

Making people's lives around the world richer through food



Wismettac

Nishimoto Co., Ltd.

**Financial Results Supplementary Materials for the
Second Quarter of the Fiscal Year Ending December 2018**



August 14, 2018

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(Fiscal Year ending December 2018–
Fiscal Year ending December 2020)

Summary of Financial Results for the Second Quarter of the Fiscal Year Ending December 2018



Summary of Financial Results for the Second Quarter of the Fiscal Year Ending December 2018



- Net sales increased 4.2% year-on-year but decreased 2.3% against the plan. The major breakdown was a 4.4% increase year-on-year and a 0.9% decrease against the plan in the Asian Food Global Business and a 3.1% increase year-on-year and a 4.6% decrease against the plan in the Agricultural & Seafood Products Trading Business.
- Operating income for the Asian Food Global Business and the Agricultural & Seafood Products Trading Business (excluding the North American region) increased compared with the previous year and exceeded the planned value, but operating income for the North American region decreased. As a result, total operating income decreased 6.0% year-on-year and 3.3% against the plan.
- Quarterly net income increased 50.7% year-on-year and 0.1% against the plan due to a reduction in the U.S. corporate tax rate.

(Unit: billions of yen; percentage to net sales is stated in parentheses)

		FY ended December 2017 First half results	FY ending December 2018			
			First half results	Changes year-on-year	Second quarter forecast	Difference between results and plan
Results	Net sales	86.6 (100.0%)	90.2 (100.0%)	+4.2%	92.3 (100.0%)	-2.3%
	Gross profit	14.6 (17.0%)	15.3 (17.0%)	+4.4%	15.7 (17.1%)	-2.6%
	Operating income	3.2 (3.8%)	3.0 (3.4%)	-6.0%	3.1 (3.4%)	-3.3%
	Ordinary income	3.0 (3.5%)	3.0 (3.4%)	+0.8%	3.1 (3.4%)	-1.4%
	Net income attributable to owners of parent	1.4 (1.7%)	2.1 (2.4%)	+50.7%	2.1 (2.4%)	+0.1%
Yen/Dollar exchange rate (Average rate during the period)		112.37 yen	108.68 yen	-3.69 yen	110.00 yen	-1.32 yen
Quarterly net income per share *		115.95 yen	152.11 yen	+31.2%	151.93 yen	+0.1%

* The Company carried out a five-for-one common stock split on June 1, 2017. Quarterly net income per share was calculated on the assumption that the stock split had been conducted at the beginning of the previous fiscal year. The average number of shares during the period for the calculation of the quarterly net income per share was 12,493,240 shares in the first half of the fiscal year ended December 2017 (taking the stock split into consideration) and 14,353,087 shares in the first half of the fiscal year ending December 2018.

Operating Results by Segment for the Second Quarter of the Fiscal Year Ending December 2018



Asian Food Global Business:

- Net sales increased 4.4% year-on-year and decreased 0.9% against the plan due to development of new customers and expansion of existing customers in the North American region and other regions (a 3.4 % increase year-on-year in North America [a 6.9% increase on a local currency basis] and a 10.8 % increase year-on-year in other regions on a consolidated yen basis).
- On the whole, operating income decreased 18.5% year-on-year and 11.1% against the plan due to the decrease compared with a year earlier and also against the planned value in North America. In the regions other than North America, operating income increased from a year earlier and against the planned value, hence the business base has been expanded.

Agricultural & Seafood Products Trading Business:

- Net sales increased 3.1% year-on-year due mainly to the increase in exports and arrangement of offshore trade, but decreased 4.6% against the plan reflecting the fact that the number of purchases of tropical foods and vegetables was temporarily adjusted. However, net income increased from a year earlier and against the planned value.

Other business: Both net sales and net income increased from a year earlier, but decreased against the plan.

Sales to external customers

(Unit: billions of yen)

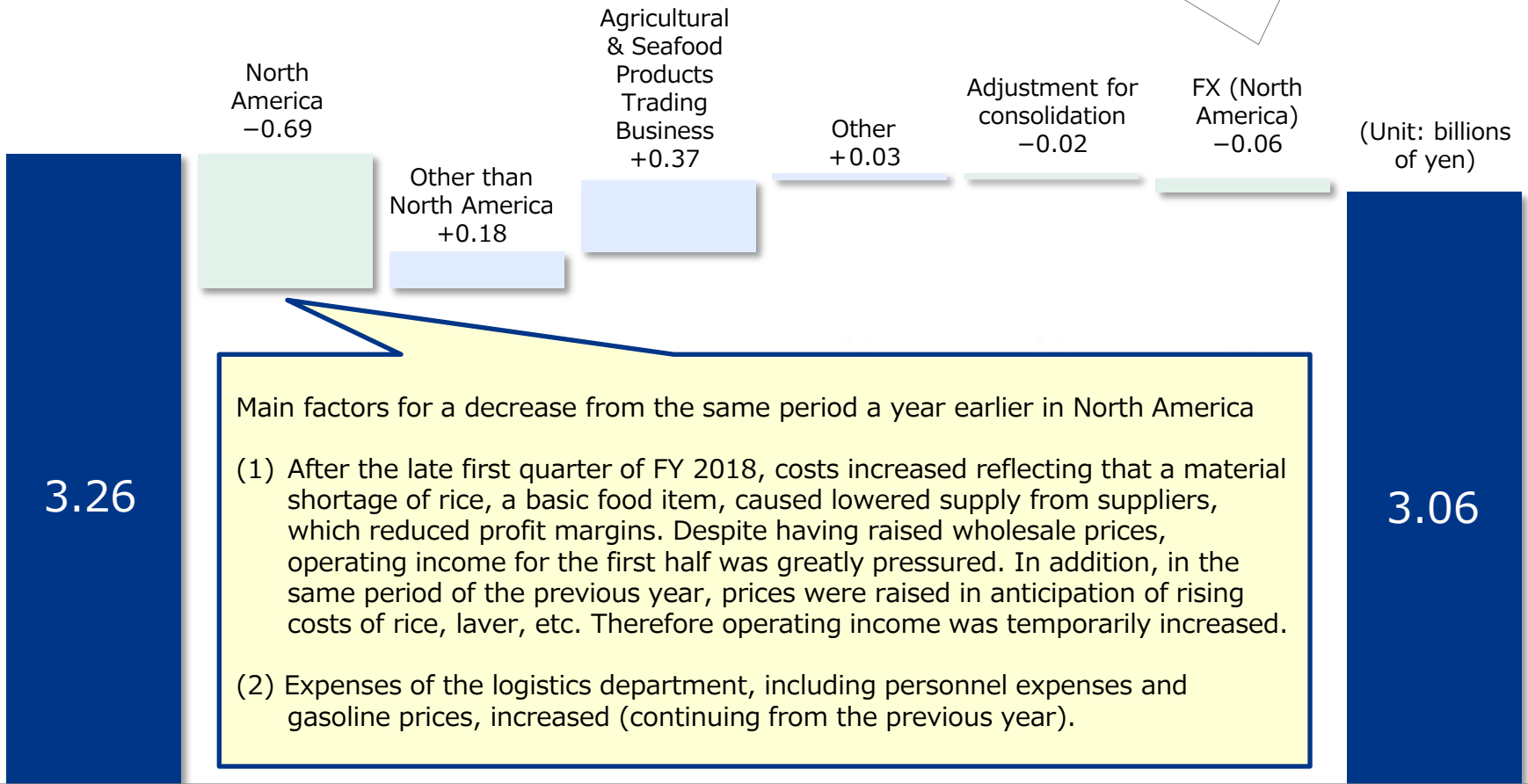
	FY ended December 2017 First half results	FY ending December 2018			
		First half results	Changes year-on-year	Second quarter forecast	Difference between results and plan
Asian Food Global Business	58.00	60.56	+4.4%	61.09	-0.9%
Agricultural & Seafood Products Trading Business	26.99	27.83	+3.1%	29.17	-4.6%
Other business	1.64	1.85	+12.2%	2.06	-10.3%
Total	86.64	90.25	+4.2%	92.33	-2.3%

Operating income

	FY ended December 2017 First half results	FY ending December 2018			
		First half results	Changes year-on-year	Second quarter forecast	Difference between results and plan
Asian Food Global Business	3.10	2.52	-18.5%	2.84	-11.1%
Agricultural & Seafood Products Trading Business	0.15	0.53	+233.7%	0.48	+9.4%
Other business	-0.01	0.02	-	0.05	-60.5%
Total	3.26	3.06	-6.0%	3.16	-3.3%

Compared to the same period in the previous year

Exchange rate (US Dollar)
 First half of FY 2017: 112.37 yen
 First half of FY 2018: 108.68 yen



Main factors for a decrease from the same period a year earlier in North America

- (1) After the late first quarter of FY 2018, costs increased reflecting that a material shortage of rice, a basic food item, caused lowered supply from suppliers, which reduced profit margins. Despite having raised wholesale prices, operating income for the first half was greatly pressured. In addition, in the same period of the previous year, prices were raised in anticipation of rising costs of rice, laver, etc. Therefore operating income was temporarily increased.
- (2) Expenses of the logistics department, including personnel expenses and gasoline prices, increased (continuing from the previous year).

Results for first half of FY ended December 2017

Results for first half of FY ending December 2018

Comparison with the plan

Exchange rate (US Dollar)
 First half of FY 2018 (plan): 110.00円
 First half of FY 2018 (results): 108.68円

North America	Other than North America	Agricultural & Seafood Products Trading Business	Other	Political expenses	Adjustment for consolidation	FX (North America)	(Unit: billions of yen)
-0.31	+0.10	+0.04	-0.03	+0.04	+0.07	-0.02	

3.16

Supplementary note regarding comparison with the plan

- Operating income for the Agricultural & Seafood Products Trading Business increased at a pace exceeding the plan in regions other than North America, but did not reach the extent of making up for the negative contribution of the North American region.
- Operating income in the North American region decreased against the plan reflecting reduced profit margins due to a supply shortage of rice and rising costs and also due to the rising costs of tuna and yellowtail.
- In addition, expenses of the logistics department, including personnel expenses and gasoline prices, increased.
- Making efforts to improve earnings by further strengthening the structural reforms (improvement in profit margins and restraint of logistic costs) the Company has been striving to achieve.

30.6

Plan for first half of FY ending December 2018

Results for first half of FY ending December 2018

First half-year review and second half-year issues of (existing) business in the North America region

First half-year review

Failure to achieve the plan for gross profits:

- Gross profit (margin) worsened due to rising costs of the “food materials” category (rice, seafoods, etc.) and a supply shortage of rice

Increasing selling, general and administrative expenses:

- Increasing logistic costs, including personnel expenses and gasoline prices

→ Creating company-level countermeasures and having started specified approaches

Second half-year issues

Gross profits:

- Ensuring stable profits in the current situation of changing costs and unstable procurement

Selling, general and administrative expenses:

- Further strengthening undertakings (countermeasures) against increasing logistic costs

(1) Ensuring stable gross profits

- Ensure gross profits by further strengthening procurement power and sales control of “food materials” categories (rice, seafoods, etc.) subject to changes in costs and markets
- Further improve gross profit margins of “food items” categories less subject to changes in costs and markets

(2) Improving the efficiency of work in warehouses and deliveries

- Review delivery routes (efficiency)
- Shorten delivery time per delivery destination
- Shorten picking work hours in warehouses
- Improve work efficiency by reviewing handling items

(3) Reviewing profit management for each customer

- Focus on individual profit management for each customer based on company-level unified standards (Review delivery efficiency and merchandise configurations reflecting the actual workplaces)

Consolidated Balance Sheet (Summary)



(Unit: billions of yen)

	End of December 2017	End of June 2018	Amount/rate of increase (decrease)	Main reasons for changes
Current assets	75.6	74.7	-0.9	- Cash and deposits (-1.1)
Non-current assets	8.6	8.1	-0.5	
Total assets	84.3	82.8	-1.4	
Current liabilities	19.6	21.2	+1.5	- Notes and accounts payable (+1.2)
Non-current liabilities	14.9	11.7	-3.1	- Long-term loans payable (-3.1)
Total liabilities	34.5	32.9	-1.6	
Total net assets	49.7	49.9	+0.1	
Total liabilities and net assets	84.3	82.8	-1.4	
Shareholders' equity ratio	59.0%	60.2%	+1.2 pt	
Current ratio	385.1%	352.3%	-32.8 pt	

Consolidated Statement of Cash Flows (Summary)



(Unit: billions of yen)

	First half of FY ended December 2017	First half of FY ending December 2018	Changes year-on-year	Main reasons for changes
Cash flows from operating activities	1.5	3.5	+2.0	- Corporate tax (mainly North America) (-0.8) - Quarterly net income before tax (+0.5)
Cash flows from investing activities	-0.5	-0.2	+0.3	
Cash flows from financing activities	1.6	-3.9	-5.6	- Repayment of loans payable (short- and long-term) (-4.6)
Translation adjustments	-0.4	-0.5	0.0	

Cash and cash equivalents	First half of FY ended December 2017	First half of FY ending December 2018	Changes year-on-year	Main reasons for changes
Beginning Balance	22.9	31.2	+8.3	
Changes during the period	2.2	-1.2	-3.4	
Ending balance	25.1	30.0	+4.9	

Forecast of Operating Results for the Fiscal Year Ending December 2018

* The forecast of operating results has not been changed from the figures released on February 14, 2018.



Forecast of Financial Results for the Fiscal Year Ending December 2018 Wismettac

(Unit: billions of yen, percentage to net sales is stated in parentheses)

		FY ended December 2017 Full-year results	FY ending December 2018			
			First half of FY results	Progress rate/ Difference between forecast and results	Full-year forecast	Changes year- on-year
Operating results	Net sales	172.0 (100.0%)	90.2 (100.0%)	48.8%	184.8 (100.0%)	+7.4%
	Gross profit	29.8 (17.3%)	15.3 (17.0%)	48.0%	31.9 (17.3%)	+7.1%
	Operating income	6.3 (3.7%)	3.0 (3.4%)	45.2%	6.7 (3.7%)	+7.1%
	Ordinary income	5.9 (3.4%)	3.0 (3.4%)	46.1%	6.6 (3.6%)	+12.9%
	Net income attributable to owners of parent	3.0 (1.8%)	2.1 (2.4%)	46.8%	4.6 (2.5%)	+52.1%
Group KPI	Percentage of North America (Net sales)	58.9%	—	—	57.3%	-1.6 pt
	Percentage of North America (Operating income)	78.6%	—	—	77.2%	-1.4 pt
	ROWC *1	20.3%	—	—	21.8%	+1.5 pt
Yen/Dollar exchange rate (Average rate during the period)		112.19 yen	108.68 yen	-1.32 yen	110.00 yen	-2.19 yen
Net income per share *2		236.37 yen	152.11 yen	—	324.98 yen	+37.5%

(*1) Operating income for the current fiscal year / ([Working capital at the end of the previous fiscal year + Working capital at the end of the current fiscal year] / 2)

(*2) The Company conducted a five-for-one common stock split on June 1, 2017. Net income per share was calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

Sales to external customers

(Unit: billions of yen)

	FY ended December 2017	FY ending December 2018			
	Full-year results	First half of FY results	Progress rate	Full-year forecast	Changes year-on-year
Asian Food Global Business	118.44	60.56	48.3%	125.43	+5.9%
Agricultural & Seafood Products Trading Business	49.64	27.83	50.8%	54.84	+10.5%
Other business	3.99	1.85	40.8%	4.53	+13.6%
Total	172.07	90.25	48.8%	184.81	+7.4%

Operating income

(Unit: billions of yen)

	FY ended December 2017	FY ending December 2018			
	Full-year results	First half of FY results	Progress rate	Full-year forecast	Changes year-on-year
Asian Food Global Business	5.69	2.52	40.5%	6.24	+9.6%
Agricultural & Seafood Products Trading Business	0.43	0.53	68.8%	0.77	+79.0%
Other business	0.17	0.02	10.5%	0.19	+12.3%
Adjustment	0.01	-0.01	-	-0.44	-
Total	6.32	3.06	45.2%	6.77	+7.1%

<Asian Food Global Business>

	Issues	Approach	Progress
(1)	In the North American region, aim at a stable profit contribution by maintaining stable growth of existing businesses as well as promoting structural reforms and streamlining.	In the North American region, a specific plan for structural reforms was created and put into practice. However, specified achievements are expected after the second half of FY 2018.	Average
(2)	In other regions, put approaches for business infrastructure construction on track, and achieve profitability	There is some difference in each base, but progress has basically been made as planned.	Good
(3)	Balance the structural reforms (Private Branding, system changes, etc.) of existing businesses and challenges to new business.	In both existing and new businesses, our approach has achieved a certain level of advancement. Specified achievements are expected after the second half of FY 2018.	Average

<Agricultural & Seafood Products Trading Business>

	Issues	Approach	Progress
(1)	Rebuilding of the domestic and fruit and vegetable business: Response to price fluctuations, development of alternative production areas and food items.	In terms of profits, the business recovered from the difficult conditions faced in FY 2017 and progress has been made at a slightly faster pace than the plan. Development of alternative production areas and food items has been performed.	Good
(2)	Increase revenues in businesses other than the domestic and fruit and vegetable business: Development of an earnings structure that does not depend solely on domestic and fruits and vegetables business → Expansion into handling other food items and their sales channels	The business areas of both food items and sales channels have basically expanded as planned.	Good
(3)	Further focus on exports and offshore trade.	Exports and offshore trade have increased at a much faster pace than the plan, which contributed to an increase in the overall figures.	Excellent

(1-1) Asian Food Global Business in North America – (1)

Approach to structural reforms (existing business) in North America

- Improvement of gross profit

Reviewing commodity configurations focusing on PB items

- Continue to promote the development of highly profitable PB items and aim at well-balanced commodity configurations including NB items

- Reduction of selling, general and administrative expenses ratio

Improving the efficiency of work in warehouses

- Shorten picking work hours in warehouses
- Improve work efficiency by reviewing handling items

Reviewing profit management for each customer

- Focus on individual profit management for each customer based on company-level unified standards (Review delivery efficiency and merchandise configurations reflecting the actual workplaces)

Strengthening procurement power

- Strengthen procurement power on a global basis by utilizing scale advantages including bases other than those in North America.

Improving the efficiency of deliveries

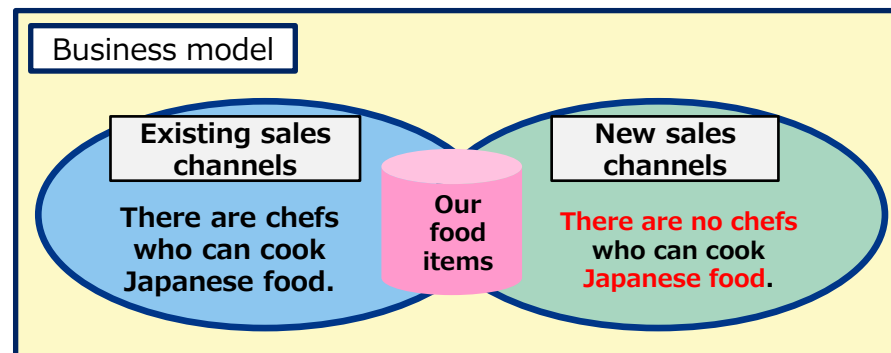
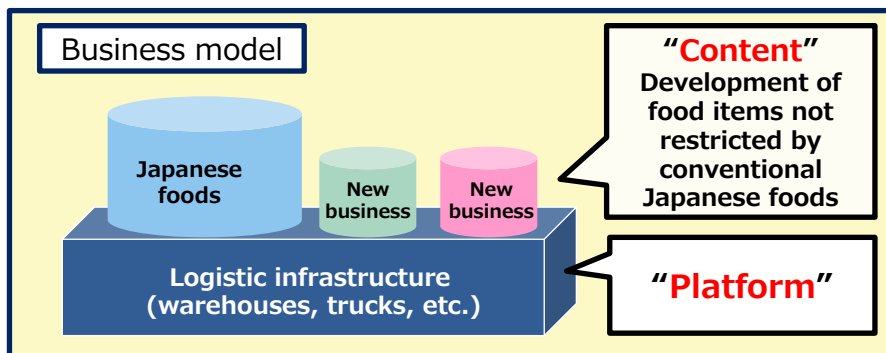
- Review delivery routes (efficiency)
- Shorten delivery time per delivery destination

(1-1) Asian Food Global Business in North America – (2)

Approach to new business in North America (food items and sales channels)

- **New food items:** Development of new “**content**” by utilizing our “**platform**”

- **New sales channels:** Development of new markets where “**there are no chefs for Japanese foods**”



Examples

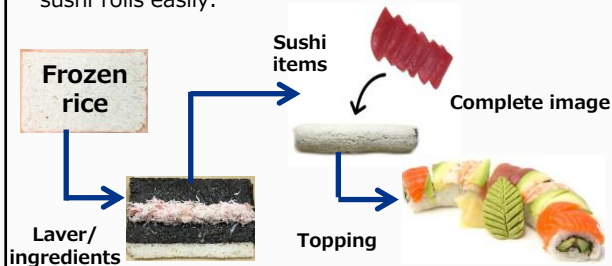
New food items

Vegetable fish Processing tomatoes to be similar to tuna. There are an increasing number of people who want to eat meals for vegetarians in Europe/America. Target these highly health-conscious people.



New contents (food items/proposal)

Sushi set Our materials enable any person to make sushi rolls easily.



New sales channels

Sales channels **without chefs for Japanese food**

- Cafeterias of colleges and IT companies, etc.

- High-end restaurants (steakhouses etc.)

- Pre-cooked food corners etc. at supermarkets

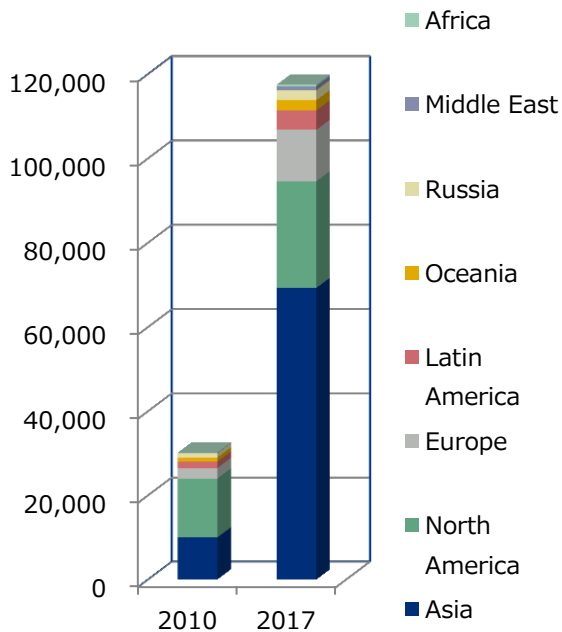
(1-2) Asian Food Global Business in other regions

Development of a network in other regions in accordance with the expansion of markets

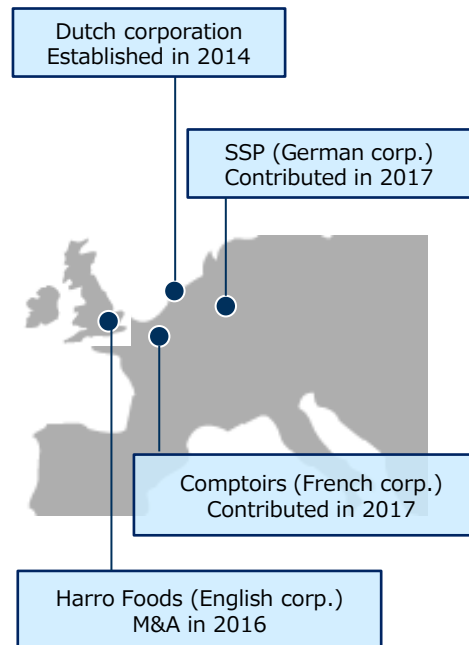
The number of overseas Japanese food restaurants

While the number of overseas Japanese restaurants was about 30,000 in 2010, it increased to about 118,000 in 2017: North America 25,300 (1.8x increase); Europe 12,200 (4.9x increase); Asia 69,300 (6.9x increase); Oceania 2,400 (2.4x increase), etc. *

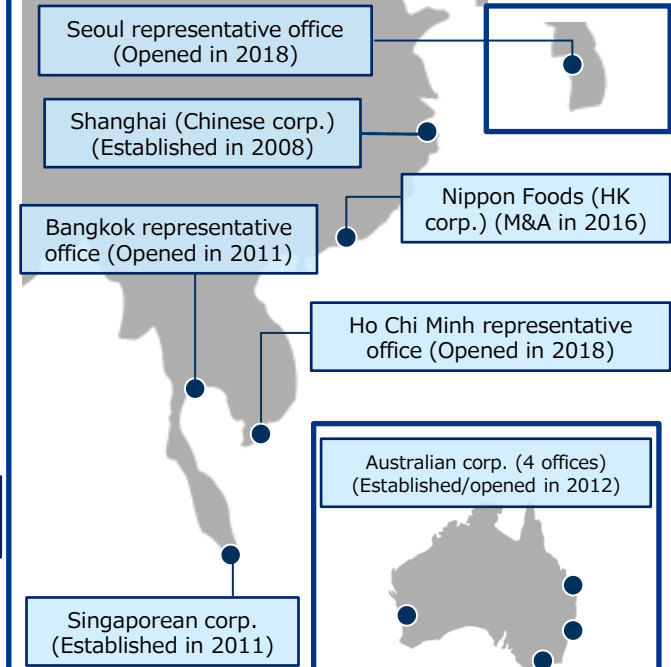
- The number of overseas Japanese restaurants increased fourfold in seven years.



- Past development of overseas bases in Europe



- Past development of overseas bases in Asia/Australia



* Source: Ministry of Agriculture, Forestry and Fisheries estimates, based on Ministry of Foreign Affairs research. Figures as of 2017; figures in brackets show the comparison with 2010.

(2) Agricultural & Seafood Products Trading Business

Improvement of profitability of existing business and approaches to new business

Issues of existing business:
Improvement of profitability

Issues of new business:
Expansion of business areas

Approaches to existing business

		Sales channels (Japan)			
		Whole sale	Mass sale	Restau rant foods/ Snack foods	Maker
Food items	Fruits and vegetables	Citruses	<div style="border: 2px solid #004a99; border-radius: 20px; padding: 10px; width: 80%; margin: auto;"> - Development of best approaches to each sales channel to improve profitability of each food item </div>		
		Tropical bananas			
		Vegetables			
	Frozen processed foods				

Approaches to new business

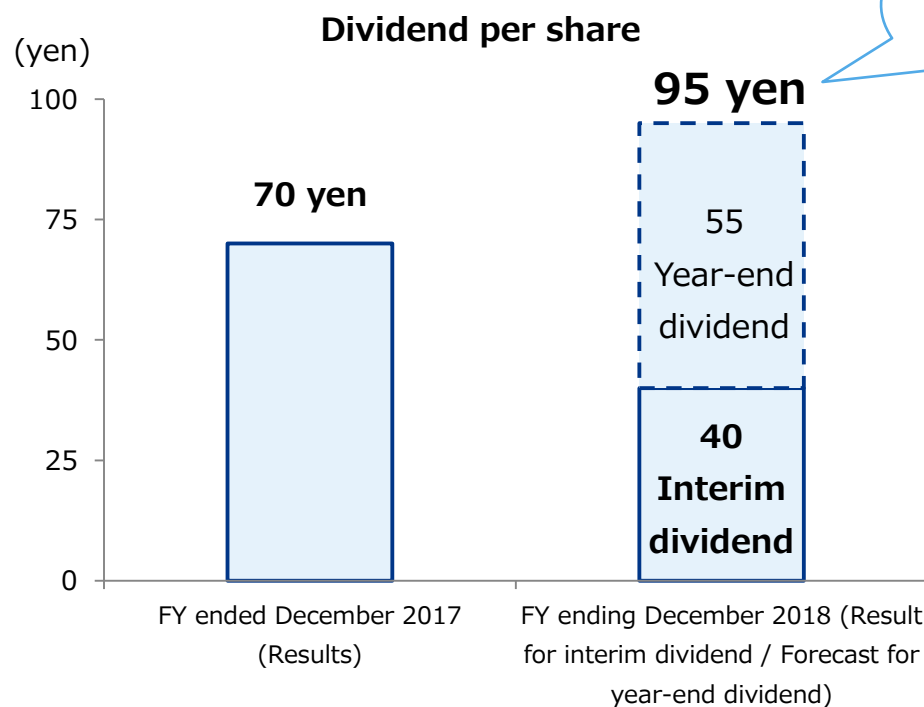
		Sales channels	
		Japan	Overseas
Food items	Fruits and vegetables		<ul style="list-style-type: none"> - Wholesale of fruits and vegetables by a subsidiary in China - Strengthening export of domestic fruits and vegetables (small-sized apples etc.) for China and Southeast Asia and offshore trade
	Frozen processed foods		<ul style="list-style-type: none"> - Strengthening procurement power of domestic fruit and vegetables and domestic sales - Strengthening sales through domestic retail channels
	Seafood, Agricultural foods		<ul style="list-style-type: none"> - Sales of food items in cooperation with Asian Food Global Business

Policy of Returning Profits to Shareholders



Policy

- ◆ In regard to profit distribution, the Company's basic policy is to continue providing stable dividends while striving to maintain retained earnings for developing future businesses and improving financial strength.
- ◆ The Company considers the payout ratio to be an important index, and aims at maintaining a consolidated payout ratio of about 30% every year.
- ◆ The amount of dividend for the fiscal year ending December 2018 is projected to be 95 yen per year (40 yen for interim results and 55 yen for year-end forecast).



**Payout
ratio of
about 30%**

Medium-term Business Plan

(Fiscal Year ending December 2018–Fiscal Year ending December 2020)



- ◆ On the premise of stable growth of existing businesses, build up a “foundation” of new businesses and “cultivate” them

Existing business Stable growth

- ◆ Mature North American market
- ◆ Domestic fruits and vegetables business
- ◆ Contribute to profit by global development in regions other than North America

New business From B2B(C) to B2B, promote the following:

- ◆ Attract corporate demand
- ◆ Develop and expand new content
- ◆ Export fruits and vegetables from Japan and arrange offshore trade
- ◆ Strengthen the platform

Respond to the drastically changing food supply chain

Improvements in productivity and technological innovation in the agricultural, fishery and livestock industry
“Agritech”

Diversification of needs
Rise of the millennial generation/Different cultures

Amazon effect
Distribution innovation/Contradiction and coexistence of the Internet and reality

New technology in logistics
Internet of Things (IoT)/Artificial Intelligence (AI)

(Unit: billions of yen)

Net sales	FY ended December 2017 Results	FY ending December 2018		FY ending December 2019		FY ending December 2020	
		Forecast	Changes year-on-year	Plan	Changes year-on-year	Plan	Changes year-on-year
Asian Food Global Business	118.4	125.4	+5.9%	133.5	+6.5%	159.3	+19.3%
Agricultural & Seafood Products Trading Business	49.6	54.8	+10.5%	60.5	+10.4%	64.4	+6.5%
Other business	3.9	4.5	+13.6%	4.8	+6.6%	5.1	+6.5%
Total	172.0	184.8	+7.4%	198.9	+7.6%	229.0	+15.1%

(Unit: billions of yen)

Operating income	FY ended December 2017 Results	FY ending December 2018		FY ending December 2019		FY ending December 2020	
		Forecast	Changes year-on-year	Plan	Changes year-on-year	Plan	Changes year-on-year
Asian Food Global Business	5.6	6.2	+9.6%	6.7	+7.3%	7.7	+15.8%
Agricultural & Seafood Products Trading Business	0.4	0.7	+79.0%	0.9	+19.1%	1.0	+16.0%
Other business	0.1	0.1	+12.3%	0.2	+43.7%	0.3	+16.0%
Adjustment	0.0	-0.4	-	-0.1	-	-0.1	-
Total	6.3	6.7	+7.1%	7.7	+14.6%	9.0	+16.1%

Making people's lives around the world richer through food



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Nishimoto Co., Ltd.



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