COMPANY RESEARCH AND ANALYSIS REPORT

# J-OIL MILLS, Inc.

## 2613

Tokyo Stock Exchange First Section

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# Index



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# Summary

## Progressing both the growth strategy and the structural reforms

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 develops business strategy utilizing these strengths and synergies.

The core of the business strategy is the growth strategy and the structural reforms, but in the 5th Period Medium-Term Management Plan (FY2017 to FY2020), the Company particularly focuses on the growth strategy. In Japan, where it is difficult to expect an increase in sales volume due to the declining population and other factors, as the most important measures, it is working to expand the provision of high value-added oils, fats, and other products, and strengthen the solutions business in the B to B market. For household use, it is promoting olive oil, premium oil, and other products with increasing demand while for B to B use, it is focusing on increasing sales of solutions products that eliminate problems in the kitchen, such as the long-lasting oil "Cho Cho Toku Toku®" and the "J-OILPRO® Seasoning Oil for the Professional Cook." In such ways, based on the provision of high value-added products and solutions, the Company is aiming to evolve to become an "Oishisa design company" that creates delicious tastes through researching "oils."

On the other hand, the Company is also progressing structural reforms. Specifically, it plans to sell the Sakaide Logistics Center, which owns grain silos, fixed-temperature warehouses, and ordinary warehouses, and conducts a warehouse business and a real estate business. It also intends to externally outsource the production of mixed feed, which has been conducted by the Shizuka office, to suppliers in areas close to customers. It seems that the trigger for this was to improve logistics efficiency, which is a national issue, in addition to improving investment efficiency as it is in an equipment industry. Moreover, against the backdrop of issues like the declining population in Japan and TPP, the Company must respond to the intensification of international competition, so it has entered-into discussions for a business alliance with The Nisshin OilliO Group, Ltd. <2602>, which is said to be its greatest rival. The situation is that the external environments of the two companies in Japan are similar, so it seems that they have similar needs. They are expected to hold discussions on various aspects, but particularly on improving work efficiency in the oil-extractions process, at the same time as maintaining their uniqueness and a sound competitive environment. However, it is thought that they are not considering a capital alliance.

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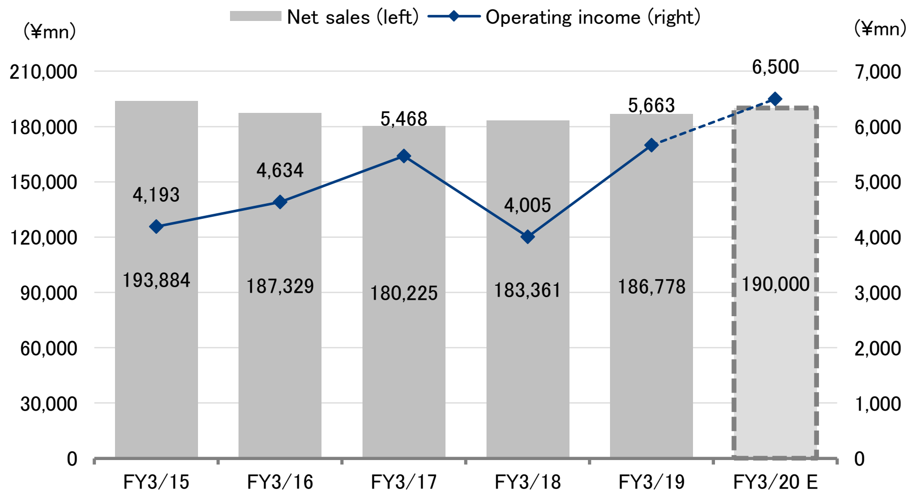
In the FY3/20 1H results, net sales were ¥90,520mn (down 3.0% year-on-year (YoY)) and operating income was ¥4,184mn (up 28.3%). Market prices, including of oil-extraction raw materials and meal, trended at low levels, and in this situation the Company worked to increase sales of high value-added products, and operating income grew by double digits even as sales declined. Compared to the initial Company forecasts, net sales were ¥3,480mn below forecast, but operating income was ¥884mn above forecast. For the FY3/20 results outlook, the Company is forecasting net sales of ¥190,000mn (up 1.7% YoY) and operating income of ¥6,500mn (up 14.8%). It has left unchanged the FY3/20 full year results forecasts, but on breaking down operating income by segment, it has upwardly revised the forecast for the Oils and Fats Business due to the improved profitability of oils and fats, while it has downwardly revised the forecast for the Oil and Fat Processed Products Business because of the recording of costs relating to overseas business alliances. Conditions have become somewhat severe to achieve the net sales forecast, but the impression is that there is room to achieve the profits forecasts.

### Key Points

- A major domestic edible oils manufacturer that is leveraging the strengths of the three merger companies
- Progressing both the growth strategy and structural reforms and has started discussions with the Nisshin OilliO Group on a business alliance
- Operating income is forecast to increase by double digits in FY3/20

Results trends




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

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# Company overview

## Creating new 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 company in the Ajinomoto Co., Inc.<2802> Group, but one of its major strengths is that it has expertise and technologies that were cultivated over the long histories of the three respective companies, each which had different origins. Currently, based on this expertise and technologies, the Company has formulated the 5th Period Medium-Term Management Plan and is progressing the growth strategy and the structural reforms. While on the one hand it is improving efficiency, such as for production and logistics, it also intends to create new high value-added products and develop the overseas business, for which it has lagged behind, by “Designing Oishisa” over the future.

### 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. 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.

The 1990s and the 2000s were a period in which retail and trading companies increased in size, and responding to this, the Nisshin OilliO Group was also 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 oils and fats manufacturers. After the merger, the Company worked on a variety of cost reductions, from branding through to the procurement of raw materials, by restructuring the businesses other than the oils business and rebuilding the business foundation. As its growth strategy, in 2007 Honen Lever Co., Ltd., was made a wholly-owned subsidiary with the aim of strengthening confectionary and baking ingredients products, such as margarine, and it entered-into business alliance agreement with Fuji Oil Co, Ltd. (a subsidiary of the FUJI OIL HOLDINGS INC. <2607>), including to strengthen the production of B to B-use products and the procurement of raw materials. The Company had lagged behind in overseas business development, but in 2014 it established J-OIL MILLS (THAILAND) Co., Ltd., a joint venture with Toyota Tsusho <8015> and MHCB Consulting (Thailand) Co., Ltd., in Thailand. Currently, it has formulated the 5th Period Medium-Term Management Plan and is actively progressing the growth strategy.

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### History

| Date | Date |
|---|---|
| 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.<br>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<br>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. |
| October 2019 | Concluded a business and capital alliance with an oils and fats processed products company in Malaysia |
| October 2019 | Started discussions with the Nisshin OilliO Group on a business alliance in the upstream area |

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

# Business overview

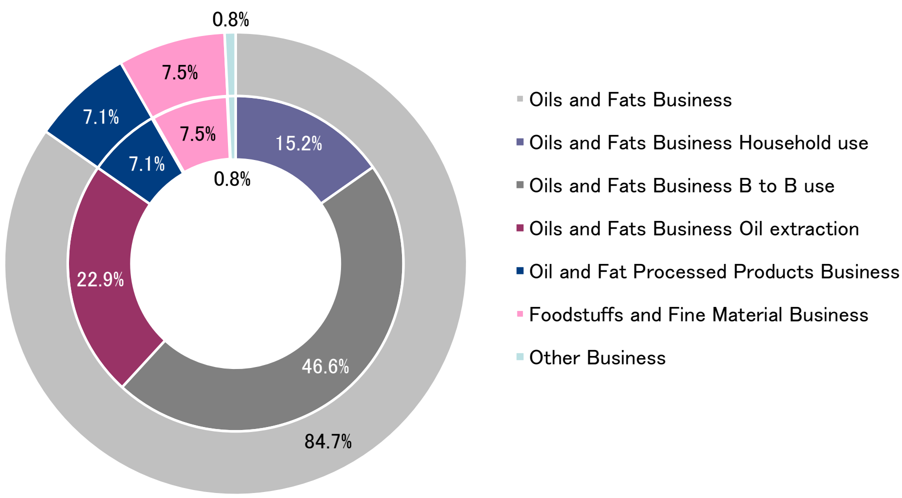
## Developing products that utilize proprietary technologies

### 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 continues being flat. 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, while 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. In such an environment, the Company, based on its expertise and technologies that were cultivated in each of the three merged companies, aims to improve 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 for FY3/20 1H, the Oils and Fats Business provided 84.7%, the Oil and Fat Processed Products Business 7.1%, the Foodstuffs and Fine Material Business 7.5%, and the Other Business 0.8%*.

* 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 (FY3/20 1H)




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

## Progressing the provision of high value-added products both for household use and B to B use

### 2. Oils and Fats Business

The Oils and Fats Business offers a wide range of products, from basic oils like salad oil and canola oil, to high value-added oils that can be utilized in a variety of areas, including for cooking, seasoning, and health. The Company provides this wide product lineup because it aims to contribute to consumers and customer companies on the three axes of "enabling oil to be used in an ideal condition," "realizing appealing tastes through oil," and "realizing health through oil." Under the famous AJINOMOTO brand of household-use oils and fats, it offers a wide range of products that help consumers make delicious food and be healthy, including "AJINOMOTO® Olive Oil," the leading brand in the Japanese olive oil market, "AJINOMOTO® Karaage Day Oil®," which can be used for frying like at a restaurant or other such dedicated frying establishment, and "AJINOMOTO® Health Sarara®" which are foods for specified health issues. In B to B-use 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. It is also expanding the product lineup of the "J-OILPRO® Seasoning Oil for the Professional Cook" series, including the "J-OILPRO® Seasoning Grill Oils for the Professional Cook", for which it has strengthened the aroma and taste for meat menus, and the "J-OILPRO® Premium Butter-flavored Oils," which have milky and rich aromas and flavors. In oilseeds, it is utilizing extracted oil (meal) that contains a lot of high-quality protein, like soybean and rapeseed, as the raw material for mixed feed and other products, Since B to B-use oils and fats provided 55% of total net sales in the Oils and Fats Business, it would seem a feature of the Company is its strength in B to B use.

**Typical products handled**
**(from the left, household-use olive oils, household-use flavoring oils, B to B-use oils and fats)**

Source: The Company's website

## Proposes solutions to customers' problems by developing products that utilize functions

### 3. The Oil and Fat Processed Products Business and the Foodstuffs and Fine Material Business

In the Oil and Fat Processed Products Business, the Company handles products including margarine, shortening, and powdered oils and fats. It proposes solutions to customers' problems through products that utilize the various functions of solid and powdered oils and fats. In household use, the "Rama®" brand of products have had excellent reputations for a long time. In B to B-use margarines, it is strengthening solutions to solve problems at manufacturing sites in the field of confectionary and baking ingredients, and it is using its proprietary flavoring technologies to develop series including the "Meister" series, which realizes butter flavors, and the butter compound margarine "Gran Master®" series. The Foodstuffs and Fine Material Business is a business that focuses on the effects of meal and trace constitutes extracted from raw materials. The starches are processed starches derived from corn and tapioca that are subject to proprietary high-performance processing. They are used in a variety of processed foods to improve texture, such as to give a juicy texture. The Company also develops and sell food materials, such as vitamin K2 and isoflavones, and products like synthetic resins and paints, including those used for residential buildings and furniture.

**Household use margarine "Rama®" (left), B to B-use margarine (center), starches (right)**


Source: The Company's website

## Leveraging the strengths of the three merger companies

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

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. Leveraging the strengths of these three companies has led to synergies, including the coverage of a wide range of food areas from combining the sales channels of the three companies, the sales force of the Ajinomoto Group, the development capabilities for B to B-use products, the ability to utilize B to B-use expertise to develop products for household use, and if necessary, the flexibility to use the materials and products of other companies. These synergies are in turn leading to the creation of high value-added products. For a while after the merger, management focused on improving efficiency, but it has now started to synergistically leverage these strengths by combining the individual strengths of the three companies. As a result, in addition to the provision of high value-added products, its ability to provide solutions for cooking and in cooking venues, such as for flavors and tasks, has also improved.

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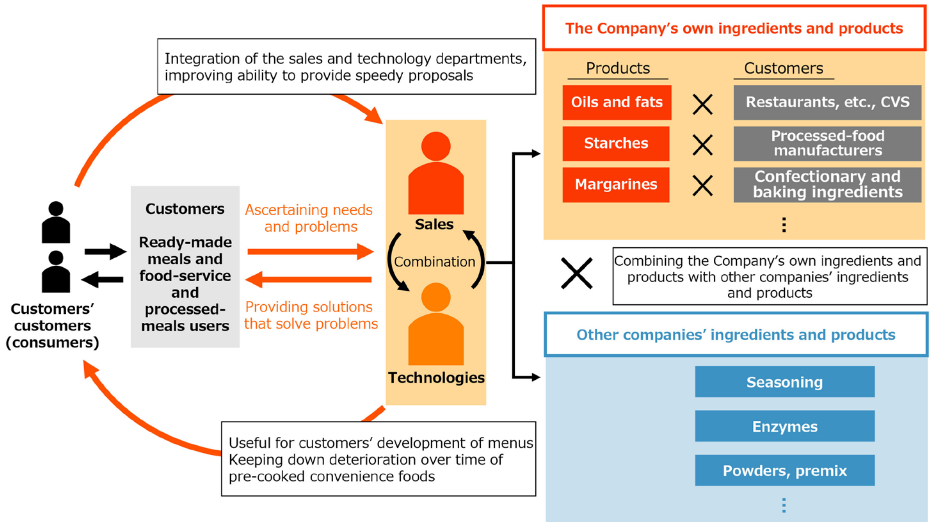
Solutions that leverage strengths




Source: The Company's business briefing materials for the 5th Period Medium-Term Management Plan

# Medium-term management plan

## Aiming to evolve into a “Oishisa design company”

### 1. The 5th Period Medium-Term Management Plan, “Mastering Oil, Creating Happiness 2020”

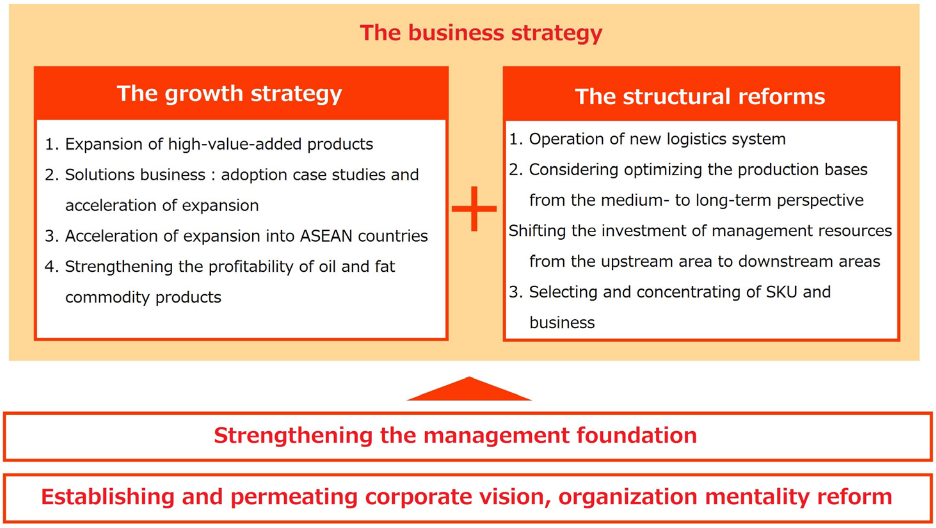
The 5th Medium-Term Management Plan, which started in FY2017 (until FY2020) places the focus on growth potential, and its aims are to provide high value-added in Japan, where it is difficult to expect an increase in sales volume due to a declining birthrate, and for overseas, where growth can be expected, 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 around 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. Based on these efforts, the Company has set the theme in the 5th Period Medium-Term Management Plan as “Mastering Oil, Creating Happiness 2020.”

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

### 2. The growth strategy and structural reforms

Based on these basic policies, the Company formulated a business strategy for FY2019 to FY2020. This business strategy is composed of the growth strategy and the structural reforms that target the various social problems, such as the declining birthrate and aging population, and the respective problems of its customers. In the growth strategy, the Company is aiming to create high value-added products not only for oils and fats, 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 market, to accelerate business development to ASEAN countries, and to bolster the profitability of oil and fat commodity 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. Through the growth strategy and the structural reforms, for FY3/21 the Company is targeting 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%. Net sales are likely to 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 providing high value-added products.

**The business strategy is composed of the growth strategy and the structural reforms**




Source: The Company's financial results summary materials

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## Progressing business development in Asia

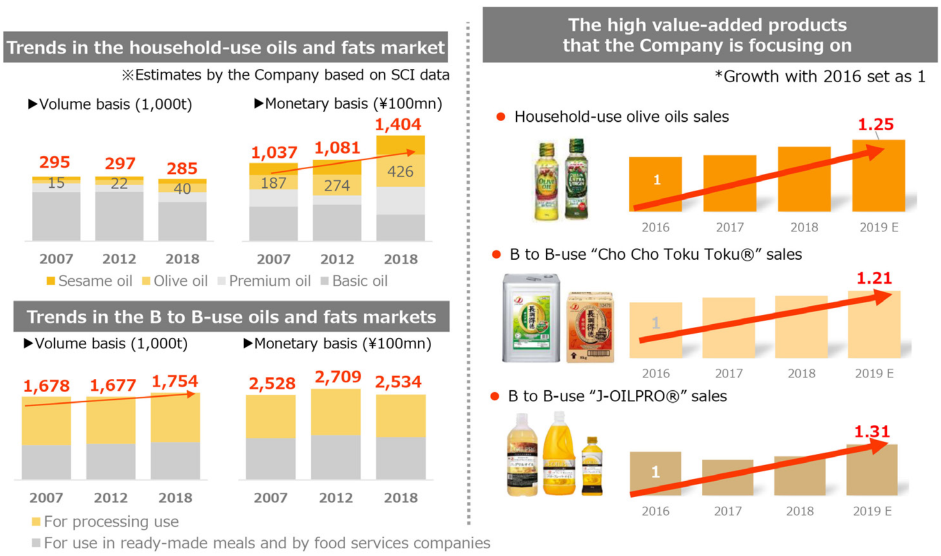
### 3. Progress made for the growth strategy

The measures being progressed in each business in FY3/20 are in accordance with the growth strategy and the structural reforms in the Company's business strategy. In the Oils and Fats Business, it is expanding high-value-added products, strengthening the profitability of commodity products and conducting the structural reforms. In the Oil and Fat Processed Products Business, it is strengthening in the field of confectionary and baking ingredients, enhancing the lineup of household-use chilled valued-added products, expanding the lineup of powdered oils and fats, and developing the overseas business. In the Foodstuffs and Fine Material Business, it is strengthening its ability to propose solutions, increasing sales of soy sheets, and strengthening chemical products. Among these measures, it has positioned expanding the lineup of high value-added products as the most important measure.

#### (1) Expansion of high-value-added products

In the markets for household-use, high value-added products, such as olive oil, are growing due to consumers becoming more health conscious and the marketing strategies of various companies. The Company is also strengthening its efforts to capture this demand through two-way communication with customers on the Company's popular Twitter "# Choi Salt Olive" feed and by broadcasting TV commercials. It has newly added "AJINOMOTO® Karaage Day Oil®" to the lineup, and in addition, in FY3/20, it has started to reap the benefits for sales and profits of the promotion of this product. In the market for B to B-use, high value-added products is trending basically unchanged YoY, but the Company's "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. In FY3/20 1H, they steadily permeated their respective markets, although the progress made for the full fiscal year targets was slightly behind schedule. Therefore, the Company intends to recover this delay in the year-end sales season and from spring demand.

Progressing "expansion of high-value-added products," which is a priority measure

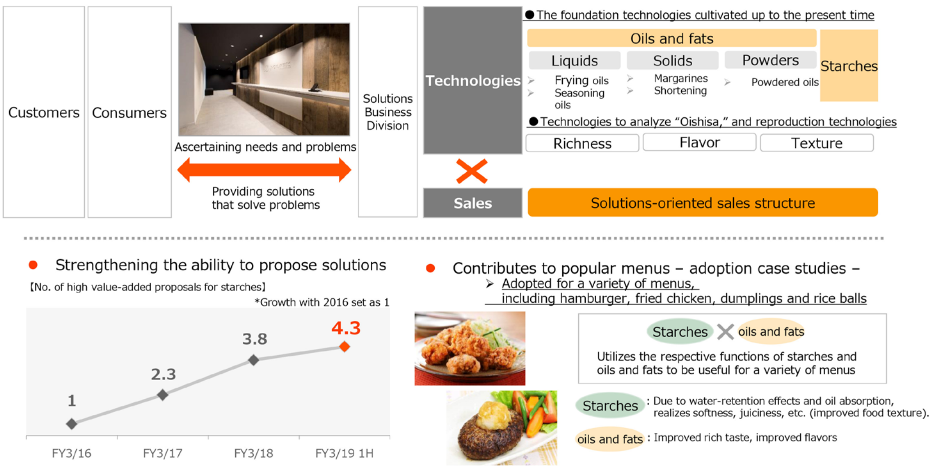



Source: The Company's financial results summary materials

### (2) Solutions business

The "Cho Cho Toku Toku®" and "J-OILPRO®" series are themselves solutions products, in that they reduce work and save energy. In particular, solutions using starches are growing. In the background to this is the increase in the number of proposals using high value-added starches through the development of variations over a wide range, including for hamburger, fried chicken, dumplings, and rice balls. The Company is accumulating a track record for these products, including the adoption for hamburger box lunches of "Neo Trust®," 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" that improves the richness of taste. By proposing products tailored to needs, like "Cho Cho Toku Toku®," at the same time as it revises prices, the Company manages to provide solutions to its customer's problems and to increase its corporate value at the same time.

Solutions business




Source: The Company's financial results summary materials

### (3) Acceleration of expansion into Asia

Recently, the Company concluded an agreement (closing is scheduled for late November 2019), with Premium Nutrients Pte. Ltd. (PNPL), which is under the umbrella of Goodhope Asia Holdings Pte. Ltd., an oils and fats processed products manufacturer in Singapore. The plan is for J-OIL MILLS to underwrite a capital increase from a third-party allocation of shares of Premium Fats Sdn Bhd (PF) and Premium Vegetable Oils Sdn Bhd (PVO), which are under the umbrella of PNPL, and for PF to become the Company's consolidated subsidiary and PVO to become its equity-method affiliate. PNPL is Goodhope's oils and fats division, and PVO, which manufactures and sells oils and fats products, supplies raw materials to PF, which manufactures and sells margarine and shortening. The plan is for PNPL to be responsible for the supply and production of raw materials and to conduct sales, and for J-OIL MILLS to develop new products and to conduct sales to Japanese customers. Other than this, in Asia, the joint venture company in Thailand, J-OILMILLS (THAILAND) Co., Ltd., (JOT) sells food-processing starches. JOT is growing steadily nearly doubling net sales in three years. It seems that by adding JOT in Thailand to the two companies in Malaysia, in the future the Company will target the ASEAN confectionary and baking ingredients markets and increase sales of high value-added oils and fats processed products. So it can be said to be steadily developing its business in Asia also.

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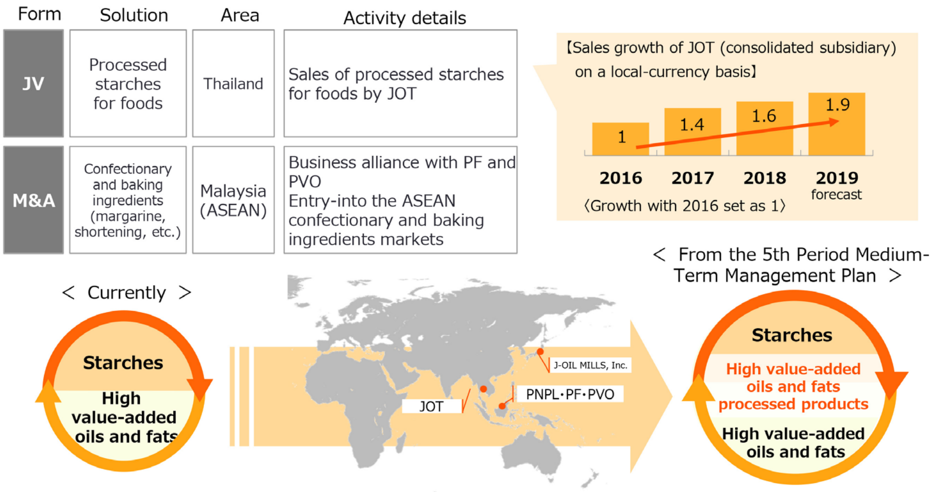
Future prospects for the Asia business




Source: The Company's financial results summary materials

## Making major progress for the structural reforms

### 4. Progress for the structural reforms

#### (1) Sale of the Sakaide Logistics Center

The Company has decided to sell the Sakaide Logistics Center (Kagawa) and Sakaide Yutaka Services Co., Ltd., which is the wholly-owned subsidiary in charge of the operations of this office. Sakaide Logistics Center owns real estate, including grain silos, fixed-temperature warehouses, and ordinary warehouses, and it conducts a warehouse business and a real estate business. From the viewpoint of the structural reforms, the business will be transferred, and the management resources reassigned to growth fields, including to overseas. In other words, it can be said to be for the efficient management of assets. The schedule date of the final transfer is December 25, 2019, so the gain on transfer of ¥1,300mn (transfer price, ¥2,000mn) is expected to be recorded in extraordinary profit in FY3/20 2H.

#### (2) Reconstruction of the mixed feed business

The Company will sequentially transfer to external parties the production of mixed fixed, which has been conducted by the Shizuka office, with the aim of completing this by the end of September 2020. The Shizuka office has produced and shipped various kinds of mixed-feed products around northern Kanto and Tohoku. But in the future, the Company intends to outsource production to external producers in areas close to customers. On the one hand, it is aiming to improve the efficiency of logistics costs that are rising considerably alongside the need to respond rapidly to customers' requests, while on the other hand, this decision is also the result of considering the burden of capital investment (capital efficiency) in the future.

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### (3) Business alliance with Nisshin OilliO Group

The population in Japan is expected to decrease due to the declining birthrate and aging population. So in the long term, demand for oils and fats in Japan is also forecast to fall. In addition, the global competitive environment is changing, including due to the development of trade agreements like TPP and the intensification of competition to secure food resources. The Company must fulfil its corporate responsibility in Japan, of stabilizing the supply, but also strive to maintain and improve its international competitiveness so that it does not lose out in the competition with imported products. The Nisshin OilliO Group finds itself in the same situation, so both companies have started discussions on a business collaboration, particularly in the upstream area up to the oil-extraction process, while also maintaining their uniqueness and soundness. They are aiming to conclude a basic business alliance agreement by the end of March 2020. In terms of the scope of this business alliance, it will have four elements; 1) outsourcing that utilizes the oil-extraction facilities of both companies, 2) the joint assignment of vessels in order to ship extracted-oils varieties and the raw materials of oils and fats, 3) equivalent-price exchanges between plants for raw oils and meal, and 4) building a structure for cooperation in the event of supply problems. Even if it is only a partial one, this alliance has attracted attention since Nisshin OilliO the Company's biggest rival, but it seems they are not considering a capital alliance. It would seem that an active approach to competition is needed so as not to become like the electrical machinery industry in Japan, which has fallen behind in international competition because consolidation and specialization were not progressed domestically, but it would also some necessary to keep a close watch on a company that is a rival.

## Contribution to the environment and to society

### 5. Measures for ESG management

To fulfill its societal mission as a company, the Company is working on ESG*[1] management which has also become a valuable management policy from the viewpoint of SDGs*[2]

*[1] ESG: Environment, Social, Governance. These three viewpoints are said to be necessary for a company's long-term growth.
*[2] SDGs: Sustainable Development Goals. These are the 17 goals set by the United Nations to be achieved by 2030 in order to sustainably realize a diverse and inclusive society in which "Not a single person gets left behind."

### (1) Deepening the value of "Cho Cho Toku Toku®"

By deepening the value of "Cho Cho Toku Toku®," which is a B to B-use long-lasting oil, the Company is aiming to help solve various social problems and also the problems facing customers. The environmental value of "Cho Cho Toku Toku®" is that it reduces the amount of grain used as a long-lasting oil, that it reduces $CO^2$ emissions through keeping them down in the supply chain, from raw materials through to sales, and also that it reduces the amount of oil waste after it is used. Its societal value is that, by reducing the number of times the oil is changed, it helps respond to labor shortages at cooking sites, while it can also improve the environment at cooking sites by suppressing odors. From the viewpoint of SDGs, it contributes to "Ensure sustainable consumption and production patterns" and "Protect, restore and promote sustainable use of terrestrial ecosystems."

**(2) Measures for the environment and human resources**

For the environment, as a measure to reduce the volume of plastic used, the Company has adopted vegetable plastic derived from sugar cane for packaging "AJINOMOTO® Karaage Day Oil®" and acquired the Ecomark. Also, it is using biodegradable plastic for the cap seals of some products, and it has established the Packaging Committee and formulated the Guidelines for Containers and Packaging. For the SDGs, these efforts target "Ensure sustainable consumption and production patterns" and "Protect, restore and promote sustainable use of terrestrial ecosystems." For human resources, it has been highly evaluated for the number of working hours and the percentage of employees in managerial positions, and it has acquired the Eruboshi (second stage) certification in the Act on Promotion of Women's Participation and Advancement in the Workplace. Going forward, its policy is to reform awareness toward superiors and work on measures including expanding child support and the support network for male employees. For the SDGs, these measures correspond to "Achieve gender equality and empower all women and girls" and "Reduce inequality within and among countries."

**(3) The Izu Olive Future Project**

The Company has entered-into a business alliance with Tokyu Corporation <9005> and Izukyu Holdings Co., Ltd., and is participating in the Izu Olive Future Project, which aims to create a brand for olives produced in Izu and to stimulate the local area. Tokyu and Izukyu HD began the project in 2013 with the aims of developing olives as a specialty product of Izu, increasing the number of tourists, and regenerating farmland that has been abandoned due to the decline in the cultivation of tea and oranges. It is considered that the Company will utilize its technologies for the evaluation, storage and packing of olive oil, the knowledge it has acquired from the effective utilization of meal, and its expansive sales network to contribution to the creation of the Izu olive brand. In the future, the plan is to plant olives in the farmland near to the olive plantations managed by Tokyu and Izukyu HD, and for the three companies to jointly conduct cultivation management. For the SDGs, this project corresponds to "Ensure sustainable consumption and production patterns" and "Revitalize the global partnership for sustainable development."

# Results trends

## Succeeding in revising prices and strengthening sales of high value-added products

**1. FY3/20 1H results**

In the FY3/20 1H results, net sales were ¥90,520mn (down 3.0% YoY), operating income was ¥4,184mn (up 28.3%), ordinary income was ¥4,407mn (up 28.2%), and profit attributable to owners of the parent was ¥3,234mn (up 10.8%). The market prices of oil-extraction raw materials and meal trended at low levels, and in this situation, the Company worked to increase sales of high value-added products, and operating income increased by double digits even while sales decline. In extraordinary profit, it recorded insurance money received for the typhoon damage that occurred in the previous fiscal year, but it did not record deferred tax assets as it did in the same period in the previous fiscal year. Therefore, profit attributable to owners of the parent grew less than operating income and ordinary income. Net sales were ¥3,480mn below forecast due to the fall in the price of meal and other factors, but operating income, ordinary income, and profit attributable to owners of the parent were above forecast by ¥884mn, ¥907mn, and ¥534mn, respectively, due to factors including the fall of prices in the raw materials market and the improved profitability of oils and fats.

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FY3/20 1H results

(¥mn)

| | FY3/19 1H | | FY3/20 1H | | |
|---|---|---|---|---|---|
| | Results | % of net sales | Results | % of net sales | % change |
| Net sales | 93,340 | 100.0% | 90,520 | 100.0% | -3.0% |
| Gross profit | 17,348 | 18.6% | 18,524 | 20.5% | 6.8% |
| SG&A expenses | 14,086 | 15.1% | 14,339 | 15.8% | 1.8% |
| Operating income | 3,261 | 3.5% | 4,184 | 4.6% | 28.3% |
| Ordinary income | 3,438 | 3.7% | 4,407 | 4.9% | 28.2% |
| Profit attributable to owners of the parent | 2,919 | 3.1% | 3,234 | 3.6% | 10.8% |

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

In the results by segments, in the Oils and Fats Business, net sales were ¥76,656mn (down 3.2% YoY) and segment income was ¥3,654mn (up 34.1%). In the Oil and Fat Processed Products Business, net sales were ¥6,385mn (down 1.9%) and segment loss was ¥126mn (down ¥222mn). In the Foodstuffs and Fine Material Business, net sales were ¥6,788mn (down 1.9%) and segment income was ¥529mn (up 37.4%). In the Other Business, net sales were ¥691mn (down 6.6%) and segment income was ¥125mn (up 127.3%).

In terms of the Oils and Fats Business environment, the market price of soybean, which is the main raw material, fell against the backdrop of the forecast that global soybean demand would ease and the problem of US-China trade friction. Subsequently, the price fluctuated violently due to weather-related risk, but it recovered on the news of the resumption of US soybean contracts by China. The rapeseed market price developed heavily in the upper range due to the problem of Canada-China trade friction. In exchange rates, the strong yen progressed due to the prolonging of the US-China trade friction and the increased geopolitical risk in the Middle East. After that, the yen weakened on the resumption of US-China trade talks (the average during the period was a weak yen and strong dollar). In the oils and fats section, for both household use and B to B use, on the one hand the Company focused on price corrections against the backdrop of rising logistics costs and other infrastructure costs, while on the other hand it worked to increase sales of high value-added products. In household-use oils and fats, sales slumped for canola oil but grew for olive oil and sesame oil, and secured about the same level sales YoY. In B to B-use oils and fats, due to the acceleration of proposals of "Cho Cho Toku Toku®" and "J-OILPRO®" that meet customer needs, such as to improve the working environment, the sales volume of high value-added products steadily grew. In the oilseeds section, the production volume of mixed feed in Japan for the main customers increased slightly YoY, so the sales volume of soy meal increased. But sales prices trended in a low range, reflecting prices on the Chicago Grain Exchange. The sales volume of rapeseed meal increased slightly, although sale prices were lower alongside the decline in the price of soy meal. As a result, net sales in the oilseeds section decreased slightly YoY.

In the Oil and Fat Processed Products Business, in the margarine section, net sales increased slightly in household use due to the implementation of a consumer campaign for "Rama®" products from April to August 2019. In B to B use, the Company strengthened sales of high value-added products, but growth in the baking ingredients market was sluggish, so net sales decreased slightly. In the powdered oils and fats section, both the sales volume and net sales trended steadily due to the stabilization of outsourced production. However, costs were pushed up, including due to the spiking prices of raw materials, the rise in outsourcing processing fees, and costs relating to overseas business alliances.

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In the Foodstuffs and Fine Material Business, sales volume declined in the starches section because the Company worked to correct prices and to improve profitability for corn starches for both food applications and industrial applications. For food processing starch, the price of tapioca starch, which is the main raw material, remained high due to the strong Thai baht, but net sales increased slightly because of the revisions to sales prices. The adoption of the high value-added products of “Neo Trust®” and “Amycoat®” increased for ready-made meals as a food material to improve quality and texture. In the fine materials section, sales to overseas of functional materials were strong, while due to the positive efforts of local trading companies, new introductions of soy sheets increased, mainly in North America. As a result, net sales trended favorably. In the chemical products section, as the number of new housing starts was down YoY, conditions in the wooden materials construction industry, which is the main customer, were severe. The prices of raw materials, which fell in FY3/19, bottomed-out and stabilized, but logistics costs and personnel costs continued to rise. Therefore, the Company focused on revising prices of adhesives for wooden home construction materials, but both sales volume and net sales declined YoY. However, profits still increased, including due to the effects of the devaluations of inventory assets conducted in previous fiscal years.

**Results trends in FY3/20 1H by segment**

(¥mn)

| Net sales | FY3/19 1H | | FY3/20 1H | | |
|---|---|---|---|---|---|
| | Results | % of net sales | Results | % of net sales | % change |
| Oils and Fats Business | 79,173 | 84.8% | 76,656 | 84.7% | -3.2% |
| Oil and Fat Processed Products Business | 6,509 | 7.0% | 6,385 | 7.1% | -1.9% |
| Foodstuffs and Fine Material Business | 6,916 | 7.4% | 6,788 | 7.5% | -1.9% |
| Other Business | 740 | 0.8% | 691 | 0.8% | -6.6% |

| Segment income | FY3/19 1H | | FY3/20 1H | | |
|---|---|---|---|---|---|
| | Results | % of net sales | Results | % of net sales | % change |
| Oils and Fats Business | 2,724 | 3.4% | 3,654 | 4.8% | 34.1% |
| Oil and Fat Processed Products Business | 96 | 1.5% | -126 | -2.0% | -231.3% |
| Foodstuffs and Fine Material Business | 385 | 5.6% | 529 | 7.8% | 37.4% |
| Other Business | 55 | 7.4% | 125 | 18.1% | 127.3% |

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

## The full year operating income forecast may be exceeded

### 2. Outlook for FY3/20

For the FY3/20 results outlook, 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 will continue with the growth strategy and the structural reforms set out in the business strategy in the 5th Period Medium-Term Management Plan, while among them, it particularly intends to focus on the expansion of high-value-added products. In 1H, while it did not achieve the net sales forecast, it did exceed the profits forecasts, but despite this, it has left unchanged the FY3/20 full year results forecasts. However, it has revised the breakdown of the operating income forecast by segment. Specifically, it has upwardly revised the forecast for the Oils and Fats Business from ¥5,300mn to ¥5,900mn due to the improved profitability of oils and fats, while it has downwardly revised the forecast for the Oil and Fat Processed Products Business from profit of ¥300mn to a loss of ¥300mn, mainly because of the recording of costs relating to overseas business alliances. Conditions have become somewhat severe to achieve the net sales forecast, but the impression is that there is room to achieve the profits forecasts.

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### Outlook for FY3/20

(¥mn)

| | FY3/19 1H | | FY3/20 1H | | |
|---|---|---|---|---|---|
| | Results | % of net sales | Results | % 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

In the Oils and Fats Business, the Company will revise prices alongside the increases in logistics costs, fuel costs, and other infrastructure costs, and in oils and fats costs, while also further growing sales of high value-added products. At the same time, the Company aims to improve profitability in the Oil and Fat Processed Products Business and Foodstuffs and Fine Material Business. Particularly with a view to the medium term, its policy is to actively conduct measures, including investing in high value-added products, in the overseas business, and in other areas, and also controlling costs and continuously implementing the structural reforms. Specifically, as well as implementing the priority measure of increasing sales of high value-added products, it will continue with the policy of improving profitability by working to revise sales prices to reflect the increases in logistics costs and fuel costs. It is considered that it is targeting operating income of ¥6.5bn in FY3/20 and operating income of more than ¥8bn in FY3/21.

### FY3/20 results outlook by segment

(¥mn)

| Net sales | FY3/19 | | FY3/20 | | |
|---|---|---|---|---|---|
| | Results | % of net sales | Forecast | 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 1H | | FY3/20 1H | | |
|---|---|---|---|---|---|
| | Results | % of net sales | Forecast | Net sales | % change |
| Oils and Fats Business | 4,919 | 3.1% | 5,900 | 3.7% | 19.9% |
| Oil and Fat Processed Products Business | 148 | 1.2% | -300 | -2.2% | Recording of a loss |
| Foodstuffs and Fine Material Business | 458 | 3.2% | 700 | 4.6% | 52.8% |
| Other Business | 137 | 9.5% | 200 | 15.4% | 46.0% |

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

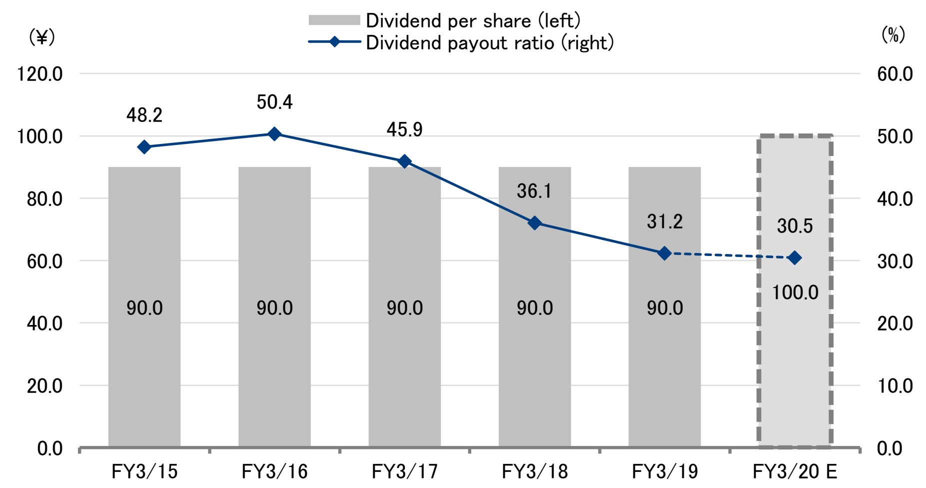
# Shareholder returns

## For FY3/20, plans a dividend of ¥100 and is aiming to maintain the dividend payout ratio at 30% or above

### 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 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.

Dividend per share and dividend payout ratio




Note: The Company conducted a 1-for-10 reverse stock split on October 1, 2016. The dividend per share has been retroactively adjusted.
Source: Prepared by FISCO from the Company's financial results

## Shareholders holding 100 shares or more receive a gift of a Company product

### 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.

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# 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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