry & Spice Smile Project”
- Increase in the activities for food education

◇ Provision of solutions for good health

- Improvement of overnutrition and malnutrition due to poverty, etc.

Sixth Medium-Term Business Plan Capital policy



◇ Business investment plan

Fifth Medium-Term Business Plan Business investment results ¥45 billion
Major investment results Ichibanya Co., Ltd. made a subsidiary Gaban Co., Ltd. made a subsidiary Malony Co., Ltd. made a subsidiary Investment in the third plant in China

Sixth Medium-Term Business Plan Business investment plan ¥60 billion	
Focus areas	Production optimization (GOT-related investment) <div style="text-align: right;">¥30 billion</div>
	Business investment (including CVC) <div style="text-align: right;">¥20 billion</div>
	Overseas growth investment <div style="text-align: right;">¥10 billion</div>

Fifth Medium-Term Business Plan
A group of companies with different business models integrated into the Group



Sixth Medium-Term Business Plan: from “addition” to “multiplication”

Focus on investment for the optimization of the systems within the Group to strengthen the revenue base and investment in new/overseas growing business

◇ Return to shareholders

- Policy for distribution of profits

To maintain stable dividends, with a dividend payout ratio of at least 30% on a consolidated basis excluding the effects of extraordinary income/losses arising from business combination and the amortization of goodwill as a standard

- Acquisition of treasury shares

To flexibly conduct the acquisition of treasury shares in light of the qualitative improvement of the balance sheet and demand for funds.

Sixth Medium-Term Business Plan

Targets on a consolidated basis and ideal proportion



◇ Targets on a consolidated basis

	(Targets under the Sixth Medium-Term Business Plan)	(Change from the Fifth Medium-Term Business Plan)
Net sales	310.0 billion yen	+18.1 billion yen (106.2%)
Operating profit	22.0 billion yen	+5.7 billion yen (135.1%)

	ATO	ROS	ROA	ROE
(Targets under the Sixth Medium-Term Business Plan)	0.87 times	7.1%	6.2%	5.4%
(Change from the Fifth Medium-Term Business Plan)	+0.07Pt	+1.5Pt	+1.5Pt	+1.6Pt

Ideal proportion

To achieve the highest ROA among
Japanese food companies

ATO	ROS	ROA	ROE
1.0 times or more	10% or more	10% or more	at least 10%
Ratio of international business	New business		
Net sales: 20%	Profit: 30%	Ratio to total net sales: 10%	

Target proportion for 2023 (under the Seventh Medium-Term Business Plan)

Targets set considering the impact of goodwill and
intangible assets upon Ichibanya's joining the Group

ATO	ROS	ROA	ROE
0.9 times or more	10% or more	9% or more	at least 8%
Ratio of international business	New business		
Net sales: 20%	Profit: 30%	Ratio to total net sales: 10%	

* Unamortized balance of goodwill and intangible assets upon Ichibanya's
joining the Group
¥61.5 billion at the end of FY2017; ¥42.4 billion at the end of FY2023

Sixth Medium-Term Business Plan Targets by segment



Billion yen	Net sales				Operating profit					
	FY2017 Results	Final fiscal year under the Sixth Medium-Term Plan			FY2017		Final fiscal year under the Sixth Medium-Term Plan			
		Target	Change from the Fifth Plan (%)		Results	ROS	Target	ROS	Change from the Fifth Plan (%)	
Total	291.9	310.0	+18.1	(106.2)	16.3	5.6%	22.0	7.1%	+5.7	(135.1)
Spice / Seasoning / Processed Food Business	139.9	154.0	+14.1	(110.1)	12.1	8.6%	14.0	9.1%	+1.9	(115.9)
House Foods Corp.	129.6	142.5	+12.9	(109.9)	11.1	8.5%	12.8	9.0%	+1.8	(116.0)
Health Food Business	31.6	36.0	+4.4	(113.9)	0.9	2.9%	2.0	5.6%	+1.1	(220.4)
International Food Business	22.9	34.0	+11.1	(148.8)	2.8	12.5%	4.6	13.5%	+1.7	(161.4)
Business in the United States	11.3	13.2	+1.9	(116.8)	1.3	11.8%	1.6	12.4%	+0.3	(122.4)
Business in China	5.0	8.9	+3.9	(177.3)	0.6	11.8%	1.3	15.0%	+0.7	(224.7)
Business in ASEAN	2.6	6.6	+4.0	(250.9)	0.3	12.4%	1.0	14.8%	+0.7	(298.8)
Restaurant Business	52.0	56.0	+4.0	(107.8)	-0.4	-0.8%	1.1	2.0%	+1.5	-
(Excluding amortization of goodwill, etc.)					4.6	8.9%	5.3	9.4%	+0.6	(114.0)
Ichibanya Co., Ltd. (non-consolidated)	44.2	46.1	+1.9	(104.3)	4.7	10.7%	4.8	10.3%	+0.0	(100.7)
Other Food Related Business	61.0	43.0	-18.0	(70.5)	1.9	3.1%	1.8	4.2%	-0.1	(96.7)
Adjustment (elimination)	-15.5	-13.0	+2.5	-	-1.0	-	-1.5	-	-0.5	-



Sixth Medium-Term Business Plan Strategies by segment

Spice / Seasoning / Processed Food Business

- ◇ Reforms of the revenue structure model
 - Response to the growing tendency of people to eat out or buy food to eat at home: increase of the profitability of retort pouched curry products, increase of the capability to propose the temperature range
 - Increase of cost competitiveness by implementing the three initiatives beyond the boundaries within the Group (slide 15), creation of new value and establishment of the foundation of the spice B to B business

Health Food Business

- ◇ Structural reform through the selection and concentration of management resources and the commercialization of strategic healthy ingredients by taking advantage of the Group's strengths
 - Increase of earnings strength of the existing business: advancement of improvement of profit and loss structure and reconstruction of business strategies
 - Steady commercialization of the R&D themes handled under the Fifth Medium-Term Business Plan (strategic healthy ingredients) (examination of business models other than B to C)

International Food Business

- ◇ Promotion of both “acceleration of growth” and “securing of revenues” to lead the Group
 - The United States: establishment and improvement of the system for the production and supply of tofu and the creation of the new business of soybeans
 - China: expansion of the curry business by increasing the production capacity and construction of business infrastructure
 - ASEAN: expansion of functional drinks and creation of demand for Japanese-style curry

Restaurant Business

- ◇ Building up the management foundation toward a growth path
 - Maintenance of revenues from the domestic business: increase of attractiveness of restaurants and reconstruction of the revenue base
 - Expansion of international business: leap as the driver for growth (toward the business with 300 restaurants)

Other Food Related Business

- ◇ Logistics business: advancement of F-LINE, establishment of a sustainable logistics system by constructing the infrastructure common to the industry
- ◇ Prepared food business: increase of earnings strength mainly in the salad and prepared food business (Kuki Plant)
- ◇ Trading company functions: strengthening of the revenue base by improving its own capabilities

New business

- ◇ From the accumulation of tacit knowledge to the acquisition of explicit knowledge
 - Commercialization of “onions”
 - Creation of new value and incubation of demand