

## President's Message



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## Transforming our business model and corporate culture to achieve our vision

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Naoto Chiba  
President and CEO

### A vision statement that reaffirms our corporate values and clarifies our purpose

On April 1, 2021, we released a new vision statement expressing our organization's purpose and focus. The new statement encapsulates the corporate values that I wanted to share with employees. It also emphasizes how our organization can serve a positive role in society. Let me tell you about these values and this role.

After I became company president in 2018, I wanted to share important values and ideas with employees. When addressing employees at company assemblies, I would utter certain phrases: *Be candid and sincere. Create quality products that sustain the Prima Group. Provide value to customers through continuous innovation.* It had become apparent that our organization needed to reaffirm such values. To that end, we needed a

## Vision

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new vision that clearly stated our purpose and focus. Rather than wording this statement by myself, I wanted to involve employees in the process. The employees submitted plenty of ideas, and we finally chose a statement. Translated literally, the statement reads, “Contribute to food culture and society through great taste and excitement.”

Let’s break this statement down, starting with “great taste and excitement.” “Great taste” is pretty self-explanatory—creating tasty food is essential to any food manufacturer’s value proposition. “Excitement” has two meanings. It can refer to the joy and fellowship of dining with loved ones. It can also refer to that added value—that extra wow factor we bring to our customers. Customers feel pleasantly surprised when they discover just how convenient our food is to cook and store, and just how much we’ve thought about their health. As for the phrase “contribute to food culture and society,” this expresses the social dimension of our business: In delivering food and services that our customers cherish, we promote a renewed appreciation for different regional food cultures around the world. We also focus on creating positive social impacts and influencing the behavior of consumers in a positive manner.

Having clarified our vision, we now focus on how to achieve it. One idea we have is to transform, over the medium and long term, from a “meat” company into a provider of protein sources in general: protein from red meat and poultry, protein from fish and seafood, and protein from plants. By building technological expertise in these three categories, we could excel in providing high quality protein from a broad range of sources. In this way, we would serve an invaluable role in supplying the spiraling protein demand of the world’s growing population. I would love to see us achieve this transformation by 2031, the year that marks our organization’s centenary. We might even change the name of our Company to reflect our expanded portfolio.

## Using a PEST analysis to identify risks and opportunities

If we are to deliver our vision and become an organization that provides a broad range of protein sources, then we must first understand the external environment in which we operate, including macro-environmental factors and risks. To that end, we conducted a PEST analysis\*1 in December 2022.

In this PEST analysis, I was particularly interested in technological factors and trends (the T in PEST). After all, technology holds the key to addressing our strategic priorities: the need to strengthen our existing businesses by reforming cost structure, the need to sow seeds of future growth, the need to help resolve socio-environmental issues and engage with external stakeholders, and the need to lay organizational foundations (including cultivating human capital, deploying digital technology, and managing risks). Take, for example, our efforts to reform cost structures, improve the product development process, and develop talent. We can expedite these efforts by leveraging the latest technologies. Today, these technologies include artificial intelligence (AI) and the Internet of Things (IoT). By 2030, they’ll include 6G too.

Production is another area that can benefit from technology. We must use automation and labor-saving technologies to mitigate the increases in production costs and maintain our competitive edge. In the processed foods business, we’ve introduced a number of such innovations. For example, in fiscal 2021 (ended March 2022), four Company-owned factories introduced high-speed packaging and automated case packing. We’ll continue this direction by upgrading existing processed food plants and equipment and by introducing automated robotics technology. We might eventually automate all of our processed food lines and control them through IoT-powered technology. As for the fresh meat business, scientific management of pigs will improve productivity on the farms. For example, the farms can use AI technology to adjust feed portions for each pig.

### PEST analysis

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\*1 A PEST analysis is a tool for analyzing political, economic, socio-cultural, and technological factors. It helps the company understand how these different macro-environmental factors affect a company’s business in the present or how they will affect it in the future.

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Technology will always be a central focus in our research and development efforts. Our R&D Center has been working on an objective method for rating the tastiness of a food product. It assigns quantitative values to five flavor elements<sup>\*2</sup> and five sensory experiences (how the food looks, smells, feels, sounds, and tastes), enabling scientific analysis.

Technology also has a role to play in addressing the risks, and the opportunities too, related to climate change and other environmental issues, which represent an overwhelming concern for the food industry. We need to assess the risks and opportunities and examine potential

technological solutions for both. One potential solution concerns a scientific discovery in 2012. A research team at the University of Tokyo discovered an enzyme that synthesizes amino acids from carbon dioxide and hydrogen. With cooperation between industry and academia, it should be possible to apply this enzyme in both in efforts to reduce greenhouse gas emissions and in the process of product development.

I want to discuss some other PEST factors too. Of the political factors, we're most concerned by the rising geopolitical tensions, especially following Russia's invasion of Ukraine. The invasion pushed up the costs of

\*2

The five flavor elements are sweetness, saltiness, sourness, bitterness, and umami-ness.

#### PEST analysis (as of December 2022)

<h3>Politics</h3> <p><b>Political factors</b></p> <ul style="list-style-type: none"> <li>● Rising geopolitical tensions: US–China tensions, Russia, Mid East, East China Sea (Taiwan), North Korea</li> <li>● Different actions taken in the post-pandemic transition (differing standards for easing controls)</li> <li>■ Progress in international treaties (TPP, RCEP, COP27)</li> </ul>	<h3>Economy</h3> <p><b>Economic factors</b></p> <ul style="list-style-type: none"> <li>● Global stagflation: US, Europe, and China in economic decline, developing countries at risk of defaulting</li> <li>▲ Trends in monetary policy and exchange rate: Japan alone maintaining low-interest rate, dollar in isolated gain against yen</li> <li>◆ Concern about downturn in corporate performance in Japan: End of COVID-era financing for SMEs (end of grace period for interest and principal repayments)</li> <li>● Widening gap between Japan's corporate goods price index (CGPI) and its consumer price index (CPI): In October 2022, core CGPI was up 9.1%, and core CPI was up 3.6%, year on year</li> </ul>
<h3>Society</h3> <p><b>Socio-cultural factors</b></p> <ul style="list-style-type: none"> <li>● Demographic changes in Japan: Shrinking population, aging population, increase in single-person and dual-income households, rise of Gen Z</li> <li>● Lifestyles in post-pandemic transition: Split between returning to offices and working from home, return of inbound tourists</li> <li>● Securing stable supply channels: Higher procurement costs, dockworker strikes, new business development</li> <li>■ Growing global concern for sustainability: The need to meet societal expectations</li> </ul>	<h3>Technology</h3> <p><b>Technological factors</b></p> <ul style="list-style-type: none"> <li>▲ Information and communications technologies (6G, AI, IoT, VR)</li> <li>■ Alt-protein (soy, cultured meat)</li> <li>◆ Technological innovations related to halal certification</li> <li>◆ Labor saving innovations ◆ Food preservation innovations</li> <li>◆ Diversified and hyper-accelerated communications (social media)</li> <li>◆ Contactless technology</li> </ul>

#### Measures to address anticipated risks and potential issues

- **Reinforcing existing businesses:** Strengthen existing business segments by reforming cost structure or passing on the cost increases. Adapt to post-pandemic transition.
- ◆ **Sowing seeds of future growth:** Leverage technological innovations. Improve existing products and develop new products. Expand overseas businesses. Scrutinize investment strategy.
- **Engaging with society:** Engage in efforts to address socio-environmental problems (carbon transition, reducing food waste, going plastic-free, animal welfare).
- ▲ **Laying organizational foundations:** Manage exchange rate risk and inventory risk more effectively. Deploy digital technology. Attract, identify, and groom future leaders (including non-Japanese people).

## 2022 Highlight

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energy and raw materials, denting our performance in fiscal 2022 (ended March 2023). Another political factor was the COVID-19 pandemic, which disrupted our global supply chain for three years. The disruption impressed upon us the need to make our supply chain more resilient by diversifying our supplier base. We took an important step toward this goal by opening a new farm in Miyagi, which launched its first pig shipments in summer 2023. With this move, we've increased shipments from within Japan while also insulating our pork procurement from volatility in international pork markets. In other words, we've hedged supply chain risk.

Regarding socio-cultural factors, the world has little time left to achieve the UN's 2030 Sustainable Development Goals (SDGs). We must do all we can to contribute to these goals, for our very existence as a food manufacturer depends on a sustainable planet and a sustainable society. I remind employees of this fact whenever the opportunity arises.

Some socio-cultural factors are closer to home. Of particular concern are Japan's shrinking and aging population and the rise in single-person households. The shrinking and aging population will begin to bite in 2050, resulting in a vastly reduced domestic market. We have two strategies to offset this risk. First, we're increasing the relative share of overseas businesses with bright growth prospects. Second, in Japan, we're further increasing the relative share of our e-commerce sales.

As part of the first strategy, we acquired Rudi's Fine Food Pte Ltd, a Singapore-based company that processes and sells meat. As part of the second strategy, we acquired TMG International Co. Ltd., which operates The Meat Guy, an online store offering a range of fresh meats. To grow our online sales, we need to build an online brand presence that resonates with consumers.



### Actions aligned with the medium-term business plan

We used the PEST analysis as a guide when formulating our medium-term business plan for the fiscal years 2023 to 2025. This plan has three basic policies.

The first theme is to implement an ESG strategy and make our business foundation more sustainable. Our ESG strategy is guided by the results of a materiality assessment that we conducted back in 2020. In that assessment, we identified 10 material issues and set qualitative and quantitative targets for them. The six subcommittees of our Sustainability Committee are working to align the actions of frontline employees with these targets. This process involves a plan-do-check-act (PDCA) cycle for continuous improvement. Some of the ten material issues concern the environment (examples include reducing greenhouse gas emissions and reducing the volume of waste output). For these are globe-spanning issues, a single organization can only do so much. What we need, then, is industry-wide collaboration, along with public-private collaboration. Such collaboration can, for example, create solutions for reducing greenhouse gas emissions from pigs, or create techniques for culturing meat.

As part of this basic policy, we will develop our human resources and boost job satisfaction to foster a mindset of innovation. Human resources are critical in our efforts to transform our corporate culture and business model. Around 20 years ago, we experienced a tough time and scaled back recruitment. This action left us with relatively few employees in a certain age range. Learning from this bitter experience, we continued recruiting of fresh graduates and started recruiting more mid-career candidates, and enhanced training for recruits. In 2020, we launched the Employee-satisfaction Revolution Project. This project focuses on improving employee motivation. As part of the project, we survey employee attitudes every two years and incorporate the findings. So far, we've made progress in providing more diverse career support and other aspects of a talent development structure and workplace environment that

#### Medium-term Business Plan

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makes employees feel secure and confident, encouraging long-term loyalty.

The second basic policy is to adapt our earnings base to the changes in the external environment. To secure our margins, we've committed to adjusting our prices so that they reflect the higher costs of raw materials. We've also committed to reorganizing our businesses and cost structures, dispensing with past practices as necessary. Alongside this, we're focusing on product development and proposals to meet the diversifying needs of consumers. I want to highlight one trend in particular: the rise in health-conscious consumers. Until now, we've offered these consumers products with something reduced, be it reduced sugar, reduced salt, or reduced fat. From now on, instead of reducing something, we'll add something. That is, we'll add nutrients with a view to providing all-encompassing meals.<sup>\*3</sup> For example, our research team is working on ingredients and technologies that give food a nice salty taste but prevent the salt content getting absorbed into the body.

The third basic policy is to invest in growth projects and expand globally. When it comes to expanding, Rudi's Fine Food has a vital role to play in our efforts to penetrate South East Asian markets. It has already launched test marketing in Singapore and neighboring countries. On the production side, our two factories in Thailand will start exporting processed chicken products to the Middle East and Indonesia. Our own employees have an important role here too. Posting employees overseas aids in talent development as well as in business growth. In June 2023, we seconded a Japanese female employee to Thailand after she requested the overseas posting. Previously, she had participated in a overseas study program in which traveled to North America to learn English and global skills.

To further increase our growth prospects, we're investing in new projects and in digital technology with a view to producing our own innovative production technology. We're also working with our friends in ITOCHU Corporation to capture new markets around the world.

<sup>\*3</sup> An all-encompassing meal contains all the essential daily nutrients a human needs to stay healthy, according to dietary standards for Japanese people published by the Ministry of Health, Labour, and Welfare.

### Strengthening Human Capital

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Growth capex (expenditures for purchasing new assets) accounts for much of the growth in our processed foods business, but some of the growth is through mergers and acquisitions (M&A deals). M&A deals are therefore one option we have to accelerate growth. For all our investments, we'll keep monitoring investment performance, with a return on equity (ROE) benchmark of at least 10%. Returning profits to shareholders is another priority. In the fiscal 2024 (ending March 2025), we aim to achieve net income of ¥10 billion, with a dividend ratio of at least 30%.

### Spotting signs of change and penetrating new markets

In my first address to employees in 2023, I told employees to have the eyes of a hawk and the ears of a rabbit.<sup>\*4</sup> In this and other occasions, I've tried to fire up employees so that we all advance further toward the goal expressed in our vision statement. In my rallying cry, I say that this is a year of attack, in which we'll spot signs of change and penetrate new markets, and that we should lay aside conventional thinking. Alongside this call to action, I reiterate one of my favorite sayings: Look broadly and see the essence of them—in other words, *Think big, start small*. I make a point of repeating this old adage year after year, believing that it serves employees well. By applying this principle and acclimatizing themselves to the PDCA cycle, employees gain the confidence to take their first steps in big challenges, no matter how daunting the challenges seem at first. With this focus and ambition, we'll all continue working to become an organization that contributes to food culture and society through great taste and excitement.

Interview with the  
Chief Financial Officer

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<sup>\*4</sup> In this context, "have the eyes of a hawk (literally, 'black kite') and the ears of a rabbit" means being highly skilled at gathering information and detecting signs of change.

