

Eighth Medium-term Business Plan Briefing: Q&A

- Date and Time April 18, 2024 (Thu) 14:00 p.m. - 15:32 p.m.
- Method Real-time streaming
- Q&A Panel Hiroshi Urakami, President
 Yoshiyuki Osawa, Senior Managing Director
 Atsushi Sakuma, Director

Q1

You say that the Eighth Medium-term Business Plan will be a phase for implementing transformation on another level. What do you mean by on another level?

A1

We used the expression “transformation on another level” but, for the Spice VC, the vision and concept themselves are still the same, though more clearly outlined. Having turned the concept of striving to be a high quality company, adopted since the Fifth Medium-term Business Plan, into the concrete synergies of GOT (group-wide initiatives) under the Sixth Medium-term Business Plan, in this latest plan, the concept is now embodied in Process Design.

The big change is the method of implementation. Last year marked 10 years since we switched to a group holding company structure on the 100th anniversary of our foundation. During this time, House Foods Group Inc. and House Foods Corporation have divided up responsibilities and, drawing on human resources and cash provided by House Foods Corporation, which is the Group’s core business, House Foods Group Inc. has focused on transformation. However, on reflection, our response to a dramatically changing environment in the post-COVID era has been weak compared with our competitors and we must, therefore, not continue dividing responsibilities, with House Foods Group Inc. responsible for transformation and House Foods Corporation responsible for protecting our core business in Japan. Our main focus when formulating this Eighth Medium-term Business Plan was to focus on transformation as a Group, bringing a sense of unity to our corporate strategies as a Group and the business strategies of House Foods Corporation as an operating company. While pursuing the vertical and horizontal integration, especially vertical integration, of VCs (value chains), we intend to develop new strengths at House Foods Corporation based on a bird’s eye view of the Spice VC.

Q2

How will ROIC improve through the Spice VC initiatives?

A2

While it is important to link it with business strategy when we disclose ROIC, our latest plan does not show this because there are still areas that require careful consideration in the future. We will ensure opportunities to discuss this and intend to keep you all informed.

Under the Seventh Medium-term Business Plan, we focused on three GOT themes. In terms of the B-to-B GOT, at House Gaban Corporation, a new company established through the spin-off of House Foods Corporation's Food Service Business and its integration with Gaban Co., Ltd., we aim to achieve net sales of 50 billion yen and an operating profit margin of 10% in 10 years from now.

As for the production GOT themes, although it is difficult to show their impact on ROIC in quantitative terms at present, I believe the impact will be easier to quantify when investments take shape in the future.

The procurement GOT themes involve qualitative improvement in corporate capabilities and so quantifying their impact on ROIC is challenging; however, we will give this careful consideration.

Q3

Regarding PBR The House Foods Group's PBR is currently estimated at around 1.0x. Given that many BtoC companies are perceived by the market as offering added value, which aspects of your operations do you think you are failing to appeal adequately to the stock market?

A3

Having broken down the factors behind our PBR, we recognize there is an issue with ROE and think it is important to steadily improve ROE. Another point is that we are currently in the middle of transformation and we have failed to properly communicate the progress we have made. Ever since the Fifth Medium-term Business Plan when we committed to transformation, we never expected linear progression that would land us in a rose colored world. Rather, we are still in the middle of a process of trial and error. We definitely intend to focus on this as a management issue.

Q4

While I think you were right to set the cost of shareholders' equity at 6.0%, I also get the impression that your ROIC target of 6.0% or higher and your ROE target of 7.0% for 3 years from now do not go far enough. What is your view?

A4

Looking at this by segment, the International Food Business is facing issues in each of its key businesses in the United States, China and Thailand respectively. We formulated the Eighth Medium-

term Business Plan in view of such challenging conditions. In spite such conditions, we are still determined to increase ROIC to 6% or higher and to catch up with the cost of shareholders equity.

Q5

What are your thoughts on the numerical targets under the Eighth Medium-term Business Plan for each of the areas of the International Food Business segment?

A5

Our targets for business in the United States and business in China reflect repeated investments under past medium-term business plans, and it is true that these investments will weigh down performance. If we look at the difference between ROS and the EBITDA margin in the table on page 21 of the briefing materials, we can see that there is a big difference for our businesses in the United States and China. In our business in the United States, capacity has increased thanks to capital investment; however, our competitors have launched a price offensive, and the way we fight the competition will be key.

Our business in China is the biggest cause for concern among our three businesses given speculation about considerable stagnation of the economy. While there is still scope for expansion on production facilities at the third plant, we do not envisage any major capital investment under the Eighth and Ninth Medium-term Business Plans. I think we need to discuss this properly, including the given conditions of China's domestic market.

In our business in Thailand, I feel that as long as we confine ourselves to *C-vitt* in the Vitamin C market, then we are close to hitting a ceiling in terms of the potential of Thailand's domestic market; however, we intend to implement new initiatives in Thailand and also enter other markets, building a track record through such initiatives.

Q6

Regarding operating ROIC I feel that you have not explained in concrete terms how you will improve operating ROIC and that there is no sense of urgency around its improvement. There is also no mention in this latest plan of restructuring plants and reducing operating capital as part of VC management. When will you be able to talk about this in concrete terms?

A6

When introducing ROIC management as part of our latest plan, we thought it was important to first properly set out the approach, that is, operating ROIC and proportion of operating capital. It is true that we have yet to fully discuss operating ROIC; however, as we implement the Eighth Medium-term Business Plan, we will consider communicating more information according to the progress of discussions, alongside careful examination of the ROIC measurement units. I should be able to talk about plant reorganization just before it happens.

Q7

Regarding ROE Given that you have now also set a target for the cost of shareholder's equity, how has the positioning of ROE changed?

A7

We will work on the premise of achieving the ROE target set in the latest plan. That said, we aim to achieve the ROIC target, as this integrates the best practice targets that we have considered important from the start, and so we will commit first and foremost to achieving the ROIC target. At the same time, we are aware that we will also increase ROE in the process.

Q8

Regarding the ingraining of ROIC Surely, as long as accountability is unclear, no-one will commit to ROIC? How will you really make ROIC work as the most important management indicator internally?

A8

I truly hope you understand that we have been holding discussions internally on this matter. I think the fact that this latest plan focuses on and deals with operating ROIC in its presentation of company-wide ROIC does in itself demonstrate our future commitment. Going forward, as we implement the Eighth Medium-term Business Plan, including developing an accountability structure for the VCs, we intend to keep an eye on operating ROIC and also use operating ROIC in our communication with you all.

Q9

Regarding approach to return on investments I get the impression that communication about return on investments is being put off. Please give a breakdown of the 70 billion yen of investment under the Eighth Medium-term Business Plan. Since I imagine you will invest in business in Japan, please also give details of capital investment in the Spice/Seasoning/Processed Food Business, which is the driver of profit growth under the current Medium-term Business Plan, and what effects you have factored in.

A9

Regarding return on investments, we set a bar based on the cost of capital and our policy is to avoid investments that do not offer the potential for returns exceeding the bar. As for a breakdown of the 70 billion yen, the Spice/Seasoning/Processed Food Business will have the largest share of investment under the latest plan. This is because the investments we have been making based on the GOT themes will commence in earnest from this Eighth Medium-term Business Plan. However, we have made large-scale investments in the Spice/Seasoning/Processed Food Business in the past and since the burden of depreciation and amortization for past investments will be somewhat lighter, overall depreciation and amortization in this segment will not increase that much. Please understand that the new investments will not have a significant effect during the period of the Eighth Medium-term Business Plan.

Q10

Regarding the ROIC and ROE targets You have announced a ROE target of 7.0% and a ROIC target of 6.0% or higher. The improvement in ROE seems considerable. What have you factored into this target?

A10

Our targets under the Eighth Medium-term Business Plan also take into consideration gains on sale from initiatives such as the reduction of strategic shareholdings and, on balance, the ROE target may appear higher than the ROIC target.

Q11

Regarding personnel expenses. I guess that, when you put together the Eighth Medium-term Business Plan, upward pressure on wages had a much stronger impact than in the past. How do you intend to absorb the costs necessary to secure human capital?

A11

As you point out, I think we have to change perceptions. On the assumption that personnel expenses will increase under inflation, I think improvement of productivity to ensure that higher personnel expenses translate into performance will be the focus of initiatives going forward. I believe that implementing the Medium-term Business Plan announced today is more important than talk of each individual initiative.