

## Highlights of Major Meat Processing Companies' Financial Results for Fiscal Year Ended March 2019

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 2019 (FY2018) and earnings forecasts for FY2019 of Japan's five major meat processing companies (collectively, the "Companies"): Prima Meat Packers, Ltd., NH Foods Ltd., MARUDAI FOOD CO., LTD., ITOHAM YONEKYU HOLDINGS INC. and Starzen Company Limited.

### 1. Industry Trend

Demand for meat products remains solid thanks in part to the heightening health awareness of consumers. The estimated total of beef, pork and chicken on the market, which was approximately 4.93 million ton in FY2018 according to Agriculture & Livestock Industries Corporation, has been on a constant rise in recent years. However, its composition is changing. As consumers remain strongly in favor of low-priced products, there is an apparent shift in demand from Japanese beef to relatively cheaper imported beef or to pork or chicken.

Meat prices, which had been on an upward trend, weakened for Japanese pork and chicken in FY2018. Since Japanese pork market prices fluctuated due to a pigs' disease, climates, etc., supermarkets and groceries tended to choose overseas products to ensure stable procurement. Currently, however, African swine fever (ASF) is widespread, drawing attention to changes in the trend due to tight global supply-demand conditions. While chicken prices were weak due to overstock associated with a sharp rise in imports, excess inventory has been reduced. That said, increasing volumes of both production in Japan and imports from overseas are likely to weigh down the market prices of chicken.

Severe competition environment for the core hams and sausages business still continues. Despite steady growth in demand for hams and sausages, the Companies have failed to pass on the rise in the costs of labor, logistics, etc. to product prices and therefore suffer downward pressure on income. The competition seems to have been spurred by Prima Meat Packers' decision to increase production in 2016 and the integration of Itoham Foods Inc. and Yonekyu Corporation. The Companies will continue to jostle with each other for advantage over the excessive competition for the time being.

They are also strengthening their operations in the areas of processed foods other than meat products and supply of ready-made meals. These foods range widely from hamburger patties, deep-fried products and other processed meat products to pizza, Chinese foods, dairy products, desserts, etc. While some products help ensure a high profit margin, many other products face fierce competition. The Companies need to address the issue of securing profitability.

### 2. Financial Results

The Companies' total net sales for FY2018 came to 3,092.2 billion yen, up 0.9% from the previous year, while operating income dropped 24.5% to 67.0 billion yen. The decrease was attributable to downward pressure from a decline in meat market prices, rises in the costs of labor, logistics, etc., lost sales opportunities due to natural disasters, and other factors. The rises in the costs of labor, logistics, etc. are largely structural and likely to still put pressure on income going forward.

For FY2019, total net sales and operating income are forecast at 3,212.7 billion yen and 80.7 billion yen, up 3.90% and 10.5% from FY2018, respectively. (For NH Foods, business profit was given instead of operating income for both FY2018 and FY2019.) The Companies intend to improve the income by, for instance, increasing the sales volume and improving their productivity.

The financial structure remains sound for all of the Companies. Equity ratio of around 40% for Starzen and Prima Meat Packers somewhat pales compared to 50%-60% for the other three companies but has nevertheless been improving due to their good performance over recent years. The Companies have recently been active in making capital investments for maintenance of production

facilities as well as for enhancement of their production capacity and streamlining of operations. Even so, JCR considers that each of them can retain a healthy financial position.

### 3. Highlights for Rating

For FY2019, operating income (business profit for NH Foods) is projected to increase by all of the Companies. However, market conditions are uncertain due to trade negotiations, animal infectious diseases, while the costs of labor and logistics will still increase going forward. For the Companies facing such severe business environment, JCR pays attention to the following.

In the meat products segment, the reinforcement of the meat procurement base comes first. The environment for procuring raw materials is changing as, for instance, the number of domestic livestock farmers is decreasing and global demand for meat is growing. Currently, the spread of ASF raises concern about the tight supply of pork. In order to enhance meat procurement capacity, it is vital that the Companies build close relations with domestic trading companies as well as overseas packers, etc. Since such efforts are likely to result in a difference of medium- and long-term shares, JCR will watch them closely.

In the processed food products segment, JCR will closely watch the enhancement of the Companies' cost competitiveness and product development capability. Amid cost increases being expected going forward, it is difficult to retain the profitability without reconsidering their production system. Each of the Companies has been taking such measures as implementing higher-productivity production lines, making labor-saving investment, reorganizing production offices, reducing product items in number, and streamlining logistics. JCR will keep an eye on progress and benefits of their measures. In terms of product development, JCR considers it important to successfully capture the needs of customers who have preferences for low-priced products, convenience, health maintenance, etc. Every company has been developing products that can be heated or cooked in a microwave oven, products that appeal to health-conscious consumers, etc., and JCR is paying attention to the sales trends thereof.

JCR also watches the diversification of earnings sources. The Companies have recently been strengthening their fishery products, prepared foods, dairy products, beverages, etc., which support some companies' business performance. As the presence of CVS becomes stronger, some companies are reinforcing the vendor service for CVS and PB merchandise. Given that domestic meat market has matured and overseas demand is growing, it is also important to expand sales to overseas customers. Based on the above, JCR will confirm the progress of the Companies' efforts.

Hajime Inoue, Yusuke Tsuboi

(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	Interest-bearing Debt	Equity Ratio
Prima Meat Packers (2281)	FY2017	JGAAP	3,945	131	3.3	104	812	294	42.8
	FY2018	JGAAP	4,130	132	3.2	83	861	272	42.2
	FY2019F	JGAAP	4,377	141	3.2	92			
NH Foods (2282)	FY2017	IFRS	12,585	458	3.6	376	4,180	1,114	56.9
	FY2018	IFRS	12,342	323	2.6	196	4,010	1,470	54.1
	FY2019F	IFRS	12,800	400	3.1	185			
MARUDAI FOOD (2288)	FY2017	JGAAP	2,396	24	1.0	18	765	99	58.3
	FY2018	JGAAP	2,430	23	0.9	15	756	123	57.0
	FY2019F	JGAAP	2,500	35	1.4	21			
ITOHAM YONEKYU HD (2296)	FY2017	JGAAP	8,319	216	2.6	158	2,186	464	58.1
	FY2018	JGAAP	8,507	145	1.7	106	2,228	604	56.6
	FY2019F	JGAAP	8,800	180	2.0	140			
Starzen (8043)	FY2017	JGAAP	3,401	58	1.7	51	479	417	39.0
	FY2018	JGAAP	3,512	48	1.4	46	522	393	41.5
	FY2019F	JGAAP	3,650	51	1.4	48			
Total	FY2017		30,646	887	2.9	707	8,422	2,388	
	FY2018		30,922	670	2.2	445	8,377	2,862	
	FY2019F		32,127	807	2.5	486			

Note: Interest-bearing debt (Japanese GAAP) = Short-term borrowings + Bonds to be redeemed within a year + Long-term borrowings to be repaid within a year + Bonds + Long-term borrowings

Interest-bearing debt (IFRS) = Bonds and Borrowings

NH Foods adopted IFRS in FY2018. Its figures for FY2017 given above were modified in accordance with IFRS.

Business profit is used for NHS instead of operating income from FY2019 onward.

(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: Stable

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 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.)

Copyright © Japan Credit Rating Agency, Ltd. All rights reserved.