

## 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> .....	<b>01</b>
■ <b>Company overview</b> .....	<b>03</b>
1. Company overview .....	03
2. History .....	03
■ <b>Business overview</b> .....	<b>05</b>
1. Business overview .....	05
2. The market environment and issues .....	08
3. Sources of its strengths are the three merger companies .....	09
4. The Oishisa Design Studio .....	10
■ <b>Medium-Term Management Plan</b> .....	<b>11</b>
1. Designing Oishisa, the 5th Period Medium-term Management Plan .....	11
2. The growth strategy and structural reforms .....	12
■ <b>Results trends</b> .....	<b>13</b>
1. FY3/19 results .....	13
2. Outlook for FY3/20 .....	17
■ <b>Shareholder returns</b> .....	<b>21</b>
1. Dividend policy .....	21
2. Shareholder benefit program .....	21
■ <b>Information security</b> .....	<b>22</b>

## ■ Summary

### Continues to develop a strategy in accordance with the 5th Medium-Term management Plan

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 and Fats Business, it extracts oils in Japan from imported materials, such as soybeans and canola, and then produces and sells oil and oilseed products in Japan. It also conducts the Oil and Fat Processed Products Business, such as margarines and powdered oils, and a Foodstuffs and Fine Material 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 B to B 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.

The basic policy for the medium term is to implement a growth strategy and structural reforms, but it seems that in the 5th Medium-Term management Plan (FY2017 to FY2020), 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 B to B-use products. The Company has been launching B to B-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 household 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 is aiming to evolve into a “Oishisa design company” that creates delicious tastes through researching “oils.”

In the FY3/19 results, net sales were ¥186,778mn (up 1.9% year-on-year (YoY)) and operating income was ¥5,663mn (up 41.4%). The Oils and Fats Business performed well with segment income of ¥4,919mn (up 102.3%). This was due to an increase in sales of high value-added products, a price-prioritized sales strategy, and favorable meal market prices. In the Oil and Fat Processed Products Business, segment income was ¥148mn (down 68.8%) due to the decrease in sales volume in the powdered oils section overlapped with the rise in costs of margarine raw materials. Conditions were severe in the Foodstuffs and Fine Material Business with segment income of ¥458mn (down 47.7%) due to the higher prices of raw materials and the delay in revising prices for some products. There were also other factors pushing-up costs, including active spending on advertising promotions and the rise in logistics and distribution costs, but they were covered by the strong performance of the Oils and Fats Business. Therefore, as a whole, the Company secured higher sales and a significant increase in operating income.

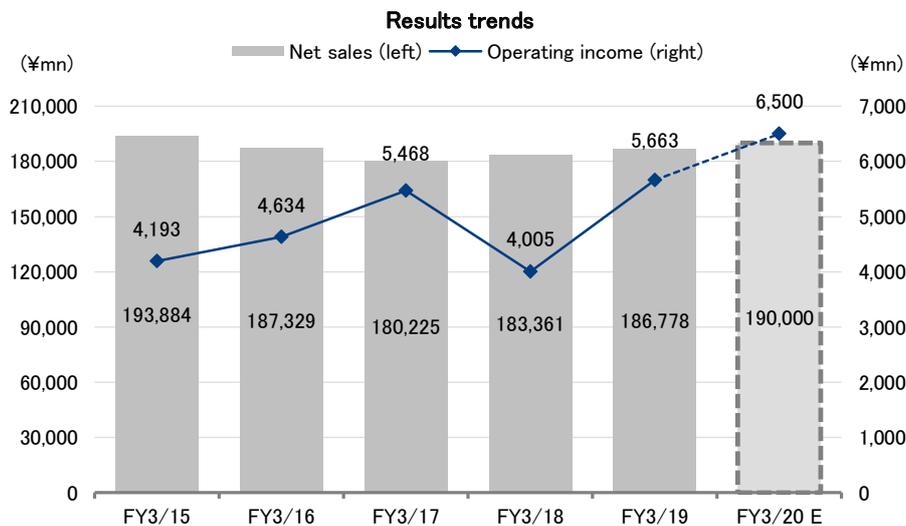
**J-OIL MILLS, Inc.** | 7-Aug.-2019  
 2613 Tokyo Stock Exchange First Section | <https://www.j-oil.com/>

Summary

For the FY3/20 results, the Company is forecasting net sales of ¥190,000mn (up 1.7% YoY) and operating income of ¥6,500mn (up 14.8%). It plans to achieve higher operating income by covering for the rises in oils costs and distribution costs, including through revising price for the product oils and fats, strengthening sales of high value-added products, and efficient use of advertising costs. For each business, it will continue to develop a strategy in accordance with the basic policies in the 5th Medium-Term management Plan. Specifically, in the Oils and Fats Business, it will grow sales of high value-added products and improve the profitability of commodity products; in the Oil and Fat Processed Products Business, it will strengthen in the confectionary and baking ingredients field and grow sales of powdered oils; and in the Foodstuffs and Fine Material Business, it will enhance its ability to propose solutions, grow sales of soy sheets, and strengthen sales of chemicals. It intends to acquire momentum toward achieving the FY3/21 targets of operating income ¥8bn or above and ROE of 5.0% or above. It has already achieved the ROE target, of 5.6% in FY2018, and it is aiming to further improve it in FY2019 and achieve an even higher level in FY2020.

**Key Points**

- A major domestic edible oils manufacturer that is synergistically leveraging the strengths of the three merger companies
- Creating high value-added products and strengthening its ability to propose solutions
- The Company will continue to develop the businesses in accordance with the Medium-Term management Plan for FY3/20, centered on the growth strategy



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

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## ■ Company overview

### Creating high value-added products through designing Oishisa

#### 1. Company overview

The Company is a major domestic edible oils manufacturer established from the merger of three companies; Honen Corporation, Ajinomoto Oil Mills, and Yoshihara Oil Mill. Based on the Oils and Fats Business (oils and meal), in addition to the Oil and Fat Processed Products Business, of margarines and powdered oils, it also produces other products, including starches and chemicals in the Foodstuffs and Fine Material 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 B to B use while strengthening its business development for household use. Going forward, the Company intends to create new high value-added products for both B to B use and household use by “designing Oishisa.”

### Shifting to a growth strategy from the post-merger strategy of improving efficiency

#### 2. History

In 1922, Honen Oil Co., Ltd., was established from the Suzuki Shoten Oil Department. In 1934, an individually owned store 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 Oil 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. The Company strengthened its growth strategy after the merger and 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 B to B-use products and the procurement of raw materials. Overseas business development has lagged behind, but in 2014, it established J-OIL MILLS (THAILAND) Co., Ltd., a joint venture with Toyota Tsusho <8015> in Thailand. Currently, it has formulated the 5th Medium-Term management Plan and is developing a more in-depth growth strategy.

**J-OIL MILLS, Inc.** | 7-Aug.-2019  
 2613 Tokyo Stock Exchange First Section | <https://www.j-oil.com/>

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.
May 2017	Formulated the 4-year, 5th Medium-Term management Plan with FY2017 as the first fiscal year
July 2018	Changed the organization from a structure of six business units according to function to a structure of three business units, and introduced a business segments system
April 2019	Yokohama Pack Co., Ltd., J-Service Co., Ltd. and Golden Service Co., Ltd., were merged through an absorption merger with Yokohama Pack as the surviving company, and J-Pack Co., Ltd., was established.

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

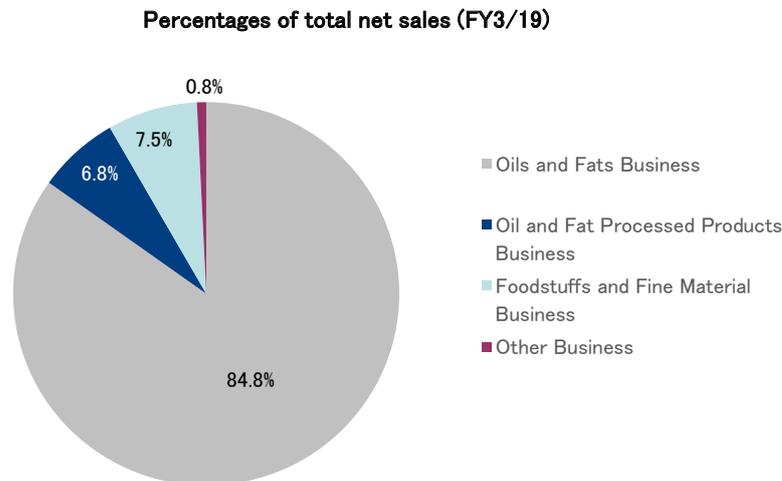
## Business overview

### Developing products that utilize proprietary technologies

#### 1. Business overview

The Company's main business is the extraction of oils from soybean and canola in Japan and the production and sales of edible oil and oilseed products in Japan. Demand for commodity 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), the Oils and Fats Business provided 84.8%, the Oil and Fat Processed Products Business 6.8%, the Foodstuffs and Fine Material Business 7.5%, and the Other Business 0.8%\*.

\* This system facilitates commone.



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

#### (1) Oils and Fats Business

In the Oils and Fats Business, the Company has a wide lineup of products 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 the wide product lineup 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" based on safety and security. In the percentage of net sales by usage in the Oils and Fats Business (FY3/19), household use provided 17%, B to B use 55%, and oilseeds 28%, which indicates that a characteristic of the Company is strength in B to B use.

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Business overview

**a) Household-use oils and fats**

In household-use oils and fats 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 Sarasara Canola Oil 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 spring of 2019 it added “AJINOMOTO Deep Frying Day Oil” to its lineup.

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



Source: The Company's website

**b) B to B oils and fats**

In B to B oils and fats, for which the Company has a 40% market share, it has renewed the “Cho Cho Toku Toku” series, which uses proprietary technologies to realize long-lasting effects, such as suppressing oxidation, and introduced new products that can be used for an even longer time. In the lineup of the “J-OILPRO Seasoning Oils for Pros” series, it has enhanced flavors through a barbecue-type aroma created by baking on a strong open fire. It has also newly added products to “J-OILPRO Seasoning Grill Oils for Pros” for use with meat menus, and to “J-OILPRO Premium Butter-flavored Oils”, which have milky and rich aromas and flavors.

**c) Oilseed meals**

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, it is mainly used in 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 and Fat Processed Products Business**

In the Oil and Fat 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 is continuing to create unique products by utilizing functions and providing customers with proposals that meet their needs and wants.

**a) Margarines and shortening**

In household-use margarines, the Company sells “Rama” brand products, which have had excellent reputations for a long time. In B to B-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 actively incorporate them in providing solutions in the confectionary and baking ingredients field.

Business overview

**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 mainly used for coffee creamers and soups, and the Company is working on product development utilizing its proprietary technologies for liquid oils cultivated over many years.

**(3) Foodstuffs and Fine Material Business**

The Foodstuffs and Fine Material Business is a business that focuses on the effects of meal 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 and for other purposes, in its mainstay chemicals it handles adhesives for housing-construction materials and other uses, and also vitamin K2 and isoflavone.

**a) Starches**

In starches, the Company focuses on starches derived from corn and tapioca, and 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, such as to add a juicy taste or as food-texture improvers.

**b) Chemicals**

The Company's synthetic resin adhesives and paints are used in various areas such as for housing materials to furniture and other daily necessities as products that are considerate to the environment. The functions of its products are playing important roles for the effective use of domestically produced timber, such as cedar and cypress, and their sales are growing alongside the increase in the use of domestically produced timber.

**C) Soy sheets**

Soy sheets are a new cooking material in a thin and flexible sheet form based on soy protein that can be used with complete freedom to wrap various dishes. As they have excellent adhesiveness and do not intrude on the flavor of other ingredients used in the dish, they can be used to create new items on a menu with an abundance of originality, regardless of whether for Japanese, Western, or Chinese cuisine.

**Typical B to B use products**  
 (from the left B to B oils and fats, soybean sheet food, and B to B-use margarines)



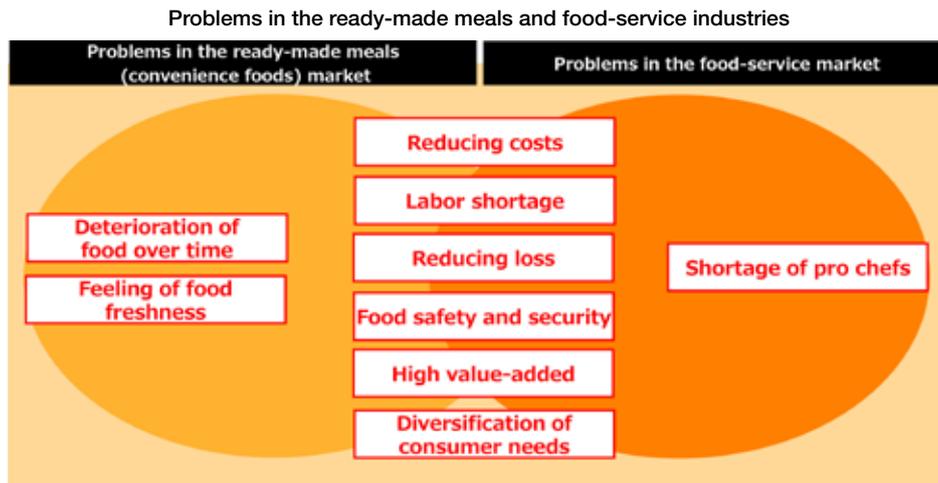
Source: The Company's website

## High value-added products that solve problems in the market

### 2. 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, the increase in single-person households, and the advance of women in society, 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, diet-related lifestyle changes are also progressing, in that people are becoming more health conscious and gourmet meal-conscious. Therefore, although sales of household-use products, mainly basic oils, are sluggish on a volume basis, small-lot, high value-added products like olive oils are performing well in response to the more health conscious and gourmet meal-conscious consumers. 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 food services such as restaurants and other establishments. The oils market is also affected by this externalization of foods, and although B to B-use sales are growing on a volume basis, they are sluggish on a monetary basis, including due to the intensification of competition.

In the context of such environmental changes, various issues are rapidly emerging, especially in the ready-made meals and food services 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 24-hour convenience stores. In addition, there are problems such as reducing costs and losses and responding to the diversifying needs of consumers. Each respective field also has its own problems; for ready-made meals, these include the deterioration of food over time and maintaining food freshness, while for food services, there is a shortage of professional chefs to maintain the levels of taste. Within the situation of intensifying competition, the Company is responding to these problems in the ready-made meals and food services industries by leveraging its strengths and proposing one or several of its high value-added products as the solutions. Alongside the developments in social dynamics in the future, demand is expected to continue to increase for the Company's high value-added products that can solve these problems.



Source: The Company's business briefing materials

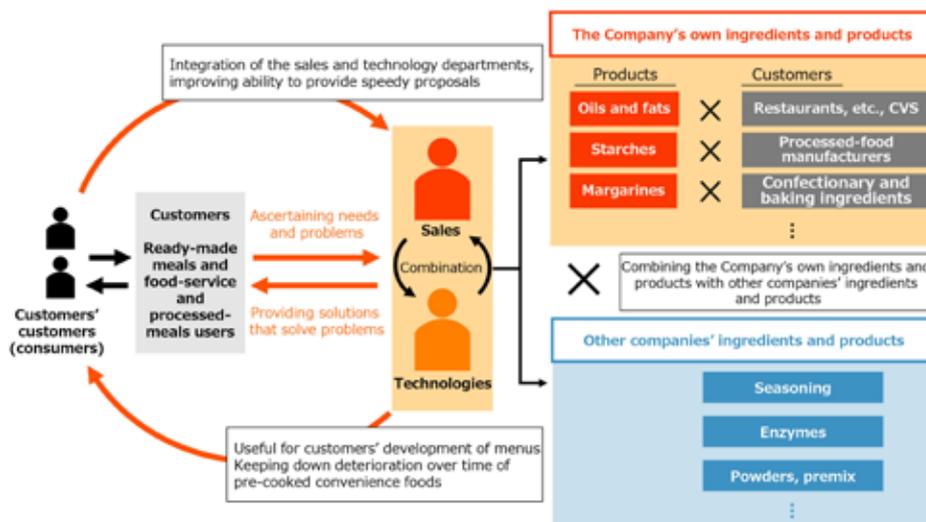
## Designs to solve customers' problems

### 3. Sources of its strengths are the three merger companies

The source of the Company's strengths are the respective strengths possessed by the three companies that merged 15 years ago, and the synergies generated from these strengths. Originally, Ajinomoto Oil Mills had strengths in researching the tastes of oils and widespread name recognition in the household-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 B to B-use market, while Yoshihara Oil Mill's strengths were in its variety of oils and ability to solve customers' problems. Therefore, the synergies from these strengths from the merger have been generated and utilized by multiplying each company's strengths. Synergies generated from these strengths can be seen in a 40% market share for B to B-use products, the coverage of 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 B to B-use products into household-use products. Going forward also, we can expect it to continuously create high value-added products.

For a while after the merger, the Company focused on improving efficiency, but in recent years it has started to synergistically leverage these strengths by evaluating and combining the individual strengths of the three companies. As a result, it has become able to not only create high value-added products, but it has also improved its ability to propose solutions. The Company is capable of ascertaining customer and consumer needs and problems in advance by turning the PDCA (PLAN. DO, CHECK. ACTION) cycle with the combination of sales and technology, in addition to using ingredients and products such as oils and fats, starches, margarine and products by going beyond their places of origin and sellers. As a result of this, the idea is that it can even use materials and products from other companies, such as seasonings, enzymes, flours and premixes, to solve customer problems. 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.

Solutions that leverage strengths



Source: The Company's business briefing materials

Business overview

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 its 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, while also eliminating problems, and this would seem to be precisely what the Company is referring to when it speaks of “design.”

## A multi-function presentation facility that symbolizes its strengths

### 4. The Oishisa Design Studio

The Oishisa Design Studio, a multi-function presentation facility opened in 2018, symbolizes the Company's strength. 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. It can be said that Oishisa Design Studio is an essential facility for these developments and sales proposals. 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

The 5th Medium-Term management Plan, which started in 2017 (until FY2020) places the focus on growth potential, and its aims are to provide high value-added in Japan, where it is difficult to expect an increase in sales volume, and for overseas, where growth can be expected, to acquire customers in the Asian market. In terms of vision for 2020, the Company is aiming to evolve from having a simple oils extraction business with low levels of processing into being a "Oishisa design company" that creates Oishisa by studying "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, and also for oils to provide higher levels of value that can meet customer needs and solve social problems, such as for labor saving and conserving food resources. Moreover, for the future (by 2030), it wants to realize "Joy for life," enriching the lives of people, by expanding its business into areas other than oils and food, and for overseas.

In the Medium-Term management Plan, the Company has set two basic policies, a growth strategy and structural reforms. Against the backdrop of the various social problems, such as the declining birthrate and aging population, the market for high value-added oils is expected to grow, but the market in Japan for commodity products is forecast to contract. As the growth strategy for this sort of environment, the Company is aiming to create high value-added products not only for oils but also in the development areas of oil processed products and food and fine materials, to strengthen the solutions business in the B to B-use field, to accelerate the development in Asia, and to bolster the profitability of commodity oil products. The aims for the structural reforms include making the value chain more efficient and advanced, optimizing the production bases, and improving efficiency through selection and concentration. With this growth strategy and structural reforms as the backdrop, for FY3/21 the Company is targeting net sales of ¥215bn or above, operating income of ¥8bn or above, and ROE of 5.0% or above. It achieved the ROE target in advance, of 5.6% in FY2018, and it intends to further improve it in FY2019 and achieve an even higher level in FY2020. Net sales will partially depend on the market price of meal, but the target values for operating income and ROE are the ones it definitely wants to achieve by increasing its ability to resist price fluctuations, such as by strengthening the profitability of commodity products and growing sales of high value-added products.

## Aiming for growth in the medium- to long-term through the growth strategy and structural reforms

### 2. The growth strategy and structural reforms

#### (1) Creating high value-added oils

The Company is actively creating high value-added products, which is the main element of the growth strategy. For B to B-use products, the number of customers introducing functional oils and sales volume per customer are still small, so there is considered to be plenty of room for growth. For “Cho Cho Toku Toku”, which is the Company’s long-lasting oil, even when a lot of it used, there is little bubbling and it fries food crisply compared to normal frying oil, so it keeps down the unique odors of oils in the kitchen or store. In addition, its long-lasting oils makes it economical, because the number of times the oil has to be changed is reduced. The Company also offers functional oils, such as the flavored oils series, the olive oil blend series, and the butter oil series, and these oils enable the same delicious tastes to be created regardless of cooking skills, significantly shorten cooking times, and diversify menus. These products are kind to the environment and solve the various problems facing customers, including improving the working environment, the shortage of kitchen staff, and maintaining skills, and their high added-value is being accepted by customers as the solutions to their problems.

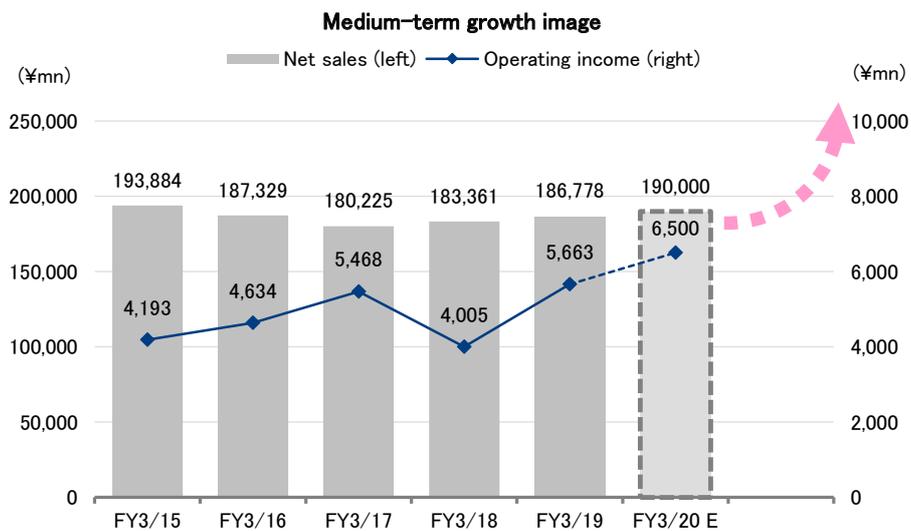
In the household-use oils and fats market also, while the basic oils market is contracting, the markets for high value-added products, such as olive oils, sesame oils, and premium oils, are growing. Among them, the number of households purchasing olive oil is still small compared to the numbers purchasing products that are established in Japan, like mayonnaise, ketchup, and sauces, so 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. It is also progressing the switch of B to B-use functional oils to household-use products. One popular product is “AJINOMOTO Scented Chinese Pepper Oil”, a flavored oil that contains the scent and tingling sensation of 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 tingling sensation are preserved. “AJINOMOTO Karaage Day Oil”, which contains a unique blend of oils, is a dedicated-use oil that can create an excellent batter texture with less oil. Using this oil, consumers can cook deep fried chicken at home as if cooked in a restaurant or other such dedicated frying establishment. In such ways, it is considered that developments from B to B use to household use is a high value-added category in which there remains plenty of room for growth.

#### (2) Other growth strategies and structural reforms

For starches, which is a development area, the Company’s unique functional products, which can reproduce fresh flavors just by blending them into frozen food, processed food, and ready-made meals, are being widely used in the ready-made meals and food services 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. By combining its technologies and sales, the Company is strengthening its proposals to solve customers’ problems. It also intends to more actively propose solutions to resolve the inconveniences facing the consumers who its customers deal with. It plans to provide its unique value, such as the flavors and functions developed for the Japanese market, to customers in the Asia market. In Thailand, it will strengthen the business foundations of J-OIL MILLS (THAILAND) Co., Ltd., and Siam Starch (1966) Co., Ltd., and centered on Thailand, it will develop a solutions business for starches and oils. It also plans to expand its measures in Asia through utilizing its collaborations with Japanese customers and the platforms of AJINOMOTO’s overseas corporations.

Medium-term management plan

The Company had been advancing structural reforms up to the present time, such as 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, logistics and sales. Through reforming the value chain, it plans to improve efficiency in all work processes, identify unprofitable or low profit margin products, and reduce loss and waste when switching production. In addition to optimizing production bases, it is taking on the challenge of improving efficiency downstream, including small-lot and multi-product lines, and automation technologies and for filling and packaging utilizing IT and AI. The Supply Chain Control Center was opened in 2018, and it progressing value-chain reforms from the aspect of demand-supply management, including for purchases of raw materials.



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

## Results trends

### Results were strong in the Oils and Fats Business

#### 1. FY3/19 results

In the FY3/19 results, net sales were ¥186,778mn (up 1.9%), operating income was ¥5,663mn (up 41.4%), ordinary income was ¥6,326mn (up 23.1%), and profit attributable to owners of the parent was ¥4,749mn (up 15.1%). Net profit was a record high since FY2005. Due to the increase in sales of high value-added products, the price-prioritized sales strategy, and favorable meal market prices, the Company achieved higher sales and a significant increase in profits. This was despite higher costs due to active advertising sales promotions, and increase in distribution costs due to higher freight charges against the backdrop of the labor shortage of drivers. 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. The gain on the sale of investment securities and the impairment loss that were recorded in FY3/18 were nearly entirely eliminated.

**J-OIL MILLS, Inc.** | 7-Aug.-2019  
 2613 Tokyo Stock Exchange First Section | <https://www.j-oil.com/>

Results trends

FY3/19 results

	(¥mn, %)				
	FY3/18	% of net sales	FY3/19	% of net sales	% change
Net sales	183,361	100.0	186,778	100.0	1.9
Gross profit	30,262	16.5	34,819	18.6	15.1
SG&A expenses	26,257	14.3	29,155	15.6	11.0
Operating income	4,005	2.2	5,663	3.0	41.4
Ordinary income	5,137	2.8	6,326	3.4	23.1
Profit attributable to owners of the parent	4,127	2.3	4,749	2.5	15.1

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

In the results by segments, in the Oils and Fats Business, in addition to the improvement to the market environment, the price-prioritized sales strategy was successful, and net sales were ¥158,456mn (up 2.3% YoY) and segment income was ¥4,919mn (up 102.3%). In the Oil and Fat Processed Products Business, the decline in the sales volume of powdered oils overlapped with the rise in margarine raw material costs, and net sales were ¥12,781mn (down 5.1%) and segment income was ¥148mn (down 68.8%). In the Foodstuffs and Fine Material Business, due to the rises in raw material prices and the delay in transferring these rises onto the prices of some products, net sales were ¥14,095mn (up 5.5%) and segment income was ¥458mn (down 47.7%). In the Other Business, net sales were ¥1,445mn (down 15.2%) and segment income was ¥137mn (down 38.3%).

Results trends in FY3/19 by segment

	(¥mn, %)				
Net sales	FY3/18	% of net sales	FY3/19	% of net sales	% change
Oils and Fats Business	154,831	84.4	158,456	84.8	2.3
Oil and Fat Processed Products Business	13,466	7.3	12,781	6.8	-5.1
Foodstuffs and Fine Material Business	13,359	7.3	14,095	7.5	5.5
Other Business	1,704	0.9	1,445	0.8	-15.2

Segment income	FY3/18	Margin	FY3/19	Margin	% change
Oils and Fats Business	2,432	1.6	4,919	3.1	102.3
Oil and Fat Processed Products Business	474	3.5	148	1.2	-68.8
Foodstuffs and Fine Material Business	876	6.6	458	3.2	-47.7
Other Business	222	13.0	137	9.5	-38.3

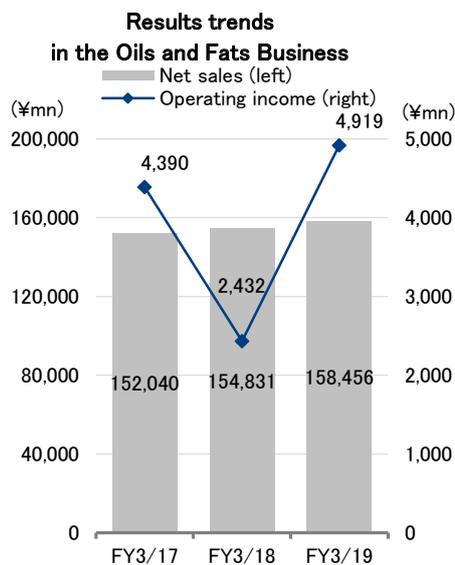
Source: Prepared by FISCO from the Company's financial results

**(1) Oils and Fats Business**

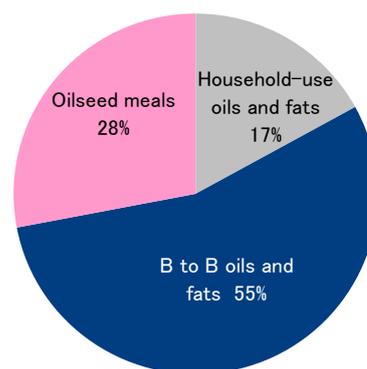
In the Oils and Fats Business environment, although the price of soybean, which is the main raw material, initially trended in a range of around US\$10 to US\$14 per bushel, subsequently it trended in a range of US\$8 to US\$9 per bushel due to expectations of a reduction in demand due to the observations of a good harvest in the United States and the US-China trade friction. The canola market price initially trended at around CA\$520 to CA\$540 per ton, but due to the favorable growth conditions in Canadian production areas, and the forecast of a reduction in exports due to deterioration of relations between China and Canada, it subsequently trended in a range of CA\$450 to CA\$510. In exchange rates, although the yen initially trended weakly due to the difference in interest rates in Japan and the United States and the strong US economy, there was also a phase where investors' risk aversion stance was heightened due to the global decline in share prices because the yen temporarily strengthened due to the US-China trade friction. So over the full fiscal year, the exchange rate was ¥109.9 to US\$1, and the yen strengthened 1.6% against the US dollar YoY.

Results trends

In the oils section, sales increased due to the strengthening of marketing of high value-added products and the enhancement of the profit structure. Due to efforts to maintain the sales prices of commodity products, such as canola oil, the sales volume was lower than in FY3/18. But sales grew for olive oils and new products due to the active advertising, sales promotion measures, and the expansion of the market, and sales of household-use oils and fats were higher than in FY3/18. Through customers' acceptance of solutions proposals using "Cho Cho Toku Toku" and "J-OILPRO" to improve aspects such as operations, the working environment, and delivery costs, the Company was able to maintain the shift in demand from commodity products and sales prices, and sales of B to B oils and fats were slightly higher than in FY3/18. In the oilseeds section, the production volume in Japan of mixed feed for the main customers was around the same level as in FY3/18, while the soybean meal market price on the Chicago Grain Exchange trended in a high range, as it was affected by the large decrease in production in Argentina. Although the soy meal sales volume fell below the level in FY3/18, sales prices rose. The canola meal sales volume was lower than in FY3/18, but sales prices were higher due to the rise in the price of soybean meal and the supply and demand conditions in Japan. Therefore, in the oilseeds section as a whole, sales were higher than in FY3/18.



Percentages of total net sales in the Oils and Fats Business

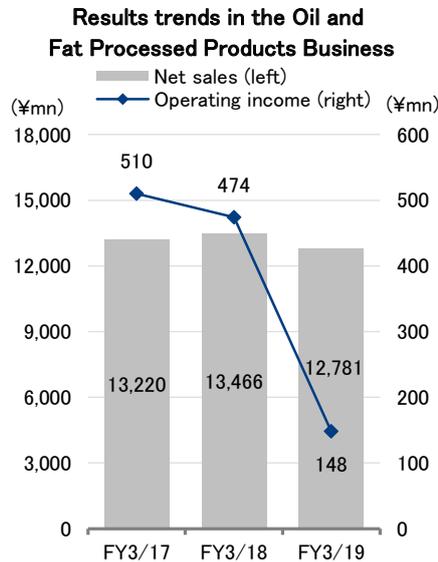


Source: Prepared by FISCO from the Company's results briefing material

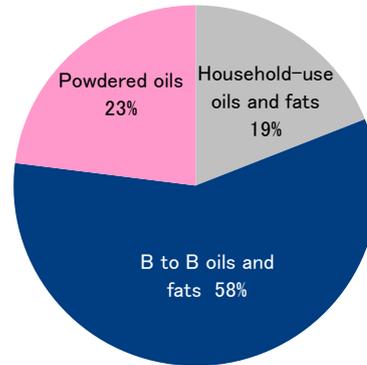
(2) Oil and Fat Processed Products Business

In the margarines section, sales volume increased due to a change to the packaging of the household-use, mainstay product "Rama Butter-Flavored Margarine", and the implementation of higher-volume sales, so net sales were higher than in FY3/18. In B to B-use products, the Company strengthened measures to increase sales of high value-added products, including proposing "Gran Master Primeran Pallets" and "Maple Pallets" to bakeries. However, the sales volume of commodity products declined, so net sales were down slightly compared to FY3/18.

Results trends



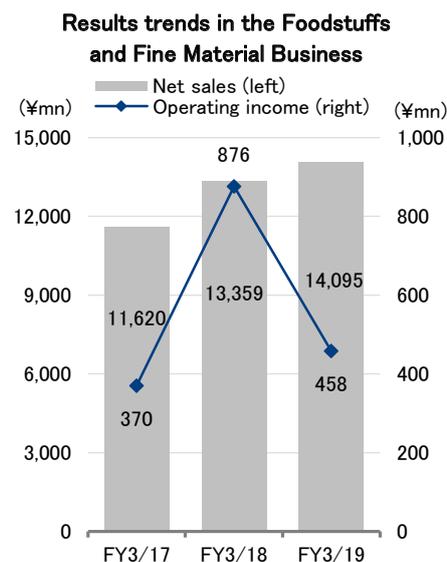
### Percentages of total net sales in the Oil and Fat Processed Products Business



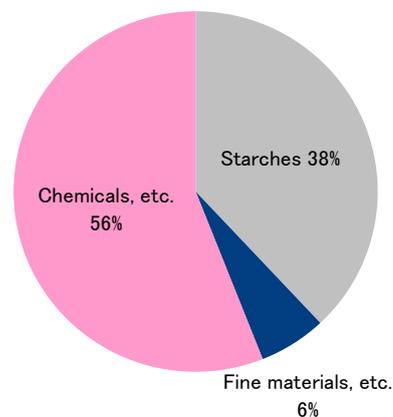
Source: Prepared by FISCO from the Company's results briefing material

### (3) Foodstuffs and Fine Material Business

In the starches section, net sales slightly increased from FY3/18, as the Company worked to increase sales of corn starches for food and industrial uses. In the fine materials section, sales were strong due to favorable exports of fine materials, while in the United States, the soy sheets sales area expanded and demand was also generated from their gluten-free appeal, so sales increased significantly compared to FY3/18. In the chemicals sections, results for the wood building materials market, which is a major customer, trended steadily, while the Company revised the prices of adhesives for wood building materials in response to the higher prices of raw materials following the rise in the price of oil, while also working to maintain the sales volume. As a result, net sales were higher than FY3/18.



### Percentages of total net sales in the Foodstuffs and Fine Material Business



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

## Forecast is for a double-digit increase in profits from revising prices and creating high value-added products

### 2. Outlook for FY3/20

For the FY3/20 results, the Company is forecasting net sales of ¥190,000mn (up 1.7% YoY), operating income of ¥6,500mn (up 14.8%), ordinary income of ¥6,900mn (up 9.1%), and profit attributable to owners of the parent of ¥5,400mn (up 13.7%). It intends to continue implementing the growth strategy and structural reforms set out in the basic policies in the 5th Medium-Term management Plan. In terms of net sales and the gross profit margin, it will revise prices alongside the rises in distribution and other social infrastructure costs and oil costs, further increase the lineup of high value-added products and improve the profitability of the Oil and Fat Processed Products Business and the Foodstuffs and Fine Material Business. Looking to the medium-term, it intends to actively invest in areas including high value-added products and the overseas business, and to continuously implement structural reforms, such as to reduce costs. In terms of the specific measures in FY3/20, it will strengthen sales of high value-added products and improve the profitability of commodity products by revising price for products in response to the increases in distribution costs, energy costs, and oils costs. For structural reforms, it will cover the higher costs by making the value chain as a whole more efficient and advanced, progress the optimization of production bases, and increase the efficiency of advertising costs. Therefore, it is forecasting a double-digit increase in operating income.

#### Outlook for FY3/20

	(¥mn, %)				
	FY3/19	% of net sales	FY3/20 E	% of net sales	% change
Net sales	186,778	100.0	190,000	100.0	1.7
Gross profit	34,819	18.6	-	-	-
SG&A expenses	29,155	15.6	-	-	-
Operating income	5,663	3.0	6,500	3.4	14.8
Ordinary income	6,326	3.4	6,900	3.6	9.1
Profit attributable to owners of the parent	4,749	2.5	5,400	2.8	13.7

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

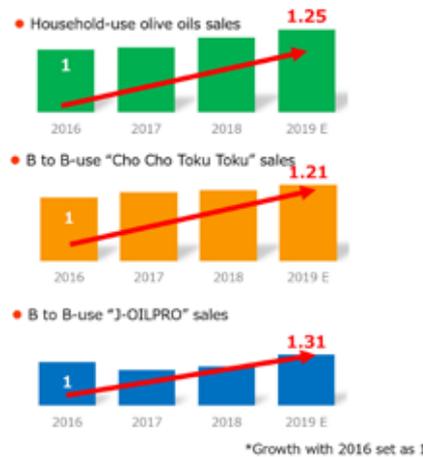
The priority measures in FY3/20 for each of the businesses are as follows; in the Oils and Fats Business, increase sales of high value-added products, strengthen the profitability of commodity products, and conduct structural reforms; in the Oil and Fat Processed Products Business, strengthen in the confectionary and baking ingredients field, expand the lineup of chilled household-use value-added products, increase sales of powdered oils, and investigate overseas business deployment; in the Foodstuffs and Fine Material Business, strengthen the ability to propose solutions, expand sales of soy sheets, and strengthen sales of chemicals. So the Company intends to develop measures in accordance with its basic policies (the growth strategy and structural reforms) for high value-added products, solutions, overseas business deployment, and structural reforms.

Results trends

**(1) A growth strategy of increasing sales of high value-added products**

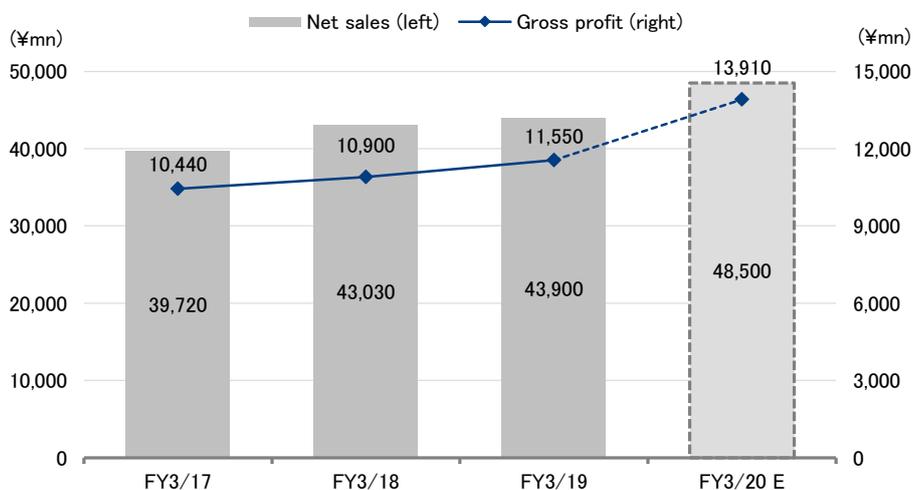
For household-use olive oils and the B to B-use “Cho Cho Toku Toku” and “J-OILPRO” series, FY3/20 will be the period to reap the benefits of the promotions implemented in FY3/19 and the Company intends to further strengthen the acquisition of sales and profits from high value-added products. For olive oils, the market is expanding due to consumers becoming more health conscious and the marketing strategies of various companies. In this situation, following the Company’s broadcasting of TV commercials in February 2019, the number of households purchasing its products grew 17% YoY, and it seems that subsequently also, their effects continued. In addition, through two-way communication with customers on the Company’s popular Twitter “# Choi Salt Olive feed”, applications have been expanded to snap peas and avocado. “The Cho Cho Toku Toku” and “J-OILPRO” series, which have reputations for being “slightly pricey, but highly functional and economical when used,” are continuing to be newly adopted by various ready-made meals and food services companies and food manufacturers, and they are maintaining their momentum. Therefore, the Company expects that in FY3/20, sales and profits from high value-added products will grow even more.

**Growth in sales of high value-added products**



Source: The Company’s business briefing materials

**Trends in high value-added products**



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

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Results trends

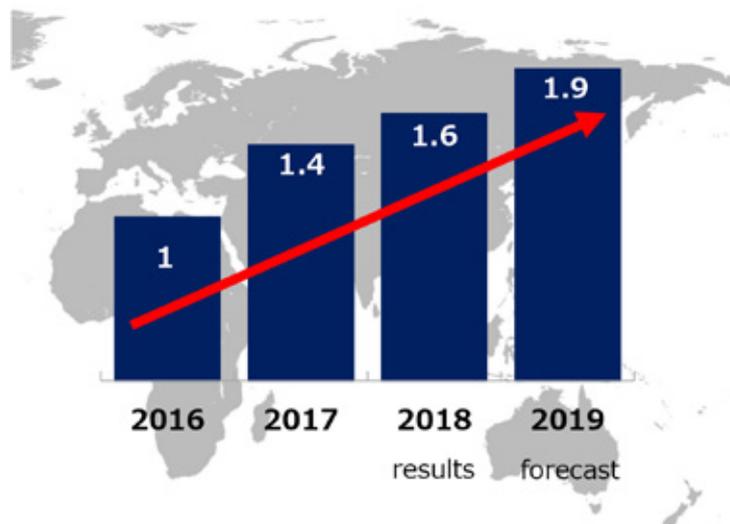
**(2) Accelerating the development of the solutions business**

The developments in the solutions business have become more varied, and sales and profits are steadily growing. “The Cho Cho Toku Toku” and the “J-OILPRO” series are both product solutions in themselves, but the Company is creating more in-depth solutions proposals and implementing PDCA toward solving customers’ problems. Due to the realization of total solutions for fryers and their surrounding environment and new sales activities utilizing the Cloud, in FY3/19 the number of proposals for high value-added starches increased by 3.8 times compared to FY3/17, and this development is linked to the increase in sales of functional oils and starches. In this sort of situation, the adoption of the Company’s existing, standard products has also increased, including the adoption for hamburger lunch boxes of “Neo Trust” provided by CVS, which absorbs water and oils to realize softness and juiciness, and the adoption for fried chicken lunch boxes of a long-life technology that combines the high-water-retaining starch “High Trust” and the oil “Bimi Toku Toku” to improve the richness of taste. It seems that the use of functional foods created using proprietary technologies for solutions for ready-made meals and food services companies and food manufacturers will continue to grow in the future.

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

In ASEAN, changes in the market environment—of the externalization of food, diversification, and improvements in quality due to the expansion of the middle class—are expected in the future. The Company is predicting that ASEAN will evolve into a market where it can utilize the strengths and expertise it has accumulated in Japan up until now. Therefore, it is aiming to realize “the creation of Oishisa (delicious tastes)” within the ASEAN region, with a focus on Thailand where its management resources are concentrated, through providing total solutions using oils and starches. It already has many examples of providing customers with solutions, such as improving the food texture of meat-related products, and improving the taste and flavors of frozen foods, and it is thought to be considering investment for business expansion toward 2030. Beyond 2030 as well, it would seem to have in its sights growth not only in ASEAN, but in the whole of Asia also.

Trends in JOT sales (local-currency basis: with 2016 set as 1)



Source: The Company’s business briefing materials

Results trends

#### (4) Continuous structural reforms

In the structural reforms up to the present time, the Company has worked to improve productivity, including by making the value chain more efficient and advanced through collaborating with AJINOMOTO, selling idle assets, and constructing new plants; improving the profitability of the Oil and Fat Processed Products Business and the Foodstuffs and Fine Material Business; withdrawing from unprofitable businesses and areas; and improving efficiency through selection and concentration for each business and product, such as by reducing SKU. Toward FY2030, it is considered that it intends to further advance structural reforms across the entire Company. Specifically, it will increase productivity by optimizing operations from a Company-wide perspective and improving the efficiency of all Company assets, and concentrate investment in growth areas toward building a business structure that is less susceptible to changes in the external environment.

#### (5) Strengthening the management foundation

In order to solidify the management foundation, it is necessary to establish an internal system that can realize contributions to all stakeholders. Up to the present time, the Company has strengthened ESG, governance, and the financial strategy, and from FY3/20 onwards it intends to work on many other themes, including effectively using opinions from outside of the Company, improving the effectiveness of the committees and the Board of Directors, and rebuilding the core system. In addition to these measures to “strengthen our management base,” it has defined three other materialities\*: “creating diverse value from oils and food,” “contributing to society and the Earth,” and “building an organization that combines enhanced individuality with growth.” It intends to continue to evolve its corporate governance and the development of human resources, and to continuously realize the growth of the Company and contributions to stakeholders.

\* Materiality: an issue that is recognized to be important for a company.

#### FY3/20 results outlook by segment

(¥mn, %)					
Net sales	FY3/19	% of net sales	FY3/20 E	% of net sales	% change
Oils and Fats Business	158,456	84.8	160,000	84.2	1.0
Oil and Fat Processed Products Business	12,781	6.8	13,400	7.1	4.8
Foodstuffs and Fine Material Business	14,095	7.5	15,300	8.1	8.5
Other Business	1,445	0.8	1,300	0.7	-10.0

Segment income	FY3/19	Margin	FY3/20 E	Margin	% change
Oils and Fats Business	4,919	3.1	5,300	3.3	7.7
Oil and Fat Processed Products Business	148	1.2	300	2.2	102.6
Foodstuffs and Fine Material Business	458	3.2	700	4.6	52.7
Other Business	137	9.5	200	15.4	46.0

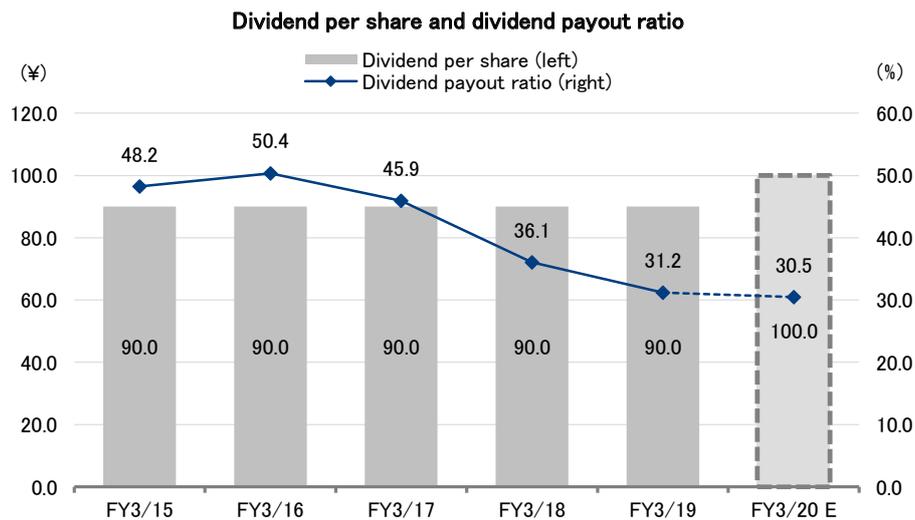
Source: Prepared by FISCO from the Company's results briefing material

## Shareholder returns

**For FY3/20, is forecasting an annual dividend of ¥100 per share**

### 1. Dividend policy

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 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 FY3/20, it plans to pay a dividend per share of ¥100 (interim dividend, ¥50), up ¥10 per share from FY3/19. 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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■ For inquiry, please contact: ■

FISCO Ltd.

5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (Financial information Dept.)

Email: [support@fisco.co.jp](mailto:support@fisco.co.jp)