

## J-OIL MILLS, Inc.

2613

Tokyo Stock Exchange First Section

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FISCO Ltd. Analyst

**Kimiteru Miyata**



FISCO Ltd.

<http://www.fisco.co.jp>

## ■ Index

■ <b>Summary</b> .....	01
■ <b>Company overview</b> .....	02
1. Company overview .....	02
2. History .....	03
■ <b>Business overview</b> .....	05
1. Business overview .....	05
2. The network and earnings structure .....	08
3. The market environment and issues .....	09
■ <b>Leveraging its strengths</b> .....	11
1. Source of the Company's strengths .....	11
2. Strengths and the provision of high value-added and solutions .....	11
3. The Oishisa Design Studio .....	12
■ <b>Medium-term management plan</b> .....	13
1. Designing Oishisa, the 5th Period Medium-term Management Plan .....	13
2. Basic policy .....	13
3. The growth strategy and structural reforms .....	14
4. The FY3/21 numerical targets and growth image .....	17
■ <b>Results trends</b> .....	18
1. FY3/19 Q3 results .....	18
2. Outlook for FY3/19 .....	20
■ <b>Shareholder returns</b> .....	21
1. Dividend .....	21
2. Shareholder benefit program .....	21
■ <b>Information security</b> .....	21

## Summary

### Aiming for medium-term growth through providing high value-added and solutions

J-OIL MILLS, Inc. <2613> (hereafter, also “the Company”) is a major manufacturer of edible oils that was established from the merger of three companies, Honen Corporation, Ajinomoto Oil Mills Co., Ltd., and Yoshihara Oil Mill Ltd. In its mainstay oils business, it extracts oils in Japan from imported materials, such as soybeans and canola, and then sells oil and oilseed products in Japan. It also conducts oil processed products businesses, such as margarines and powdered oils, and a foods and fine materials business, including starches and chemical products. The Company strengths include the expertise and technologies cultivated in each of the three respective companies. Ajinomoto Oil’s strengths were in researching the tastes of oils and the widespread name awareness of the AJINOMOTO brand, Honen Corporation had a solid business foundation for its measures to fully use raw materials and for commercial use, while Yoshihara Oil Mill’s strengths were in the variety of oil types and its ability to solve problems for customers. The Company is utilizing these strengths synergistically to provide high value-added products and to improve business efficiency.

In Japan, people’s eating habits are changing against the backdrop of social trends such as the declining population, falling birthrate and aging population, and the increase in single-person households, as well as aspects such as changing values and awareness with regards to food and the evolution of cooking methods and technologies. Therefore, the Company’s customers in the ready-made meals and food-service industries, and also food manufacturers, are facing a variety of problems, including responding to labor shortages and the diversification of consumption, and improving costs by keeping down food loss and reducing labor costs for waste disposal. The Company is able to solve customers’ problems by synergistically utilizing its strengths. This solutions business is a business opportunity for it, and for this reason, the Company considers that it needs to actively progress the provision of high value-added products.

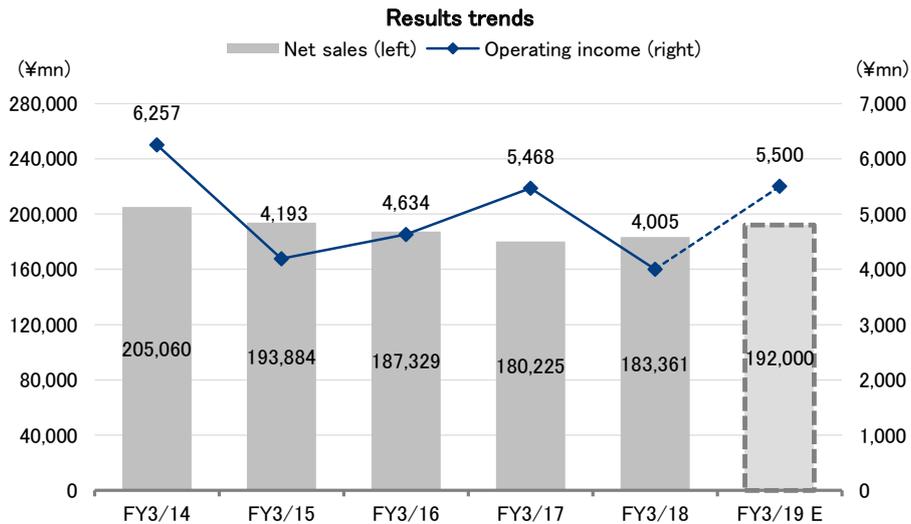
The basic policy for the medium term is to implement a growth strategy and structural reforms, but it seems that in the 5th Period Medium-term Management Plan (FY17 to FY20), the Company is particularly focusing on growth. In Japan, where it is difficult to expect an increase in sales volume in the context of the declining population, the priority strategy for growth will especially be providing high value-added products, such as oils, and strengthening the solutions business for commercial-use products. The Company has been launching commercial-use product series that solve problems at cooking sites, such as the long-lasting oil Cho Cho Toku Toku® and the J-OILPRO® seasoning oil for use by professionals. For home-use, it sells various products, including olive oil and premium oil for which demand is increasing. In such ways, based on the provision of high value-added products and solutions, the Company has evolved into a “Oishisa design company” that creates delicious tastes through researching “oils.” In FY3/21, it is aiming for operating income of ¥8bn or above (average annual growth rate of 10% or above) and ROE of 5.0% or above.

For the oils business in Japan to continue to grow, the keys will be promoting the growth strategy and deepening the structural reforms. Toward achieving the targets in the 5th Period Medium-term Management Plan, the Company is growing sales of high value-added products and advancing structural reforms, and for the FY3/19 results outlook, it is forecasting net sales of ¥192,000mn (up 4.7% year on year (YoY)) and operating income of ¥5,500mn (up 37.3%). The initial results forecasts have been left unchanged, but better-than-expected progress was made in the FY3/19 Q3 results. On considering these points, it can be said that the Company is currently making steady progress for the 5th Period Medium-term Management Plan.

Summary

Key Points

- A major edible oils manufacturer established from the merger of 3 companies
- Intends to leverage the strengths of these three companies to provide high value-added
- For FY3/21, is aiming for operating income of ¥8bn or above and ROE of 5.0% or above



Source: Prepared by FISCO from the Company's financial results

## Company overview

### Aiming to be a “Oishisa design company”

#### 1. Company overview

The Company is a major oils manufacturer established from the merger of three companies; Honen Corporation, Ajinomoto Oil Mills, and Yoshihara Oil Mill. Based on the oils business (oils and meal), in addition to the oil processed products business, of margarines and powdered oils, it also manufactures and sells other products, including starches and chemicals in the foods and fine materials business. It is one of the companies in the Ajinomoto <2802> Group, but its major strength is the expertise and technologies cultivated by each of the three companies that are backed by their long histories and diverse product groups. Currently, it is pursuing improved efficiency, including for production, distribution, and the procurement of raw materials, and it also refining its strengths for commercial use while strengthening its business development for home use. Going forward, the Company intends to create new high value-added products for both commercial use and home use by “designing Oishisa.”

## Improved efficiency after the merger of the three companies and is currently conducting a growth strategy

### 2. History

In 1922, Honen Oil Co., Ltd., was established from the Suzuki Shoten Oil Department. In 1934, an individually owned stored was reorganized and Yoshihara Sadajiro Shoten Co., Ltd., was established. In 1999, Ajinomoto Oil Mills Ltd., was established, centered on Ajinomoto's Yokohama Plant. After the development of each respective company, in 2002 Honen Corporation and Ajinomoto Oil Mills merged to establish Honen Ajinomoto Oil Mills Co., Ltd., which merged with Yoshihara Oil Mill Ltd., in 2003 and the corporate name was changed to the current name. Moreover, in 2004, the three business companies of Honen Corporation, Ajinomoto Oil Mills, and Yoshihara Oil Mill merged with Japan Soybean Oil Co., Ltd., and transitioned to the current business form. Subsequently, the Company has worked to restructure the business base, including the restructuring and integration of businesses other than oils manufacturing, as well as on cost reductions in various areas, from brands through to the procurement of raw materials and distribution.

The time from the 1990s to the 2000s was a period when retailers and trading companies became larger due to business mergers and acquisitions. During this period, the Nisshin Ollio Group<2602> in the same industry was established in 2002 from the merger of three companies, the Nisshin Oil Mills, Ltd., Rinoru Oil Mills Co., Ltd., and Nikko Oil Mills Co., Ltd. The mergers that created both companies began an age of two major edible oils manufacturers. As the growth strategy after the merger, in 2007 Honen Lever Co., Ltd, which was a confectionary and manufacturer of baking ingredients such as of margarine, was made a wholly-owned subsidiary for the purpose of strengthening processed oils, and in addition, the Company concluded a business alliance agreement with Fuji Oil <2607>, including to strengthen the production of commercial-use products and the procurement of raw materials. Overseas business development has lagged behind, but in 2014, jointly with Toyota Tsusho (Thailand) Co., Ltd., which is a joint venture with Toyota Tusho <8015> in Thailand, and MHC B Consulting (Thailand) Co., Ltd., it established J-OIL MILLS (THAILAND) Co., Ltd., as a joint venture. Currently, it has formulated the 5th Period Medium-term Management Plan and is developing a more in-depth growth strategy.

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Company overview

**History**

Date	Events
April 1922	Honen Oil Co., Ltd., was established (the predecessor of Honen Corporation), inheriting the management rights of Suzuki Shoten Oil Department's 4 plants
December 1934	An individually owned store was reorganized and Yoshihara Sadajiro Shoten Co., Ltd., was established for the purpose of manufacturing, processing and selling oils, fertilizer, feed, and cosmetics (the predecessor of Yoshihara Oil Mill)
February 1968	Toyo Oil Co., Ltd., was established (the predecessor of Ajinomoto Oil Mills)
April 1999	Ajinomoto's Yokohama Plant was integrated and the corporate name was changed to Ajinomoto Oil Mills Co., Ltd.
March 2002	Honen Corporation and Ajinomoto Oil Mills Co., Ltd., were listed on the 1st sections of the Tokyo and Osaka stock exchanges
April 2002	Honen Ajinomoto Oil Mills Inc., was established through the joint transfer of shares by Honen Corporation and Ajinomoto Oil Mills Co., Ltd. Consolidated subsidiary Honen Corporation additionally acquired the shares of Honen Lever Co., Ltd., an affiliate of the Company, and made it a subsidiary with 75% of its voting rights
April 2003	Yoshihara Oil Mill Ltd., was made a wholly-owned subsidiary through an exchange of shares, and the corporate name was changed to J-OIL MILLS, INC.
July 2004	The Company's chemical products business was split from consolidated subsidiary Honen Corporation and J-Chemicals Inc., was established Consolidated subsidiaries Honen Corporation, Ajinomoto Oil Mills Co., Ltd., Yoshihara Oil Mill Ltd., and Japan Soybean Oil Co., Ltd., were merged through an absorption merger
December 2004	The management of the horticultural fertilizer business was transferred to the affiliate OTA OIL CO. LTD (in October of the same year, JOY Agris was established as the sales company)
September 2005	Consolidated subsidiary J-Business Service sold all of its shares in RAKU-YOU. INC., the Company's wholly-owned subsidiary
March 2007	Acquired additional shares of consolidated subsidiary Honen Lever Co., Ltd., and made it a wholly-owned subsidiary
July 2007	Acquired a home-use margarine business from Unilever Japan KK (all products, including the Rama brand)
September 2007	Concluded a basic agreement for a business alliance and mutual share ownership with Fuji Oil Co., Ltd.
March 2008	Acquired commercial-use processed oils and confectionery and baking ingredients businesses from consolidated subsidiary Honen Lever Co., Ltd.
June 2008	Dissolved consolidated subsidiary Honen Lever Co., Ltd.
February 2012	Dissolved the subsidiary Hoshin Services Co., Ltd.
March 2012	Acquired a protein products sales business from consolidated subsidiary NIKKA OIL MILLS Co., Ltd.
April 2012	Merged with consolidated subsidiary J-Business Service Co., Ltd., through an absorption merger
May 2014	In Thailand, established J-OIL MILLS (THAILAND) Co., Ltd., as a joint venture with Toyota Tsusho (Thailand) Co., Ltd., and MHCB Consulting (Thailand) Co., Ltd.

Source: Prepared by FISCO from the Company's securities report

## Business overview

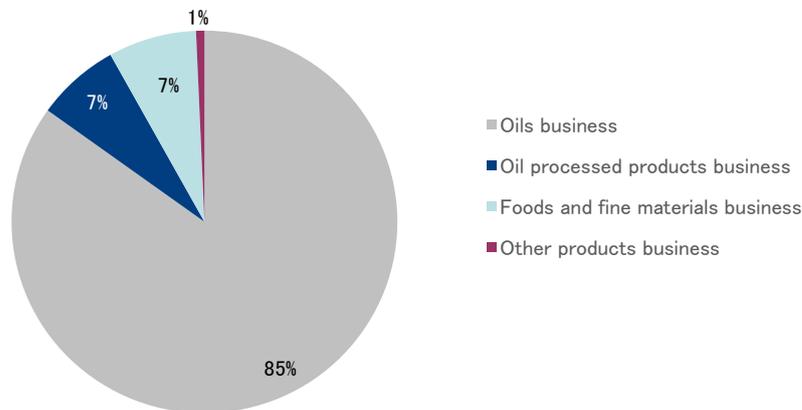
### Developing various products other than the mainstay oils

#### 1. Business overview

The Company's main business is the extraction of oils from soybean and canola in Japan and the sales of edible oil and oilseed products in Japan. Up to now, demand for general-purpose oil and fat products has been stable, but it has been flat and has not grown greatly. 1) The demand structure is changing, due to changes in Japan's environment, such as the declining birth rate, the aging of the population, and women's social advancement, and 2) the Company depends on imports for raw materials. So, the structure is that changes in the overseas market prices of soybean and canola, and also in exchange rates, affect its earnings. Therefore, the Company, based on its expertise and technologies that were cultivated in each of the three merged companies, intends to achieve both profitability and growth potential by widening the value and possibilities of "oils" and thoroughly pursuing the provision of a variety of high-value added functions for cooking, health, and seasoning. In the percentages of total net sales by segment (FY3/19 Q3 cumulative-period total), the oils and fats business provided 85%, the oil processed products business 7%, the foods and fine materials business 7%, and the other products business 1%\*.

\* According to use, the products can be divided into home use (vegetable oils and margarines), commercial use (vegetable oils, proteins, starches, and other products), and oilseeds (meal).

**Percentages of total net sales  
 (FY3/19 Q3 cumulative-period totals)**



Source: Prepared by FISCO from the Company's financial results

Business overview

**(1) Oils business**

In the oils business, the Company has a wide lineup of products based on safety and security, from basic oils, such as salad oil and canola oil used in a wide range of applications, through to high value-added products that can be used for various purposes, including for cooking, seasoning and health. It is considered that in the background to this is its aim to contribute to consumers and customer companies on the three axes of “oil that is used in good condition,” “oil that tastes delicious,” and “oil that is good for health.” In the percentage of net sales by usage in the oils business (FY3/19 Q3), home use provided 17%, commercial use 54%, and oilseeds 28%, which indicates that a characteristic of the Company is strength in commercial use.

**a) Home-use oils**

In home-use oils under the leading AJINOMOTO brand, the Company has an extensive lineup of various products that help to create foods that are both delicious and healthy for consumers. These include AJINOMOTO® Olive Oil, which is the leading brand in Japan’s olive oil market; AJINOMOTO® Health Plus, which are nutritional functional foods, and AJINOMOTO® Health Sarara, which are foods for specified health issues. It has also enhanced its lineup of flavoring oils and seasoning oils that can be used to easily create authentic-tasting meals, and as new products, in the fall of 2018 it added rice bran oil and Chinese pepper oil to its lineup.

Typical home-use products (from the left; basic oils, olive oils, and flavored oils)



Source: The Company's website

**b) Commercial-use oils**

In commercial-use oils, in which the Company has a 40% market share, it has updated the Cho Cho Toku Toku® series that has long-lasting effects, such as suppressing oxidation through the use of a proprietary technology, and moreover it has introduced new products that can also be used for long periods. Further, in the lineup of the J-OIL PRO® Seasoning Oils for Pros series, it has enhanced the flavors by roasting with fragrances on a strong open flame, and also newly added products to the J-OIL PRO® Seasoning Grill Oils for Pros, which are oils for meat menus.

Typical commercial use products (from the left commercial-use oils, soybean sheet food, and commercial-use margarines)



Source: The Company's website

## Business overview

**c) Oilseeds (meal)**

The extracted oil (meal) obtained after the extraction of oils from raw materials, such as soybean and canola, contains many high-quality proteins and sugars. For this reason, soybean meal is mainly used in mixed feed, and canola meal is also actively used as a raw material for mixed feed. The same as soybean and other commodities, soybean meal has an international market price, so it is affected by the external environment.

**(2) Oil processed products business**

In the oil processed products business, the Company handles products including margarines, shortening, and powdered oils. Solid and powdered oils can be turned into products with various functions that liquid oils do not possess. The Company has been accumulating proprietary technologies in these areas over many years, and it has also continuously created new value by utilizing functions and providing customers with proposals that meet their needs.

**a) Margarines and shortening**

In home-use margarines, the Company sells Rama brand products, which have had excellent reputations for a long time. In commercial-use margarines, it is strengthening proposals to solve customer problems in the confectionary and baking ingredients field, and it is developing various product series, including Meister, which uses its own flavoring technologies to realize a butter flavor, and Gran Master®, which is a butter-compound margarine. On entering 2019, the Company started importing and selling mixed powders from Backaldrin of Austria. As Backaldrin's mixed powders are products that meet consumers' needs for health and safety, the Company plans to utilize them to strengthen its solutions in the confectionary and baking ingredients field.

**b) Powdered oils**

Powdered oils are unique products that, while being oils, also have the features of powders of superior dispersibility in water, and they combine the delicious taste of oil and of water solubility. Currently, powdered oils are still being used for coffee creamers and soups, and the Company's products utilize the proprietary technologies it has cultivated over many years.

**(3) Foods and fine materials business**

The foods and fine materials business focuses on the effects of meals and trace constituents extracted from raw materials. The Company develops and sells various products that are useful in every area of life, including outside of the food field. In addition to starches, which are used in various processed foods as food-texture improvers, it handles various other materials in this business, such as chemicals that are used as adhesives for housing-construction materials and other uses, and also vitamin K2 and isoflavone.

**a) Starches**

In starches, the Company manufactures and sells starches derived from corn and tapioca, and based on these starches, it also manufactures and sells processed starches that have undergone the Company's proprietary high-performance processing. Processed starches are widely used, including in delicatessen and meat products, cooked rice, and noodles, and they can be used to add various flavors and qualities to food, such as to add a juicy taste or as food-texture improvers.

**b) Chemicals**

The Company's synthetic resin adhesives and paints are used as environmental adhesives and paints in various areas, from housing materials to furniture and other daily necessities. Among them, the mainstay products of adhesives for wood, play a role in the effective use of domestic wood, like cedar and cypress, and they are ESG-friendly products.

## Changing the organization to promote the provision of high value-added

### 2. The network and earnings structure

The Company's bases in Japan are 7 plants, 13 sales bases, 1 business office (warehouse) and 2 research facilities, while it also has a research function, including in the Head Office. The raw materials imported from overseas are used to produce products at the plants in Japan, and they are then sold via their sales bases, mainly for commercial use, including to food manufacturers, food-service companies, and ready-made meals companies. It also sells products for home use via wholesalers and retailers. It is said that oil manufacturers' earnings frequently "fluctuate." The reasons for this are that the international prices of the raw materials they use, of soybean and canola, fluctuate daily and also most of the procured materials are imported from overseas, so they are affected by exchange rates. Therefore, of course the Company hedges market prices, and moreover, after the merger of the three companies, it completely reviewed the production systems at the plants and has been progressing cost reductions through improving efficiency, including by lowering fixed costs. Moreover, to eliminate these "fluctuations," it is necessary to improve profitability without increasing costs. Consequently, at its research facilities, it is aiming to provide high value-added products through the research it is conducting into every aspect, from oils through to seeds and containers.

Understanding the needs of customers is important to improve the efficiency of product development and research. Customer needs vary, ranging from reproducing the cuisine of a professional chef through to the resolution of simple concerns in a kitchen or at a counter. It is thought that its customers who deal with their own customers also experience various problems. Therefore, it is considered that solving these problems will lead to the improvement of the Company's earnings and promote its growth, and it can be said to be a business opportunity. To seize this business opportunity, in 2018, to speed up decision making by delegating authority and clarifying who has responsibility, the Company changed the organization from the six business units structure according to function that was in place up to that time, which was centered on oils, to a three business unit structure of oils, oil processed products, and food and fine materials. It also established common functions that crossed the boundaries of these business unit. This is facilitating collaboration for consulting-type sales and technological support and making it easier to develop high value-added products and conduct problem solving-type sales. At the same time, it also changed the reporting segments, from a single segment of "the oils business and other businesses" to reporting for multiple segments of "the oils and fats business, the oil processed products business, the foods and fine materials business, and the other products business." It can be inferred from this that the Company wanted to strongly indicate its organizational change and its intentions for this change to stakeholders inside and outside of the Company.

Business overview

Organizational change

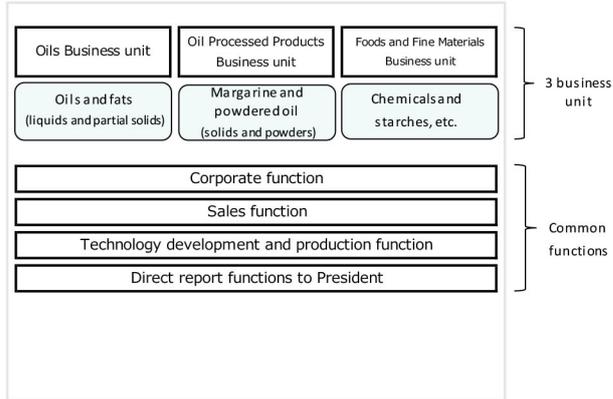
At that time:

6 business units according to function



July 1, 2018-:

3 business unit structure + common functions



Source: Prepared by FISCO from the Company's results briefing material

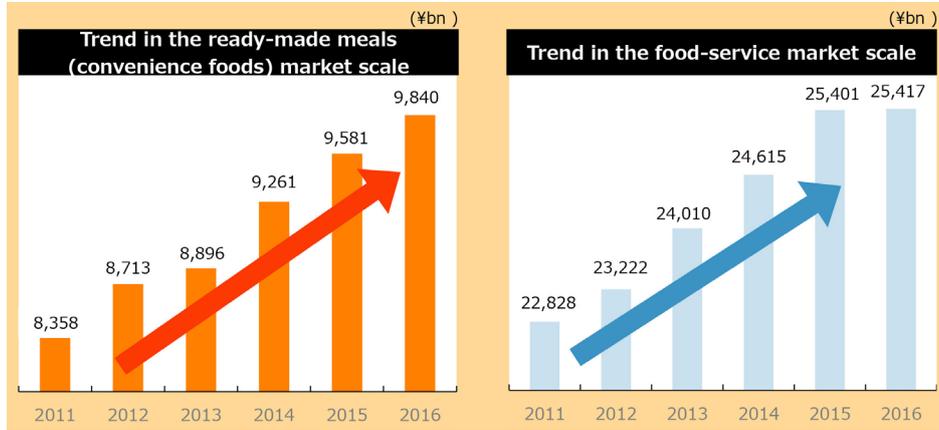
## Responding to various needs for ready-made meals and food services

### 3. The market environment and issues

In Japan, people's eating habits are changing against the backdrop of social trends such as the declining population, falling birthrate and aging population, and the increase in single-person households, as well as aspects such as changing values and awareness with regards to food and the evolution of cooking methods and technologies. In this situation, lifestyle changes are also progressing, in that people are more health conscious and gourmet meal-conscious. On the other hand, the externalization rate of food is said to have continuously risen to reach about 50% from the increase in ready-made meals, such as convenience foods, and of eating out at restaurants and other such food-service establishments. The edible oils market is also affected by this externalization of food, and although commercial-use sales are growing on a volume basis, they are sluggish on a monetary basis, including due to the intensifying competition. In home use, although sales on a volume basis are sluggish, particularly for basic oils, small-lot, high-value added products like olive oils are selling well. Going forward also, it is forecast that the externalization rate of food will continue to rise alongside the trends in social dynamics and other factors.

Business overview

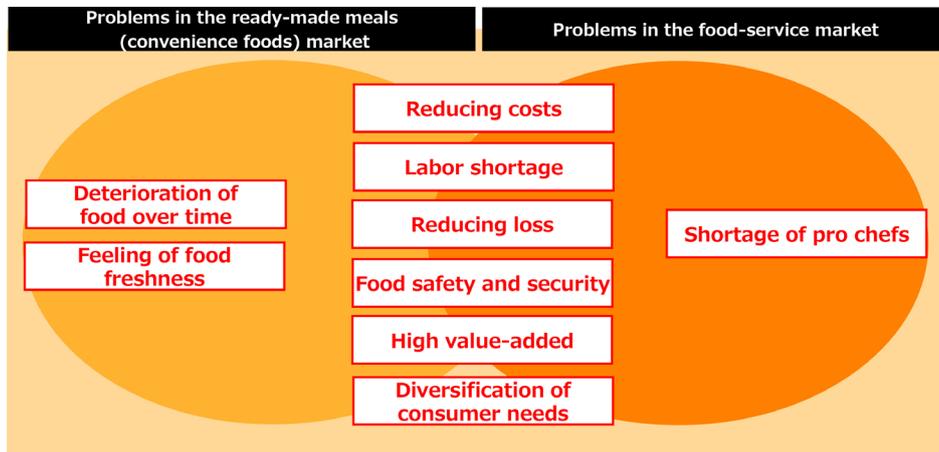
The externalization of foods is continuing



Source: The Company's business briefing materials

In the ready-made meals and food-service industries, the labor shortage is rapidly becoming more serious, leading to problems like the rise in part-time-work hourly wages, price increases by logistics operators, and the pros and cons of operating convenience stores. There are many other problems as well, including reducing costs and loss, and responding to the diversification of customer needs. Each respective field also has its own problems; for ready-made meals, these are problems such as deterioration of food over time and maintaining feelings of food freshness, while for food services, there is a shortage of professional chefs to maintain the levels of taste. The Company intends to respond to these problems in the external environment by synergistically leveraging its strengths.

Problems in the ready-made meals and food-service industries



Source: The Company's business briefing materials

## ■ Leveraging its strengths

### The source of the strengths is the merger of three companies

#### 1. Source of the Company's strengths

The source of the Company's strengths is the respective strengths possessed by the three companies that merged 15 years ago. Originally, Ajinomoto Oil Mills had strengths in researching the tastes of oils and widespread name recognition in the home-use market for its AJINOMOTO brand, Honen Corporation's strengths were in measures to completely use raw materials and a strong sales foundation in the commercial-use market, while Yoshihara Oil Mill's strengths were in its variety of oils and ability to solve customers' problems. Through the merger, synergies from these strengths have been expected up to now. But for a while after the merger, the Company focused on improving efficiency, so it was unable to leverage these strengths sufficiently to the extent that they could be called synergies. Therefore, it is currently aiming to synergistically leverage these strengths by once again combining the individual strengths of the three companies.

### Multiplying the strengths of the three companies

#### 2. Strengths and the provision of high value-added and solutions

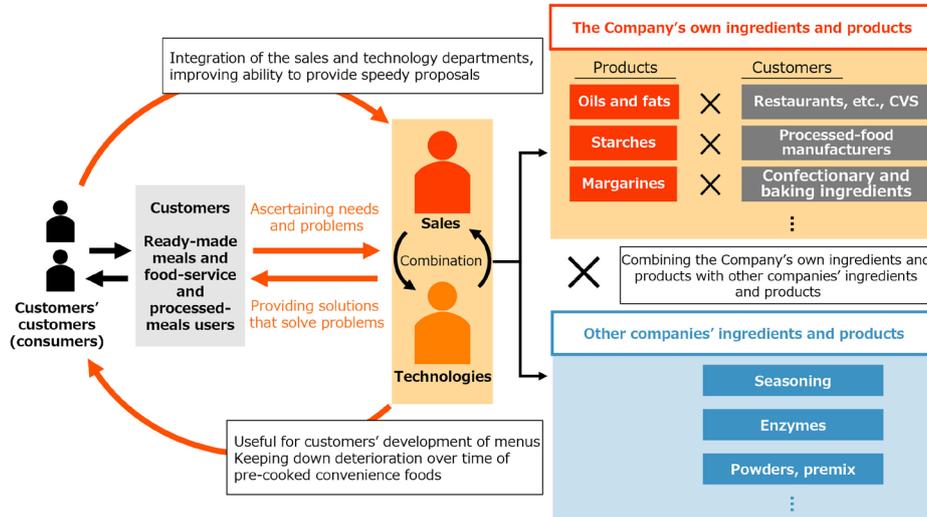
Therefore, the Company's strengths include that it has a 40% market share for commercial-use products, that it can cover a wide range of food areas from the sales channels it inherited from the three companies, the large number of product categories that it can respond to, the sales strength of the Ajinomoto Group, and its development capabilities to expand its expertise in commercial-use products into home use products. This enables it, for example, to be involved in many categories within convenience stores, such as the fast foods placed around the sales counter, and it can use all of the product categories related to Ajinomoto Group within supermarkets, like olive oil. In such ways, the Company's products are already being widely used in various daily food-related scenes. By multiplying the strengths of the three companies, it can synergistically create high value-added products.

Multiplying strengths not only enables the Company to provide high value-added products, it also improves its ability to provide solutions. The concept is that it will use ingredients and products such as oils and fats, starches, margarine and products by going beyond their places of origin and sellers, and even use materials and products from other companies, such as seasonings, enzymes, flours and premixes, to solve customer problems. In addition, by turning the PDCA cycle in which sales and technologies are integrated, it is able to ascertain in advance customer needs and problems, and also those of the consumers who come after its customers. Therefore, the Company is able to develop a solutions business from the perspective of the customer as a partner, rather than simply as a supplier.

The Company is little-by-little accumulating success case studies for the provision of high value-added and solutions. For example, it has achieved both a crispy texture and long shelf-life for deep-fried pork through an oil processed starch that uniquely combines a liquid oil and starch, and it has created a bread that is low in sugar but still has excellent texture by combining soybean powder and resistant starch. Elsewhere, it has changed from heavy metal cans to bags to enable women and the elderly to more easily carry oils in the kitchen. In such ways, it is not only progressing product development for taste, but also of products for solving problems related to cooking. This enables it to provide the tastes and functions that customers want, such as preventing product deterioration over time and that reflect health preferences, while also eliminating problems, and this would seem to be precisely what the Company is referring to when it speaks of "design."

Leveraging its strengths

Solutions that leverage strengths



Source: The Company's business briefing materials

## A multi-function presentation facility that embodies its way of thinking

### 3. The Oishisa Design Studio

By the way, what is proving essential for these developments and sales proposals is the Oishisa Design Studio, which is a multi-function presentation facility opened in 2018. The Oishisa Design Studio combines the functions of a technical advisory center for confectionary and baking ingredients and a presentation function for customers in the Head Office. It is equipped with facilities that can reproduce various environments, from home cooking through to cooking by professionals, and it enables multiple demonstrations and presentations to be conducted. Going forward, based on the Oishisa Design Studio and the expertise it has cultivated, the Company intends to widen the value and possibilities of "oils," and conduct development of oils, starches, margarines, and powdered oils that combines its own ingredients and products with the technologies of other companies to propose high value-added products and solutions from a variety of viewpoints, of cooking, health, and seasoning.

The Oishisa Design Studio  
 (left: presentation room and cafeteria, right: demonstration room)



Source: The Company's press release

## ■ Medium-term management plan

### Expanding the value of “oils”

#### 1. Designing Oishisa, the 5th Period Medium-term Management Plan

Before the three companies merged, they sometimes recorded losses, but after the merger it became possible for the characteristics of each company to emerge through the efforts to improve efficiency, so the extent of the fluctuations in operating income have been reduced. However, in the 4th Period Medium-term Management Plan (FY14 to FY20), although operating income increased and the operating income margin improved in the first three fiscal years, in FY16 operating income did not achieve its initial target. Therefore, the Company decided to reformulate the 5th Period Medium-term Management Plan to re-start in FY17 (until FY20). Naturally, the plan is to continue to focus on growth potential, and the aims are to provide high value-added in Japan, where it is difficult to expect an increase in sales volume, and for overseas, to acquire customers in the Asian market. In terms of the form the Company is aiming for by 2020, it is evolving from having a simple oils extraction business with low levels of processing into being a “Oishisa design company” that creates tastes by researching “oils.” Through this, it is considered that it intends to expand the value of “oils,” whose application had been nothing more than that of a heat-transfer medium, to having value for cooking, health, and seasoning. It also intends to provide higher levels of value that can meet customer needs and solve social problems, such as for labor saving and conserving food resources.

### Progressing the growth strategy and structural reforms

#### 2. Basic policy

Against the backdrop of the various social problems, such as the declining birthrate and aging population, and individual problems, the market for high value-added oils is expected to grow, although the market in Japan is forecast to contract. Therefore, the Company’s basic policy is centered on two aspects; a growth strategy and structural reforms. In the growth strategy, its strategic targets are to strengthen the solutions business for the provision of high value-added and commercial-use products in the development fields, including oil and fats and oil processed products and food and fine materials; to accelerate overseas business development in Asia; and to strengthen the earnings power of general-purpose oil products. For the structural reforms, the targets of the reforms include improving the efficiency and the sophistication of the value chain, optimizing the production bases, and increasing efficiency through selection and concentration.

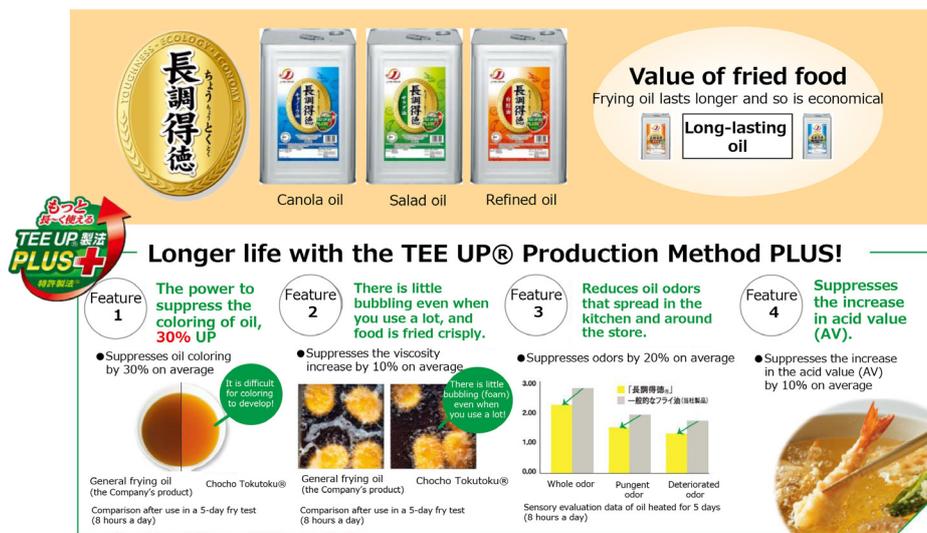
## The keys are providing high value-added products and solutions

### 3. The growth strategy and structural reforms

#### (1) Expanding the high value-added areas for oils and fats

In commercial use, the number of customers using functional oils and the amount spent per customer are still small, so there seems to be still plenty of room for growth. Therefore, the Company intends to expand its lineup of products that reflect usage scenes and needs and that enables customers to easily replicate the authentic tastes of the cuisine, and at the same time, to pursue sales growth for functional oils by strengthening its proposals that solve the various problems facing customers. The long-lasting oil Cho Cho Toku Toku®, which is a high value-added product introduced by the Company, lasts longer than ordinary frying oil, so it is more economical. A feature of Cho Cho Toku Toku® is that, through the use of the TEE UP® Production Method PLUS+, it suppresses oil coloring by an average of 30%, the viscosity increase by an average of 10%, odors by an average of 20%, and the oxidation increase by an average of 10% (from the Company's survey). Even when a lot of it used, there is little bubbling and it fries food crisply, so it keeps down the unique odors of oils in the kitchen or store. In addition, because the number of times the oil has to be changed is reduced, it is kind to the global environment and it improves the working environment by suppressing odors.

The long-lasting oil Cho Cho Toku Toku®



Source: The Company's business briefing materials

Also popular are the functional oils that improve taste by adding cooking and seasoning functions, such as the flavored oils series, the olive oil blend series, and the butter oil series, and the Company is expanding their variations. Simply by adding natural flavors that make full use of the ingredients, it is possible to achieve a uniform taste regardless of cooking skills, to significantly shorten the cooking time, and to diversify menus. Therefore, demand for these products is expected to increase further from their contributions to solving problems, such as labor shortages at cooking sites and skill maintenance.

Medium-term management plan

Seasoning Oils for Pros

Aromas for every meal, improved richness

**J-OILPRO**  
Seasoning Oils for Pros

+

The oil draws out the aromas of  
 • the ingredients and cooking.  
 • It melts into the aromas.  
 • It has an aroma.

=

Strong flavors

**Value as seasoning**

Improved flavors

Seasoning oils and flavor-improving oils

**Flavored oil series**

- Chinese pepper oil
- Red pepper oil
- Green onion oil
- Garlic oil
- Crisp-roasted garlic oil
- Sautéed onion oil
- Mirepoix oil
- Shrimp oil
- Kogashi soy sauce oil
- Egg-flavored oil

**Olive oil blend series**

**Butter flavored oil series**

- Butter flavored oil
- Fermented butter flavored oil

- 1** Easily add authentic flavors!

Add a natural flavor that makes full use of the ingredients.
- 2** Reduce variations in flavor!

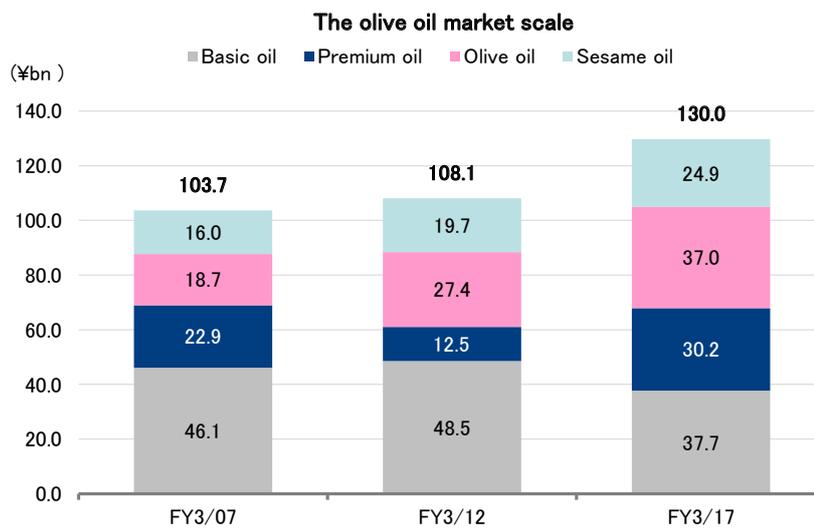
You can achieve the same flavor every time, regardless of your cooking skills..
- 3** Greatly reduce the cooking time!

You can have the feeling of having cooked, even if you do not have time to cook.
- 4** Diversify your usual menu!

In addition to your usual meals, you can diversify the menu.

Source: The Company's business briefing materials

In the home-use oils market, while the basic oils market is contracting, the markets for olive oils, sesame oils, and premium oils are growing. Among them, the number of households purchasing olive oil is still small compared to the numbers purchasing products that are established in Japan, such as mayonnaise, ketchup, and sauces. It is considered that there is still plenty of room for growth. Therefore, the Company is promoting its use by proposing various usages, appealing to its health benefits, and diversifying information contact points. In addition, by developing flavors suited to Japanese food and constructing a system to stably supply high quality products, it is aiming to create its own unique value, further expand the olive oil market, and grow its share of this market.



Source: Prepared by FISCO from the Company's business briefing materials

Medium-term management plan

The Company is also progressing the switch of commercial use functional oils to home-use products, and this category is rising in popularity. AJINOMOTO® Scented Chinese Pepper Oil is a flavored oil that contains the scent and fuzzy taste of the Chinese pepper, and you can fully taste in it the distinctively colorful aroma and the fuzzy taste that is unique to Chinese pepper. You can use any amount you like in small amounts, as even after the bottle is opened, the aroma of the freshly opened bottle and fuzzy taste are preserved. AJINOMOTO® Deep Frying Day Oil is a dedicated-use oil that can be used for frying at home as if you were in a restaurant or other such dedicated frying establishment. It contains a unique blend of oils that bring out the richness and flavor of chicken, while the batter texture can be achieved with less oil. For packaging, a freshness-maintaining pouch is used to preserve the freshness until it is opened. In such ways, it is considered that developments from commercial use to home use is a category in which there remains plenty of room for the Company to acquire more customers.

The development of commercial use functional oils to home use flavor oils



Source: The Company's business briefing materials

**(2) Expanding high value-added products in the development areas**

For starches, which represent a development area for the Company, it is strengthening sales promotion of its unique products that can reproduce fresh flavors just by blending them into frozen food, processed food, or cooked food. For example, oil processed starch, which is a unique combination of liquid oil and starch, can improve food texture by improving the ability of the fry-coating agent to affix to the pork cutlet, so it is being widely used in the ready-made meals and food-service industries. Also, through a unique combination method, the soybean power and starch product Amylo Fiber® achieves both low sugar and improved food texture, and it is being used in breads for consumers who prefer low sugar.

**(3) Strengthening the solutions business against the backdrop of the provision of high value-added**

As previously described, the Company is creating high value products in the oils and development areas by combining its business and technologies to multiply the Company's strengths, as well as by actively combining them with the technologies of other companies. In this way, it is able to rapidly propose solutions to customers' problems. In the medium-term also, in addition to strengthening this solutions business, it intends to more actively propose solutions to resolve the inconveniences facing the consumers who its customers deal with.

**(4) Accelerating overseas business development in Asia**

The Company's strategy is to provide to customers in the Asia market its unique value, of the flavors and functions developed for the Japanese market. In Thailand, it is strengthening the business foundations of J-OIL MILLS (THAILAND) Co., Ltd., and Siam Starch (1966) Co., Ltd., and centered on Thailand, it is developing a solutions business for starches and oils, while also establishing low-cost operations. Also, while strengthening alliances with Japanese customers, particularly for frozen foods, meats, and convenience stores, it is also expanding measures for Hong Kong, China, and South Korea by utilizing the platform of Ajinomoto's overseas corporations. It is also considering progressing the development of high value-added oils especially for Asia.

## Medium-term management plan

**(5) Value chain structural reforms**

The Company has progressed structural reforms up to now, including to improve efficiency. But in line with the progress made in the growth strategy, it intends to once again review the entire value chain, from procurement through to manufacturing, processing, distribution, and sales. For procurement, it will integrate the purchasing functions of each plant, including for raw materials and other materials, at the same time as progressing joint purchasing with other companies. For manufacturing and processing, it will clarify the functions of each plant and investigate the optimal placement of production sites to reflect demand. For the sales and distribution network, it intends to rebuild the delivery model and optimize delivery and inventory costs. For sales, it will create a corporate intelligence system, such as by utilizing IT tools for sales activities, and also by actively and effectively utilizing external resources.

Through these reforms to the value chain, the Company intends to thoroughly improve productivity and efficiency in all business processes and reduce costs. It also plans other measures, including identifying and then selling-off unprofitable or low-profit products, and reducing loss and waste when switching production. Among these measures, for the optimization of the production bases and from the long-term perspective of strengthening responses to changes in the environment that is growing increasingly complex and the diversification of customers, it is considering shifting the investment of management resources from the upstream area on which it has focused up to now, of oil extraction, refining, and manufacture, to downstream areas, including automation technologies that utilize small-lot, multiple-variety lines, and IT and AI, and filling and packaging. It opened the Supply Chain Control Center in 2018, which will reform the value chain from the aspect of supply-demand management, including purchases of raw materials.

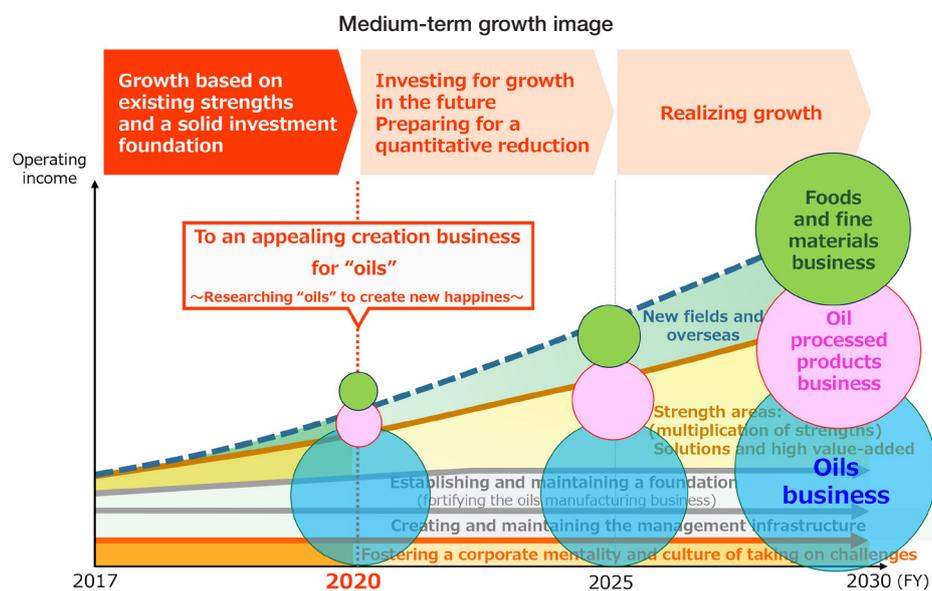
## Aiming for operating income of ¥8bn or above in FY3/21

### 4. The FY3/21 numerical targets and growth image

From the growth strategy and structural reforms, in FY3/21 the Company is aiming for net sales of ¥215bn or above (an average annual growth rate of 5% or above), operating income of ¥8bn or above (10% or above), and ROE of 5.0% or above. Although sales will depend at least to some extent on the market price of meal, the Company has become able to control costs arising from cost fluctuations to a certain extent, such as by providing high value-added. Therefore, both the operating income and ROE targets would seem achievable.

In the 5th Period Medium-term Management Plan, on the one hand the Company expects infrastructure costs and other costs to increase, while on the other hand it is aiming to improve earnings by increasing the percentage of total net sales provided by high value-added products from 22% in FY12/16 to 25% in FY12/21, and of gross profit from 32% to 40%. In addition, it intends to achieve the operating income and ROE targets through liquidating unprofitable products and businesses, and conducting reviews, including of inventory management and holdings of investment securities. For these targets, expectations are great for the contributions of the development areas and from overseas, and it is aiming to raise the percentage of total net sales provided by the development areas from 8% in FY12/16 to 12% in FY12/21 and of gross profit from 11% to 15%, and moreover, to increase the percentage of total net sales provided from overseas from 0.2% to 4% and of gross profit from 0.3% to 6%. In the medium term, it is aiming to become a “Oishisa design company” that creates Oishisa that move people’s hearts and minds through researching the value of “oils” and growing its own strengths. Moreover, for the future (by 2030), it wants to realize “Joy for life,” which means enriching the lives of people, by expanding its business into areas other than oils and food, and for overseas.

## Medium-term management plan



## Results trends

### Profits increased greatly as the prices of raw materials trended in a low range

#### 1. FY3/19 Q3 results

In the FY3/19 Q3 results, net sales were ¥144,131mn (up 2.4% YoY), operating income was ¥5,480mn (up 80.2%), ordinary income was ¥5,821mn (up 71.0%), and profit attributable to owners of the parent was ¥4,536mn (up 72.4%). Against the backdrop of the labor shortages, there were some factors that pushed-up costs, including an increase in distribution costs due to the rise in freight fees, but profits still increased greatly because the oils business performed strongly. The Company recorded extraordinary income of ¥565mn, including from a gain on the sale of non-current assets following the transfer of the former Sumiyoshi plant's assets; an extraordinary loss of ¥452mn, mainly for damage due to the effects of Typhoon No. 21; and a reversal of deferred tax assets related to future deductible temporary differences. Although the gain on the sale of investment securities recorded in the same period in the previous fiscal year was not recorded in this fiscal period, an impairment loss was also not recorded.

#### FY3/19 Q3 results

	(¥mn, %)				
	FY3/18 Q3	% of net sales	FY3/19 Q3	% of net sales	% change
Net sales	140,784	100.0	144,131	100.0	2.4
Gross profit	23,144	16.4	26,948	18.7	16.4
SG&A expenses	20,103	14.3	21,468	14.9	6.8
Operating income	3,041	2.2	5,480	3.8	80.2
Ordinary income	3,403	2.4	5,821	4.0	71.0
Profit attributable to owners of the parent	2,631	1.9	4,536	3.1	72.4

Source: Prepared by FISCO from the Company's financial results

**J-OIL MILLS, Inc.** | 24-Apr.-2019  
 2613 Tokyo Stock Exchange First Section | <https://www.j-oil.com/>

Results trends

In the results by segment, in the oils business, net sales were ¥122,309mn (up 2.6% YoY) and segment income was ¥4,711mn (up 158.0%). In the oil processed products business, net sales were ¥10,081mn (down 2.2%) and segment income was ¥247mn (down 46.3%). In the foods and fine materials business, net sales were ¥10,661mn (up 6.5%) and segment income was ¥431mn (down 26.6%). In the other products business, net sales were ¥1,079mn (down 14.8%) and segment income was ¥89mn (down 46.7%).

In the oils and fats business, although olive oil performed strongly due to TV commercials and sales activities, home-use oils sales declined YoY from the reduction in sales volume of canola oil, for which the Company worked to maintain prices. On the other hand, in addition to maintaining the sales prices of general-purpose oil products, it focused on growing sales of high value-added products, such as Cho Cho Toku Toku® and J-OILPRO®, and as a result, sales of commercial-use oils trended favorably. In the oilseeds section, as the price of soybean meal trended in a high range on the Chicago Mercantile Exchange, the sales price increased and sales volume decreased. Against the backdrop of strong demand in Japan, the sales price of canola meal exceeded the price in the same period in the previous fiscal year, but sales volume decreased. As a result, sales increased in the oilseeds section. In profits, although exchange rates have become somewhat unstable due to global economic fluctuations, due to the calm international environment and the favorable growing conditions in the producing countries, the market prices of the main raw materials, of soybeans and canola, have been trending at low levels since around June, resulting in the significant increase in profits.

In the oil processed products business, in the margarines section, home-use sales were strong from the measures to grow sales of Rama®, but commercial-use sales declined slightly, despite the strengthening of proposals for high value-added products, including Gran Master® Perimeran Perez and Maple Perez. In the powdered oils section, the Company worked to improve productivity and develop new materials, but sales decreased. Profits also declined, mainly due to the rises in the prices of raw materials.

In the foods and fine materials business, the Company worked to grow sales of corn starches for food and industrial use, and as a result, sales increased in the starches section. Exports of fine materials recovered and sales were strong in the fine materials sections, while in the United States, demand increased due to the appeal of gluten-free, and the sales area expanded. Therefore, sales of soy sheets grew significantly. Although the number of new housing starts fell slightly, the Company revised prices and worked to maintain sales volume, and as result, sales increased in the chemicals section. But profits decreased, as the Company has delayed the price revisions of some products.

Results trends in FY3/19 Q3 by segment

(¥mn, %)					
Net sales	FY3/18 Q3	% of net sales	FY3/19 Q3	% of net sales	% change
Oils business	119,194	84.7	122,309	84.9	2.6
Oil processed products business	10,313	7.3	10,081	7.0	-2.3
Foods and fine materials business	10,010	7.1	10,661	7.4	6.5
Other products business	1,266	0.9	1,079	0.7	-14.8

Segment income	FY3/18 Q3	Margin	FY3/19 Q3	Margin	% change
Oils business	1,826	1.5	4,711	3.9	158.0
Oil processed products business	460	4.5	247	2.5	-46.3
Foods and fine materials business	587	5.9	431	4.0	-26.6
Other products business	167	13.2	89	8.2	-46.4

Source: Prepared by FISCO from the Company's financial results

## Results trends

## Can be said to be making steady progress in the 5th Period Medium-term Management Plan

### 2. Outlook for FY3/19

For the FY3/19 results outlook, the Company is forecasting net sales of ¥192,000mn (up 4.7% YoY), operating income of ¥5,500mn (up 37.3%), ordinary income of ¥5,800mn (up 12.9%), and net profit attributable to owners of the parent of ¥4,300mn (up 4.2%). The results up to Q3 varied between the segments, but overall, better-than-expected progress was made and the initial results forecasts have been left unchanged. The oils extraction business environment is not expected to change greatly in Q4, while the Company intends to conduct price-oriented sales and grow sales of high value-added products, and to work to improve the profitability of the businesses other than oils to prepare for a recovery from the next fiscal year onwards. For operating income, with an eye to medium-term growth, the Company is actively investing in marketing, such as for high value-added products, and in systems development, while distribution costs are expected to rise (from a rise in unit prices, including from price hikes). Therefore, it intends to continuously progress the structural reforms.

Toward achieving the targets in the 5th Period Medium-term Management Plan, the Company has begun to acquire the ability to respond to fluctuations in raw material prices and exchange rates, and it is progressing price revisions. In the oils business, to continue to grow, it will be important to both progress the growth strategy and deepen the structural reforms. Some slight problems remain outside of the oils business, but against the backdrop of the strong results for the mainstay oils, it can be said that it is currently making steady progress for the 5th Period Medium-term Management Plan. On March 18, 2019, the Company announced that it will revise the prices of home-use oils products and commercial-use oils products from the shipments on June 3, 2019. It goes without saying that the spread of the current prices increases will hold the key to the results from the next fiscal period onwards.

#### Outlook for FY3/19

	(¥mn, %)				
	FY3/18	% of net sales	FY3/19	% of net sales	% change
Sales	183,361	100.0	192,000	100.0	4.7
Gross profit	30,262	16.5			
SG&A expenses	26,257	14.3			
Operating income	4,005	2.2	5,500	2.9	37.3
Ordinary income	5,137	2.8	5,800	3.0	12.9
Profit	4,127	2.3	4,300	2.2	4.2

Source: Prepared by FISCO from the Company's financial results

#### FY3/19 results outlook by segment

	(¥mn, %)				
Net sales	FY3/18	% of net sales	FY3/19	% of net sales	% change
Oils business	154,200	84.1	162,400	84.6	5.3
Oil processed products business	13,300	7.3	13,800	7.2	3.8
Foods and fine materials business	12,600	6.9	14,300	7.4	13.5
Other products business	3,200	1.7	1,500	0.8	-53.1

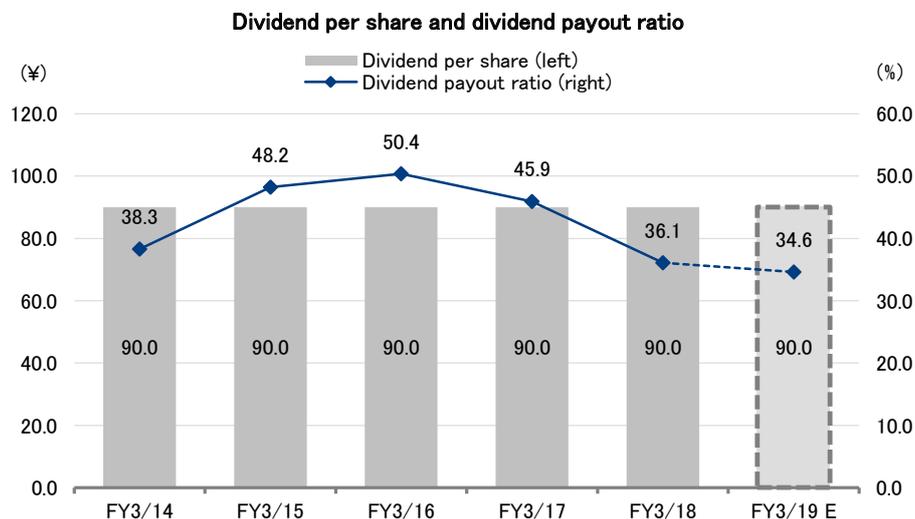
Segment income	FY3/18	Margin	FY3/19	Margin	% change
Oils business	2,400	1.6	4,300	2.6	79.2
Oil processed products business	500	3.8	400	2.9	-20.0
Foods and fine materials business	900	7.1	600	4.2	-33.3
Other products business	200	6.3	200	13.3	0.0

Source: Prepared by FISCO from the Company's results briefing material

## Shareholder returns

### 1. Dividend

The Company's basic dividend policy is to work to maintain the stable return of profits to shareholders, while also steadily and appropriately distributing profits from a long-term perspective, such as retaining the internal reserves necessary to strengthen the corporate structure and for active business development in the future. In the 5th Period Medium-term Management Plan that started in FY17, it sets the target of maintaining a consolidated dividend payout ratio of 30% or above. In terms of the uses of the internal reserves, it is aiming to raise enterprise value through building a strong earnings structure, and it also intends to actively utilize these funds to invest in strengthening the management foundation. In FY3/19, it plans to pay a dividend per share of ¥90 (interim dividend, ¥45). On October 1, 2016, the Company consolidated 10 shares of common shares into 1 share.



Source: Prepared by FISCO from the Company's financial results

### 2. Shareholder benefit program

The Company implements a shareholder benefit program based on the determination of rights at the end of March, and it provides to shareholders holding 100 shares or more a gift of a Company product with a market value of ¥3,000. The shareholders are scheduled to receive the gift sometime between the end of June to the beginning of July in each year.

## Information security

The Company implements appropriate security measures for its information assets and computer systems, including the establishment and maintenance of management systems and thorough information management.



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