Prima Meat Packers Group will invest in strategic growth while maintaining a sound financial structure

Fiscal 2019 performance and underlying factors

In fiscal 2019, the Group achieved profit growth by strictly managing sales and profits by customer and refraining from excessively forceful marketing in the fresh meat business. We also revised our sales policy to maintain appropriate inventory. In the processed foods business, we achieved stable revenues from growth in key products such as Koukun Sausage and *Salad Chicken*. Sales at Prime Delica Co., Ltd., which produces and sells products to convenience stores, were also strong.

The spread of the COVID-19 pandemic in 2020 led to substantial growth in sales of processed foods for home use due to increased stay-at-home demand, while sales of processed foods for commercial use and premium fresh meats fell.

As a result, overall net sales rose to ¥418,060 million (up 1.2% YoY). Operating income surged to ¥15,636 million (up 18.7% YoY), ordinary income increased to ¥15,959 million (up 15.4% YoY), and net income rose to ¥8,823 million (up 6.5% YoY), thereby achieving growth in both sales and profit. The business generated operating cash flow of ¥22.3 billion and interest-bearing debt decreased.

The COVID-19 pandemic increased concerns over sufficient liquidity on hand, but the cash and deposit balance for the period was ¥13.9 billion, a sufficient level compared to last fiscal year. The Group also established a commitment line of ¥15 billion on March 31, 2020. We therefore judge the current financial structure as sound, and the liquidity on hand as sufficient.

Considering global expansion along with fortifying existing businesses

The Group established basic policies in the Medium-term Business Plan. One of these policies is to "Further expand the domains of the two existing business segments and further strengthen their revenue bases," and we are accelerating investment in growth based on that policy.

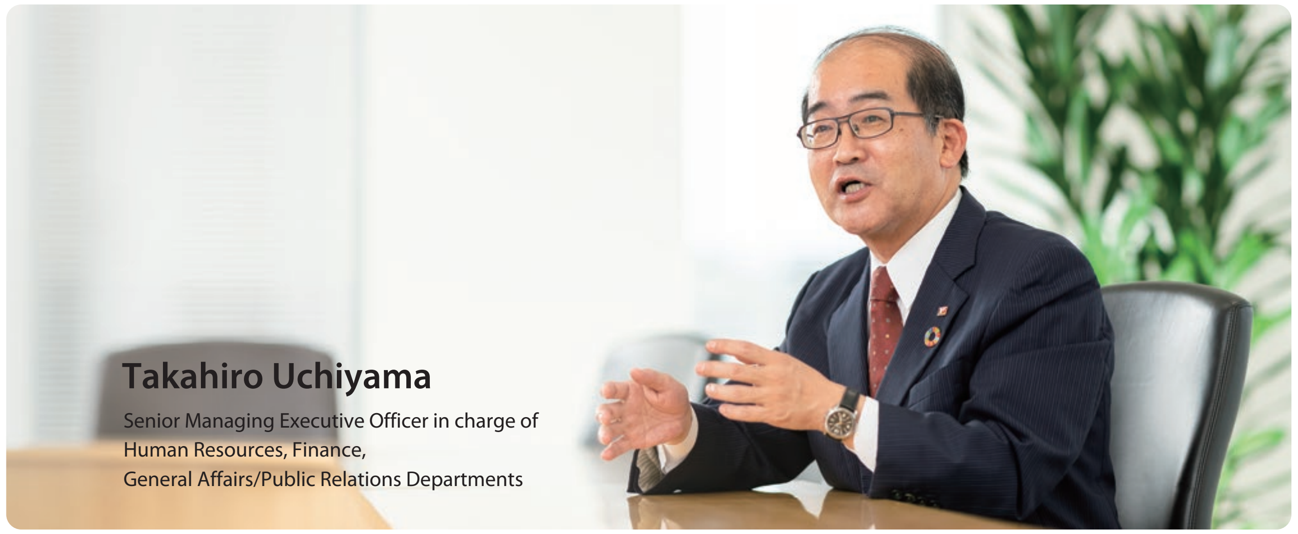
We continued to put effort into hog farming in the fresh meat business and plan to invest around ¥40 billion by 2030. In the processed foods business, we completed construction of the ham and bacon plant in April 2019, which had been underway for some time at the Ibaraki plant. This plant boasts a production capacity of 2,500 tons of ham, bacon, and other products a month. We are strengthening the quality control and sanitation management structure, while also taking steps to improve efficiency and achieve energy savings with the latest equipment. In the future, we plan to improve efficiency and pursue energy savings at other plants, including renovation of deteriorating plants.

In addition to expansion of existing businesses, we view business creation and global development aimed at growth markets as necessary to achieve further growth in sales and profit. The Board of Directors and the Management Committee are already discussing M&A and other means of business and overseas expansion, and we are considering use of the commitment line mentioned above to engage in agile M&A and avoid opportunity loss.

The Group is also continuing to focus on environmentally aware capital investment. In addition to the solar power generation system that was already installed at the Ibaraki plant to establish an environmentally friendly production system, we are also installing high pressure processing (HPP) technology (see page 25), and working to reduce food waste by extending the shelf-life of products. In the hog farming business, we are designing the new farms in Miyagi Prefecture as model cases of taking the community and the environment into consideration by implementing measures to ensure animal welfare, reduce odor, and insulate sound. The plants will begin shipments in the summer of 2022.

Further strengthening the revenue base and expanding cash flow, keeping capital cost in mind

The Group is planning aggressive investment in production plants and hog farming to invest in strategic growth. However, to achieve ROE of 10% or higher, it is important to invest efficiently and exceed the capital cost, which is the rate to clear in investment decisions. We have established financial indicators such as ROIC and NPV and are rigorously selecting investments based on these. We are also analyzing multiple scenarios of changes in performance and linking this to ongoing operation of the post-investment PDCA cycle. We perform a comparative verification and monitoring of capital costs and financial indicators such as ROIC and ROE as part of our annual Group company review system. To be more specific,



Takahiro Uchiyama
Senior Managing Executive Officer in charge of Human Resources, Finance, General Affairs/Public Relations Departments

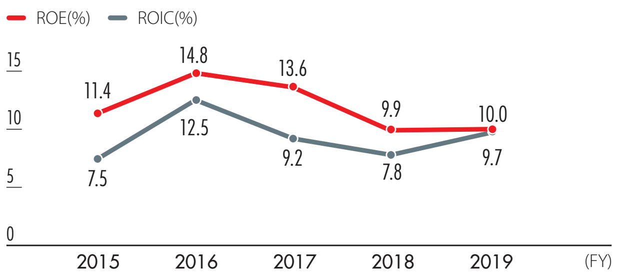
the Group is working as one team to verify investment efficiency at Group companies responsible for production and sales, on a consolidated P/L basis. This enables us to understand and promote capital cost management on the frontlines of sales and optimize investments for the Group as a whole.

As part of the Group's financial strategy, we will also diversify sources of financing by obtaining external credit ratings to demonstrate creditworthiness and will control the cost of debt by maintaining an equity ratio of 40% or higher. These efforts are aimed at reducing weighted average cost of capital (WACC) costs and maintaining them at a current level of around 5%. In addition to this, the Group produced results from the sales expansion of main products and improvements in production efficiency over many years, and has the ability to generate more than ¥20 billion in operating cash flow a year. We recognize the need to generate capital for future investments and enhance shareholder return. To accomplish this, we verify the cash conversion cycle (CCC) for generating and expanding stable operating cash flow, and monitor the capital recovery period for the entire process from raw materials procurement to manufacturing and sales on an ongoing basis to optimize the use of capital within the Group.

In the Medium-term Business Plan, we established a dividend policy of targeting a payout ratio of 30% or higher, using free cash flow as the source of funds for dividend payments. In fiscal 2019, we paid ¥60 per share in annual dividends, resulting in a payout ratio of 34.2%, and are also planning to declare dividends of ¥60 per share in fiscal 2020, for a payout ratio of 33.9%.

In the future, we will continue to maintain stable dividends and will strengthen the financial structure to enable even greater shareholder returns, based on collective consideration of consolidated performance and investments in strategic growth.

Trend in ROE and ROIC



Weighted average capital cost (WACC) of around 5%

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Active investment in human capital, branding, technology, and other non-financial assets

Securing and developing outstanding human resources is essential to achieving such growth, and the Group is therefore focusing on investment in human capital. The overseas study and training system has been temporarily suspended due to the COVID-19 pandemic, but we continue to send employees to food processors in Germany to undergo practical training in manufacturing and acquire Meister (master) credentials.

Language skills and knowledge of other countries in operations have not been a priority up to this point, except for those responsible for procuring fresh meat. However, the potential for greater global expansion in the future is increasing. We are therefore dispatching employees to the fresh meat procurement team in the U.S. and to Hylife Foods LP in Canada to develop global human resources. We have not changed our basic policy and will continue to focus on investment in human capital, despite the persistence of the COVID-19 pandemic.

Technology is essential for providing safe, reliable, great tasting products and services, and the Group will also focus on R&D to create new products that will form a second pillar for our business.