

## Itoham Group Medium-term Management Plan (CNV2015)

creating  
new  
value **CNV 2015**

# 1. Review of Previous Medium-term Management Plan



## Performance

(Yen millions)

	FY2008		FY2009		FY2010		FY2011 (Est.)		FY2011 (Target)	
	Amount	vs. Sales	Amount	vs. Sales	Amount	vs. Sales	Amount	vs. Sales	Amount	vs. Sales
Net sales	517,950		487,128		452,453		454,000		550,000	
Operating income	6,107	1.2%	-2,465	(0.5)%	2,090	0.5%	2,700	0.6%	10,000	1.8%
Ordinary income	6,867	1.3%	-876	(0.2)%	3,290	0.7%	3,200	0.7%	11,000	2.0%
Net income	4,395	0.8%	-6,294	(1.3)%	1,292	0.3%	2,000	0.4%	5,500	1.0%

### Quantitative Highlights

- The Processed Foods Business was heavily impacted by fallout from the contaminated groundwater problem at the Tokyo Plant in FY2009 and sliding unit sales prices due to intensifying competition and consumer propensity for lower-priced products.
- The Fresh Meat Business was heavily impacted by market price drops
- As a result of lower sales, gross profit was -8.5 billion yen versus FY2008 and -15.0 billion yen versus Plan
- Itoham reduced SG&A expenses by a substantial 5.0 billion yen versus FY2008 and 7.5 billion yen versus Plan by reducing fixed expenses by divesting the pharmaceutical products business. Lower sales was another reason. Even so, this was insufficient to counter the fall in gross profit, and operating income declined 3.4 billion yen and 7.3 billion yen against FY2008 and Plan, respectively.

### Qualitative Highlights

#### Processed Foods Business

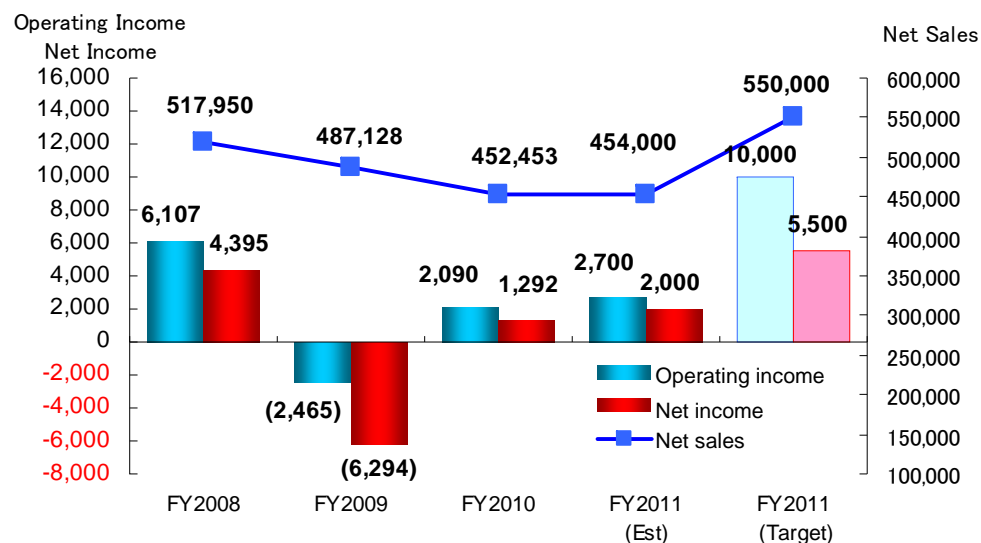
- Sales base restructuring and other initiatives have made steady progress.
- Construction of the new Kanto Plant was supposed to begin in 2010; and was supposed to come onstream in 2012. However, the groundwater contamination problem at the Tokyo Plant prevented successful completion of production base restructuring.

#### Fresh Meat Business

- Improving earnings in the Rockdale business was a major theme. However, this business was sold in the final year of the plan because we were unable to transform the business model sufficiently.

#### Overseas Business

- We established Itoham Betagro Foods Co., Ltd. in Thailand. We have also begun exporting to Japan and laid the foundation for developing markets in China and Southeast Asia going forward.



### Management Vision

**Become the most-trusted manufacturer of processed meat in Asia**

### Management Policy

- 1. Further strengthen compliance systems**
- 2. Develop human resources**
- 3. Enhance front-line capabilities, including sales and production**
- 4. Enhance marketing capabilities to encourage customer-oriented product development**
- 5. Strengthen cost competitiveness**

#### Management Policy—Main Points

##### Further strengthen compliance systems

- Continue to enhance compliance systems
- Strengthen management oversight of business execution
- Appoint outside director
- Continue focusing on social contribution activities

##### Develop human resources

- Establish systems to allow employees to try new jobs, job rotation and other programs
- Establish a Production Technology Center and transfer manufacturing techniques and knowledge to enhance skill levels

##### Enhance front-line capabilities, including sales and production

- Enhance and strengthen front-line capabilities for creating value

##### Enhance marketing capabilities to encourage customer-oriented product development

- Create new value
- Inject human resources into product development and marketing
- Strengthen product development and marketing capabilities for foodservice products

##### Strengthen cost competitiveness

- Create a lean business structure for more efficient and effective use of management resources.

### 3. Basic Strategy



#### Structural Reforms

Strengthen cost competitiveness with sweeping structural reforms



#### Growth Strategies

- ① Expand Japan market share (Ready-made meal and restaurant channels, fresh meat market)
- ② Make inroads in overseas markets (China, ASEAN)



#### Structural Reforms

##### 1. Group reorganization

Processed Foods

Fresh Meat

##### 2. Production base reorganization

Processed Foods

Fresh Meat

##### 3. Product lineup streamlining

Processed Foods

Fresh Meat

##### 4. Unprofitable business downsizing and withdrawal

Processed Foods

Fresh Meat

##### 5. Reduce costs via back-office reforms

Processed Foods

Fresh Meat

Indirect

##### 6. Personnel system reforms

Processed Foods

Fresh Meat

Indirect

#### Growth Strategies

##### 1. Raise profitability of national brand products

Processed Foods

##### 2. Create and expand a fresh meat value chain

— Increase production earnings

— Strengthen capabilities across the value chain

Fresh Meat

##### 3. Expand sales by meeting ready-to-eat meal and restaurant channel needs

Processed Foods

Fresh Meat

##### 4. Execute overseas business strategy

Processed Foods

Fresh Meat

## 4-1. Structural Reforms—Group Reorganization



**Group Reorganization**

Processed Foods

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Review the entire group from perspectives of efficiency, locality, and sales channel characteristics

### **Group Reorganization—Main Points**

Review the entire group from perspectives of efficiency, locality, and sales channel characteristics

## 4-2. Structural Reforms—Production Base Reorganization



### Production Base Reorganization

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Fresh Meat

Examine options for reorganizing and integrating the Group's 14 processed food plants and concentrating them into a final system of 6 production bases. These are to be located throughout Japan in Hokkaido, Tohoku, Kanto, Chubu, Kansai, Kyushu

- 1. Processed Foods and Other Products Division**  
Close Funabashi Plant
- 2. Processed Foods and Other Products Division**  
Examine options for building a system of 6 production bases throughout Japan
- 3. Fresh Meat Division**  
Scrap and build production bases and sales bases

### Production Base Reorganization—Main Points

#### Processed Foods and Other Products Division

##### Close Funabashi Plant

- Close Funabashi Plant at the end of July 2011 and downsize some unprofitable parts of the prepared foods business.

#### Processed Foods and Other Products Division

##### Examine options for building a system of 6 production bases throughout Japan

- Examine options for integrating and reorganizing production bases over the next 10 years with the goal of concentrating them into a system of 6 production bases by 2020.

#### Fresh Meat Division

##### Scrap and build production bases and sales bases

- Review scale and functions of the production and sales bases in the Fresh Meat Division and find ways to merge them.

### Product Lineup Streamlining

Processed Foods

Fresh Meat

#### Review low-profit products

- 1. Withdraw from low-profit products within processed foods line-up**
- 2. Stop handling products purchased from outside that make a combined loss**
- 3. Narrow down the product lines in the Processed Foods and Other Products Division from 4,000 items to 2,300**
- 4. Enhance primary meat processing functions**

#### Product Lineup Streamlining—Main Points

##### **In the processed foods business, withdraw from low-profit products within the processed foods line-up**

- Withdraw from low-profit products to raise profitability in the Processed Foods and Other Products Division

##### **Stop handling products purchased from outside that make a combined loss**

- Review products currently handled to raise profitability in the Processed Foods and Other Products Division

##### **Narrow down the product lines in the Processed Foods and Other Products Division from 4,000 items to 2,300**

- Narrow down product lines to improve productivity and distribution efficiency. Promote simplified ordering and order handling processes and raise productivity in production, distribution and sales

##### **Enhance primary meat processing functions**

- Enhance primary meat processing functions at Group companies and strengthen ability to develop products that stimulate customer demand

### Unprofitable Business Downsizing and Withdrawal

Processed Foods

Fresh Meat

Withdraw from or downsize unprofitable businesses, non-core businesses, and businesses with little synergy or growth potential

1. **Sell ROCKDALE BEEF PTY LTD. Business in Australia**
2. **Incorporate Mitsubishi Corporation Group into value chain to convert U.S. hog-raising business to piglet production**

### Unprofitable Business Downsizing and Withdrawal—Main Points

#### **Sell ROCKDALE BEEF PTY LTD. Business in Australia**

- Sale of ROCKDALE BEEF was completed in September 2010. Itoham has withdrawn from the livestock raising business in Australia.
- Going forward, adopt a business model of using imported beef for procurement sales, and expand trade free from the fluctuating effects of the local environmental changes on production profitability.

#### **Convert U.S. hog-raising business to piglet production**

- Incorporate Mitsubishi Corporation Group into the value chain to specialize the business model of the U.S. hog-raising business (Wyoming Premium Farms, LLC.) for piglet production
- Building a pork production system that allows traceability

### Reduce Costs Via Back-office Reforms

Processed Foods

Fresh Meat

Indirect

Reduce back-office costs and thoroughly review expenses

1. Improve distribution efficiency
2. Reduce advertising and promotional expenses
3. Integrate overlapping back-office functions in Head Office and business units
4. Centralize sales office administration in Fresh Meat Business
5. Rigorously reduce expenses that are manageable groupwide

### Reduce costs Via Back-office Reforms—Main Points

#### Improve distribution efficiency

- Unify distribution through initiatives with three-company alliance and Itoham's independent initiatives, eliminate and consolidate bases, and streamline operations.

#### Reduce advertising and promotional expense

- Improve cost-efficiency of advertising and promotional expenses by reviewing use of media and demonstrator sales

#### Integrate overlapping back-office functions in Head Office and business units

- Integrate overlapping back-office functions in Head Office and business units to reduce back-office costs across the Company.

#### Trim costs in Fresh Meat Business

- Concentrate Fresh Meat Division sales base operations to reduce costs.

#### Rigorously reduce expenses that are manageable groupwide

- Rigorously reduce expenses that are manageable groupwide.

### Personnel System Reforms

Processed Foods

Fresh Meat

Indirect

Reform the current personnel system, building it into a flexible system that links evaluation and remuneration with business format, duties, performance and regional characteristics. Also, work to transition to a lean management organization, and pursue greater management responsibility by adopting a compensation system that places stronger emphasis on results.

1. Introduce a system of mandatory retirement from managerial staff
2. Introduce a multi-track personnel system
3. Revise wage and evaluation system
4. Increase results-linked component of staff bonuses
5. Implement voluntary retirement system

### Personnel System Reforms—Main Points

#### Introduce a system of mandatory retirement from managerial staff

- Encourage promotion of younger staff to raise overall organizational productivity and energize the Company

#### Introduce a multi-track personnel system

- Introduce a multi-track personnel system to allow diverse individual approaches and work styles, enabling each staff member to select a working style to suit their envisaged career

#### Revise wage and evaluation system

- Transition from the current age/experience based approach to work/ability based evaluation to foster ambition to attempt higher goals

#### Increase results-linked component of staff bonuses

- Increase results-linked component and pay standard for results linked bonus to tie bonuses more strongly to business results.

#### Implement voluntary retirement system

- Implement voluntary retirement with favorable conditions for around 150 persons in view of anticipated changes in positions and places of employment following the closure of business sites and consolidation of bases under the current reforms

### Improving Profitability of National Brand Products

Processed Foods

Strengthen existing brands and introduce new products with high added value.

1. Strengthen marketing functions
2. Increase product development personnel

#### Increasing New Product Ratio - Main Points

**Strengthen marketing functions**

**Increase product development personnel**

- Increase personnel in marketing functions and product development to enhance ability to develop products with high added value

### Fresh Meat Value Chain Creation and Expansion

#### Fresh Meat

Advance the three-company business alliance and expand the livestock business to secure stable supply capability and expand sales. Review the location, scale and functions of fresh meat sales company bases. Inject human resources to reinforce capacity for direct sales to customers who are closer to consumers.

1. Increase production earnings
2. Strengthen capabilities across the value chain

### Fresh Meat Value Chain Creation and Expansion

#### Increase production earnings

- In domestic beef and pork expand production at Sankyo Meat in southern Kyushu. Keeping an eye on developments, proceed with production strategy by acquiring production site in Tohoku region to supply eastern Japan market.
- Envisage holding production bases to secure supply and increase production earnings for expanding domestic chicken market under three-company alliance.
- Expand production at U.S. Wyoming Premium Farms, LLC. and Indiana Packers Corp.

#### Strengthen capabilities across the value chain

- Review the location, scale and functions of fresh meat sales company bases. Inject human resources to reinforce capacity for direct sales to customers who are closer to consumers.
- Boost primary processing functions for fresh meat at IH Meat Solutions, Sankyo Meat and IH Meat Packers, and Toei to strengthen capacity for product development to match demand.
- Enhance business model of direct sales to ready-made meal, restaurant, and retail industries.

### Meeting Ready-To-Eat Meal and Restaurant Channel Needs

Processed Foods

Fresh Meat

Enhance organizational response capacity and product development capability to expand sales to ¥60 billion in 5 years

1. Restructure organization to correspond to sales channels
2. Boost head office business negotiation staff and product development personnel
3. Plan to restructure into independent organizations for each sales channel

### Meeting Ready-To-Eat Meal and Restaurant Channel Needs

**Restructure organization to correspond to sales channels  
Boost head office business negotiation staff and product development personnel**

- While reorganizing the company to correspond to sales channels, strengthen functions by boosting head office business negotiation staff and product development personnel

**In future restructure into independent organizations for each sales channel**

- First upgrade sales capabilities in the Processed Foods and Other Products Division and Fresh Meat Division, then in future separate the sales functions from both divisions and reorganize them into independent organizations corresponding to sales channels

### Overseas Strategy

Processed Foods

Fresh Meat

Aim to expand sales in fast-growing Asian markets with an eye on the future

1. Expand sales in fast-growing Asian markets
2. Expand production at overseas bases

### Overseas Strategy—Main Points

#### Expand sales in fast-growing Asian markets

- With Itoham Foods Trading (Shanghai) Co., Ltd playing a central role, Itoham will look to make inroads with the Itoham brand in the growing Chinese market as a Japanese manufacturer by launching outstanding high-value-added products.
- Itoham will also bolster its activities in the premium ham and sausage market in Thailand, a hub of the ASEAN countries, while strengthen its export business to Japan. Efforts will center on Itoham Betagro Foods Co., Ltd.

#### Expand production at overseas bases

- Business is expected to become increasingly global and borderless in nature due to FTAs, TPP and other developments. Itoham will therefore enhance its overseas bases to expand production for Japan, leveraging a low-cost workforce and raw materials to make it more resilient to change.

## 6. Numerical Targets



### Monetary Benefit (Ordinary Income)

Yen millions

Structural Reforms	11,000
Growth Strategies	4,300
Higher raw materials prices	△2,500
<b>Total</b>	<b>12,800</b>

### Numerical Targets

Yen millions

	FY2010		FY2016 (Targets)	
	Amount	vs. Sales	Amount	vs. Sales
Net Sales	452,453		530,000	
Operating Income	2,090	0.5%	15,000	2.8%
Ordinary Income	3,290	0.7%	16,000	3.0%
Net Income	1,292	0.3%	10,000	1.9%
ROE	1.1%		7.0%	

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