

## Highlights of Major Meat Processing Companies' Financial Results for Fiscal Year Ended March 2022

The following is Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2022 (FY2021) and earnings forecasts for FY2022 of Japan's five major meat processing companies (collectively, the "Companies"): Prima Meat Packers, Ltd. ("Prima"), NH Foods Ltd. ("NH Foods"), MARUDAI FOOD CO., LTD. ("MARUDAI FOOD"), ITOHAM YONEKYU HOLDINGS INC. ("ITOHAM YONEKYU") and Starzen Company Limited ("Starzen").

### 1. Industry Trend

The business environment surrounding the meat processing industry has been forced to change since the COVID crisis, and the impact is still continuing. For the sales perspective, while the momentum of demand from stay at home is slowing down, demand for consumer products has been firm. Yet demand for products for the food service industry have not reached full-scale recovery. Looking at market conditions by meat type, demand for domestically-produced meat has remained firm supported by household consumption. Prices of imported meat have been generally high backed by disruptions in the distribution network and soaring feed prices in the COVID crisis. In addition, uncertainties in the business environment are becoming stronger due to Russia's invasion of Ukraine and the depreciation of the yen following the COVID-19 pandemic. The impacts of high procurement costs, primarily for raw materials and fuel prices, are concerned.

The Companies handle a wide range of processed foods other than meat, such as hams and sausages, pizzas, Chinese food, dairy products, desserts and so forth. However, sales competition within the industry is fierce, especially in the hams and sausages field, and ensuring profitability is a long-time issue to address. Consumers' price-oriented behavior for choosing low priced products is also persistently strong, and the Companies maintained a conservative attitude toward reflecting the increases to sales prices amid rising labor and logistics costs. They had been responding to the rising costs through working on streamlining of the operations and improving productivity. However, the degree of recent cost increases cannot be absorbed solely by internal efforts; thereby the four companies, Prima, NH Foods, MARUDAI FOOD, and ITOHAM YONEKYU, sequentially increased prices after February 2022. However, as mentioned above, the pressure of cost increase has increased further. Successfulness of sales measures and pricing strategies are being watched how the Companies ensure profitability and maintain sales volume and also balance the both well.

### 2. Financial Results

For FY2021, the Companies' total net sales was 3,048.4 billion yen, up 0.4% year-on-year, and operating income (on a business profit basis for NH Foods) was 91.7 billion yen, down 12.0% year-on-year. By company, the 3 companies, Prima, NH Foods, and MARUDAI FOOD, decreased both revenues and profits (degree of deficit expanded for MARUDAI FOOD), while 2 companies, ITOHAM YONEKYU and Starzen, increased revenues with a slight increase in profits. Raw material prices and logistics costs have been on the rise remarkably during the period and was a factor squeezing the Companies' profits. On the other hand, ITOHAM YONEKYU and Starzen managed to increase profits thanks to improved profitability in its overseas business for the former, and strong sales of product for home meals for the latter, among others. Mixed results are seen for the Companies with backdrop of degree of diversification in the business portfolio, difference in composition ratio of meat type, etc., in JCR's view. MARUDAI FOOD posted an operating deficit for the second consecutive fiscal year, due in part to sluggish performance in the meat and chilled beverage businesses, which performed well in the pre-pandemic period.

The Companies maintain sound financial structures. In the past, the equity ratios of Starzen and Prima were somewhat lower than these of other 3 companies, but they are continuing improving at present along with profit accumulation backed by the strong performances. However, in the course of reviewing the cost structure in the future, a certain amount of investment burden may arise, such as

elimination of manpower in the plants, reconstruction of the production and sales bases, etc. JCR will monitor the degree of funds required and the medium-to long-term profit contribution status.

### 3. Highlights for Rating

For FY2022, all the Companies project to increase revenues, of which Prima and MARUDAI FOOD project to increase profits (the latter will return to profitability), and the remaining 3 companies project to decrease profits. Each company has factored in the negative impact of higher procurement and production costs and the positive impact of price revisions. The highlights for the rating are as mentioned below.

JCR is closely monitoring the measures to respond to the current cost increase pressure and the outcome. To mitigate the impacts of rising raw material prices and transportation costs worldwide, the Companies have been revising wholesale prices of hams and sausages, and processed foods since the middle of FY2021. Originally, the price increase is not easily accepted in these areas. Given the seriousness of the situation at present that cost increases are observed in various industries, the price revisions mentioned above have been gradually accepted. However, besides the fact that costs remain high, rising utility costs and progress of depreciation in the yen are also concerned. In order to ensure profits, repeated upward price revisions may likely be essentially needed; however, JCR believes consumers will tend to be more cautious about spending as prices go up. Therefore, measures to stimulate consumers' motivation for shopping should also be important such as enhancement of sales of value-added products, differentiate own products from other companies' besides simply increase prices.

JCR will also continue monitoring the sales trends by sales channel of meat and processed foods. Since COVID crisis, demand recovery of products for the food service industry is still on the way. The infection status has stabilized and the government is easing the regulations; however, the future situation is still unforeseeable. There is a concern that HMR and home meals are widely accepted as a new behavior and demand for dining out may remain low due to prolongation of the situation. JCR believes that it is also necessary to determine the recovery trend hereafter and optimize the business portfolio including reconsidering customer mix as necessary.

Trends in meat procurement ability is also a key factor. For example, the recent rise in beef prices seems to be partly attributable to structural factors such as increased demand in China. Along with the economic growth of emerging countries and other factors, demand for meat is expected to expand worldwide also in the medium to long run, and procurement competition with overseas meat processors is expected to intensify. In COVID crisis, the infection situation worsened in various regions in the world, and the supply network is also affected, such as labor shortages at production sites and decline in factory operating rates. Where supply-demand conditions tighten further, profitability of the Companies may be pushed down further due partly to further increases in procurement costs and opportunity loss arising from failing to secure sufficient supply with a reason of purchase prices. Efforts to expand the procurement base, such as strengthening relationships with the existing suppliers and development of new procurement areas, are essential.

A downward pressure on the Companies' performance has become stronger at present due to soaring costs in addition to the impact of the COVID crisis on the sales network. However, JCR views the impact given to the creditworthiness of the Companies will be limited given the steady demand for meat and processed foods, also their sound financial conditions. JCR will monitor the sales trend by determining the trends in costs and effects of countermeasures taken by each company.

Hajime Inoue, Misa Ishizaki

(Chart) Consolidated Business Results and Financial Indicators of Five Major Meat Processing Companies

(JPY 100 mn, %)

		Accounting Standards	Net Sales	Operating Income	Operating Income Margin	Net Income Attributable to Shareholders of the Parent	Equity Capital	Equity Ratio
Prima Meat Packers (2281)	FY2020	JGAAP	4,336	215	5.0	142	1,036	48.3
	FY2021	JGAAP	4,196	130	3.1	97	1,119	50.5
	FY2022F	JGAAP	4,410	161	3.7	106		
NH Foods (2282)	FY2020	IFRS	11,761	524	4.5	326	4,336	52.5
	FY2021	IFRS	11,744	481	4.1	480	4,791	52.7
	FY2022F	IFRS	12,400	460	3.7	330		
MARUDAI FOOD (2288)	FY2020	JGAAP	2,342	-3	-0.1	4	771	57.7
	FY2021	JGAAP	2,186	-9	-0.4	-4	748	58.1
	FY2022F	JGAAP	2,250	15	0.7	10		
ITOHAM YONEKYU HD (2296)	FY2020	JGAAP	8,427	240	2.9	202	2,469	62.7
	FY2021	JGAAP	8,544	246	2.9	191	2,620	63.4
	FY2022F	JGAAP	8,650	210	2.4	150		
Starzen (8043)	FY2020	JGAAP	3,492	67	1.9	69	591	44.9
	FY2021	JGAAP	3,814	69	1.8	60	642	45.1
	FY2022F	JGAAP	3,900	68	1.7	57		
Total	FY2020		30,357	1,043	3.4	743	9,204	
	FY2021		30,484	917	3.0	825	9,920	
	FY2022F		31,610	914	2.9	653		

Note: NH Foods has adopted IFRS since FY2018.

NH Foods' operating income, operating income margin, net income attributable to shareholders of the parent, equity capital and equity ratio shall be read as business profit, business profit margin, profit attributable to owners of the parent, total equity attributable to owners of the parent and equity ratio of owners of the parent respectively.

Note: The Companies have adopted the accounting standard for revenue recognition since FY2021

(Source: Prepared by JCR based on financial materials of above companies)

<Reference>

Issuer: NH Foods Ltd.

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: MARUDAI FOOD CO., LTD.

Long-term Issuer Rating: BBB+ Outlook: Negative

Issuer: Starzen Company Limited

Long-term Issuer Rating: BBB+ Outlook: Stable

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)