

FEED ONE CO., LTD.

2060

Tokyo Stock Exchange Prime Market

17-Feb.-2025

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Summary

The leading company in the feed industry. In 1H FY3/25, the Company posted operating profit that was 55% of the forecast for the full fiscal year

FEED ONE CO., LTD. <2060> (hereafter, also “the Company”) manufactures and sells compound feed, which is essential for the production of livestock and marine products such as meat, fish, eggs, and milk. In the animal feed market, the Company has a 15% market share, second only to the National Federation of Agricultural Cooperative Associations (“JA Zen-Noh”), and is the largest in the industry among private companies. The Company was established in 2015 through the merger of Kyodo Shiryo Co., Ltd. and Nippon Formula Feed Mfg. Co., Ltd., and FEED ONE HOLDINGS CO., LTD., which was established by the two companies in 2014. Kyodo Shiryo had strengths in pig feed and cattle feed, while Nippon Formula Feed Mfg. had strengths in poultry feed and aquatic feed, so by merging the two companies, the sales mix of compound feed became balanced, resulting in a well-balanced business portfolio.

The Company’s three business segments are the animal feed business, the aquatic feed business and the food business.

1. Overview of 1H FY3/25 results

In terms of results for 1H FY3/25, the Company posted a decrease in net sales of 5.3% year-on-year (“YoY”) to ¥148,298mn, an increase in operating profit of 18.0% to ¥3,355mn, an increase in ordinary profit of 20.0% to ¥3,805mn, and an increase in profit attributable to owners of parent of 55.4% to ¥3,092mn. Although sales decreased, each profit line increased steadily. In the mainstay animal feed business, sales decreased due to the average selling price of animal feed falling below the same period of the previous year. Net sales are significantly affected by quarterly animal feed sales price revisions, so they are not an indicator of performance (see below for details). Meanwhile, sales volume is increasing, indicating that the business is doing well. In terms of cost of sales, the price of raw materials declined due to a soft market price for corn and other products and as a result of the yen’s appreciation, which led to an increase in gross profit. Selling, general and administrative expenses (“SG&A expenses”) increased due to factors such as an increase in the burden of reserve funds for the compound feed price stabilization system (details described later) (an increase of ¥789mn), but due to an increase in gross profit, segment profit in the animal feed business achieved a significant increase of 34.5% to ¥4,941mn.

2. FY3/25 results outlook

In its FY3/25 consolidated results, the Company expects a decrease in net sales and declines at each profit level, while keeping its initial forecasts unchanged. It forecasts a 2.2% YoY decrease in net sales to ¥307,000mn, a 21.3% decrease in operating profit to ¥6,100mn, an 18.6% decrease in ordinary profit to ¥6,300mn, and an 11.5% decrease in profit attributable to owners of parent to ¥4,500mn. The progress rates for 1H relative to the full-year results forecasts are 48.3% for net sales (49.9% in 1H FY3/24), and 55.0% for operating profit (36.7% in 1H FY3/24). Progress for net sales is in line with the previous year, while progress for profit is above the previous year’s level.

Summary

3. Topics

In March 2024, the Company announced its long-term vision, which sets a course for the next 10 years. Over the last 10 years, the Company's main priority has been "the establishment of a business foundation through the integration of the two companies." During this decade, the Company grew to become a leading company in the feed industry. Without becoming complacent with this success, the Company has adopted the vision: "Committed to 'ONE,' striving to be the company of choice." The Company targets the following management indicators for FY3/34, 10 years from now: EBITDA of ¥16.0bn or more, ROE of 10% or more, ROIC of 8% or more, and a share of 20% or more of the animal feed market. Regarding the investment plan, the Company expects to invest around ¥60.0bn during the 6-year period from FY3/25 to FY3/30. The capital investment result for the previous medium-term management plan period averaged about ¥2.5bn per year. In contrast, the new investment plan calls for the Company to expand the amount of investment to an annual average of ¥10.0bn over the next 6 years. In the first 3 years (1st Stage), investments are expected to accelerate from the second half of this stage. The necessary funds will be generated primarily from operating cash flows. While maintaining financial discipline, the Company will also procure funds through interest-bearing debt. The Company is eager to enhance asset efficiency by optimizing its existing asset holdings.

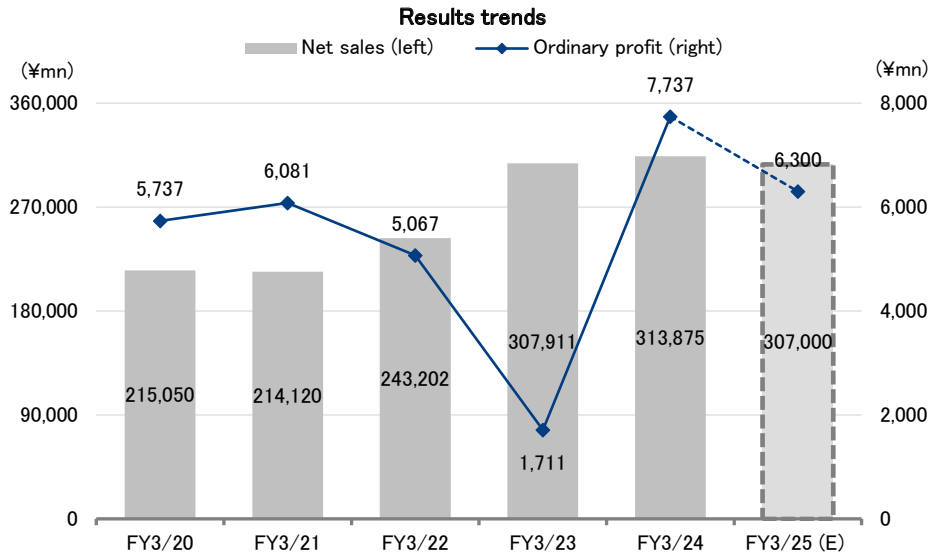
4. Shareholder returns policy

The Company's basic policy is to enhance internal reserves to strengthen the financial base, which is the foundation of its long-term development, and provide stable dividends. Under this policy, the Company is targeting a consolidated payout ratio of 25% or more. The Company plans to effectively use internal reserve funds as investment funds to maintain and increase its competitiveness in the future. Following its full integration in FY3/15, the Company has either maintained or increased its annual dividend every fiscal year. More recently in FY3/24, the annual dividend was ¥27.0 per share and the payout ratio was 20.3%. In FY3/25, the Company forecasts an annual dividend of ¥29.5 per share (comprising an interim dividend of ¥14.5 per share already paid, and a year-end dividend of ¥15.0 per share planned), and a payout ratio of 25.1%. The Company deserves recognition for providing stable dividends and steadily increasing them.

Key Points

- In the mainstay animal feed business, the Company has built strengths in all the functions of raw materials procurement, manufacture, development and sales. Has a market share of 15%
- Posted an increase in profit in 1H FY3/25, and operating profit in 1H was 55% of the full year forecast. The Company expects full-year operating profit of ¥6,100mn
- Striving for continuous strengthening of profitability and renewal and enhancement of production systems under the medium-term management plan. Planning for capital investment of ¥60.0bn over the next 6 years
- Continues to provide stable dividends. For FY3/25, the Company plans to pay a dividend of ¥29.5 (up ¥2.5 YoY), amounting to a payout ratio of 25.1%

Summary



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

Company overview

Has grown to become a leading company in the feed business in the 10 years since the management integration of two companies

1. Company overview and history

The Company is a company that manufactures and sells compound feed, which is essential in the production of livestock and marine products such as meat, fish, eggs, and milk. In the animal feed market, it has a 15% share, second only to JA Zen-Noh, and is the largest in the industry among private companies.

The Company was established in 2015 through the merger of Kyodo Shiryo, Nippon Formula Feed Mfg., and FEED ONE HOLDINGS, which was established by both companies in 2014. Kyodo Shiryo had strengths in pig feed and cattle feed, while Nippon Formula Feed Mfg. had strengths in poultry feed and aquatic feed, so the merger eliminated the bias in the sales mix of compound feed, resulting in a well-balanced business portfolio. The two companies, which had different corporate cultures, were able to carry out organizational changes and consolidations, and rebuild their business foundations in a short period of time largely because they shared a strong sense of urgency about the shrinking domestic livestock and fisheries market due to the TPP agreement and population decline. The Company opened the Kitakyushu Aquatic Feed Factory in 2017 and the Kitakyushu Animal Feed Factory in 2020, and made aggressive investments, solidifying its dominance in the industry through highly productive and efficient processes. The Company has factories and branches nationwide and has established supply systems for each area. The Company also focus on research and development, and is leading the technological development in the industry. As of the end of March 2024, the Company had 20 consolidated subsidiaries and 902 employees. Mitsui & Co., Ltd. <8031> is the largest shareholder, and the Company works closely with Mitsui & Co., Ltd., mainly on the procurement of raw materials for compound feed.

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Company overview

In 2024, the Company formulated its long-term vision and “Medium-Term Management Plan 2026 – 1st STAGE for NEXT 10 YEARS –” to outline its direction for the next 10 years. The Company’s newly established Purpose is to “Feed the world for the future, live and smiles,” and clearly acknowledges that the Company is a part of the social infrastructure that supports the supply of domestic “animal protein.” The Company’s vision is “Committed to ‘ONE,’ striving to be the company of choice,” expressing the Company’s pride and responsibility as a leading company in the feed industry. In 2022, following the change in market classifications at the Tokyo Stock Exchange, the Company moved from the First Section of the Tokyo Stock Exchange to the Prime Market.

Company history

Month/Year	History
March 2014	Kyodo Shiryō Co., Ltd. and Nippon Formula Feed Mfg. Co., Ltd. agree to establish FEED ONE HOLDINGS CO., LTD. by means of joint transfer of shares, drafted a share-transfer plan, and conclude a general memorandum of understanding on that basis
October 2014	FEED ONE HOLDINGS is established
May 2015	FEED ONE HOLDINGS, Nippon Formula Feed Mfg. and Kyodo Shiryō conclude an absorption-type merger agreement.
October 2015	FEED ONE HOLDINGS, Kyodo Shiryō and Nippon Formula Feed Mfg. merge, company name changed to FEED ONE CO., LTD.
March 2017	The newly constructed Kitakyūshū Factory starts operations (it was renamed Kitakyūshū Aquatic Feed Factory in April 2020)
July 2020	The newly constructed Kitakyūshū Animal Feed Factory starts operations
April 2022	Moves from the 1st Section of the Tokyo Stock Exchange to the Prime Market in conjunction with the change in market classification of the Tokyo Stock Exchange
March 2024	Formulates “Medium-Term Management Plan 2026 – 1st STAGE for NEXT 10 YEARS –”

Source: Prepared by FISCO from the Company’s website and materials

2. Business details

The Company’s mainstay business is animal feed. It comprises 7 domestic business divisions (Hokkaido, Tohoku, Kanto, Chubu, Kansai, Kitakyūshū, Minamikyūshū), has 8 sales branches and 13 production plants, and manufactures and sells approximately 3.68 million tons of feed per year. The business handles a balanced range of compound feed for poultry, pigs, and cattle, and while the annual distribution volume of animal feed has remained stable at approximately 24 million tons over the past 10 years, sales volume has been increasing every year. This is the Company’s core business, accounting for 78.4% of the Company’s total net sales and 90.0% of its operating profit. The aquatic feed business manufactures approximately 110,000 tons of aquatic feed per year with a production system centered around the Kitakyūshū Aquatic Feed Factory, and sells feed throughout the country from Hokkaido to Okinawa. The Company is focusing on developing and selling products aimed at realizing sustainable aquaculture, such as low fish meal feed and fish meal-free feed. The fish meal-free feed “Sustena ZERO,” which went on sale in August 2023, has become the Company’s biggest hit product since its integration. The annual distribution volume of aquatic feed is about 600,000 tons, which is a smaller market than animal feed, so it accounts for a relatively low 9.1% of the Company’s total net sales and 8.1% of its operating profit, but it is a business that is expected to grow in the future. The food business manufactures products at affiliated companies related to meat processing (Feed One Foods Co., Ltd., Yokohama Meat Co., Ltd.) and egg processing and wholesale (Gold Egg Corp., Magic Pearl Co., Ltd.), and sells products mainly to retailers and the food service industry. Although this is also a relatively low proportion, at 12.5% of the Company’s total net sales and 0.3% of its operating profit, it creates added value unique to a feed manufacturer.

Company overview

Segment overview

		Composition ratio (1H FY3/25)	
		Net sales	Segment profit
Animal feed business	Comprises 7 domestic business divisions, has 8 sales branches and 13 production plants, and manufactures and sells approximately 3.68 million tons of feed per year. The business handles a balanced range feed for poultry, pigs, and cattle.	78.4%	90.0%
Aquatic feed business	Manufactures approximately 110,000 tons of aquatic compound feed per year with a production system centered around the Kitakyushu Aquatic Feed Factory, and sells feed throughout the country from Hokkaido to Okinawa. The Company is focusing on developing and selling next-generation aquaculture feed.	9.1%	8.1%
Food business	Manufactures products at affiliated companies related to meat processing (Feed One Foods, Yokohama Meat) and egg processing and wholesale (Gold Egg, Magic Pearl), and sells products mainly to retailers and the food service industry.	12.5%	0.3%
Other	Includes the overseas business and the real estate leasing business	0.0%	1.5%
Total		100.0%	100.0%

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

Business overview

In the mainstay animal feed business, the Company has built strengths in all the functions of raw materials procurement, manufacture, development and sales. Has a market share of 15%

The Company has three business segments: the animal feed business, the aquatic feed business, and the food business. Each segment's business details and strengths are discussed below.

1. Animal feed business

In the animal feed business, the Company handles almost the entire process from procuring raw materials for compound feed to manufacturing and sales, and has strengths in each process.

(1) Processes and strengths

(a) Raw materials procurement

[Strength 1: Mitsui & Co. Group's global procurement network]

The Company's cost of goods sold accounts for approximately 90% of its net sales. Corn accounts for roughly half of the raw materials used in animal feed, followed by grains and soybean oil cake. Corn is mainly produced in the United States and Brazil, and is greatly affected by fluctuations in market prices, as well as foreign exchange rates and ocean freight rates. In terms of procurement, being part of the Mitsui & Co. Group provides the advantage of being able to secure sufficient quantities at the right time and price. Incidentally, in 1H FY3/25, the Chicago market was soft and the yen strengthened, causing the import price of corn to fall 17.7% compared to the year-earlier period. There can be a time gap between fluctuations in raw materials prices and revisions to sales prices, and it can be said that the Company has made good use of this environment.

Business overview

(b) Manufacturing

[Strength 2: Stable supply and scale of products based on bolstering the production base]

In the animal feed business, 13 factories located nationwide from Hokkaido to Kyushu meet local demand, so a system of local production for local consumption is in place. The annual sales volume of 3.68 million tons corresponds to a market share of 15%, second only to JA Zen-Noh and the number one private company by a wide margin. In terms of sales volume composition ratio by animal type, it is a well-balanced ratio of 34.5% for cattle, 34.1% for chickens, and 31.3% for pigs. One advantage of having a good balance is that even if an infectious disease (e.g. avian influenza) occurs in one animal type, other animal types can cover the loss to some extent. The manufacture of compound feed is a typical equipment-based industry, and it is easy to achieve economies of scale through large-scale equipment, and automated, highly productive facilities are advantageous. The Company's manufacturing facilities include aging factories that are over 50 to 60 years old, but also include the state-of-the-art Kitakyushu Animal Feed Factory, which was completed in 2020. With a relatively large sales volume, the Company has the advantage of being able to produce at lower costs.

(c) Product development / R&D

[Strength 3: Lineup of products underpinned by patented technologies]

The Company has three research laboratories and a well-established research and development system, and has a history of releasing highly differentiated products. It has launched products in response to changes in the market, such as "FIBEGEAR DROP," a feed exclusively for milking robots in line with the digitalization of milking, and "Nori Nori Pork," which addressed the issues of pigs with advanced breeding, and has obtained many patents.

(d) Sales / prices

[Strength 4: The Company has established a system that allows it to grasp customer needs in detail by locating sales branches throughout Japan]

[Strength 5: Customer service utilizing the latest technologies such as cow genome analysis and raw milk fatty acid analyses]

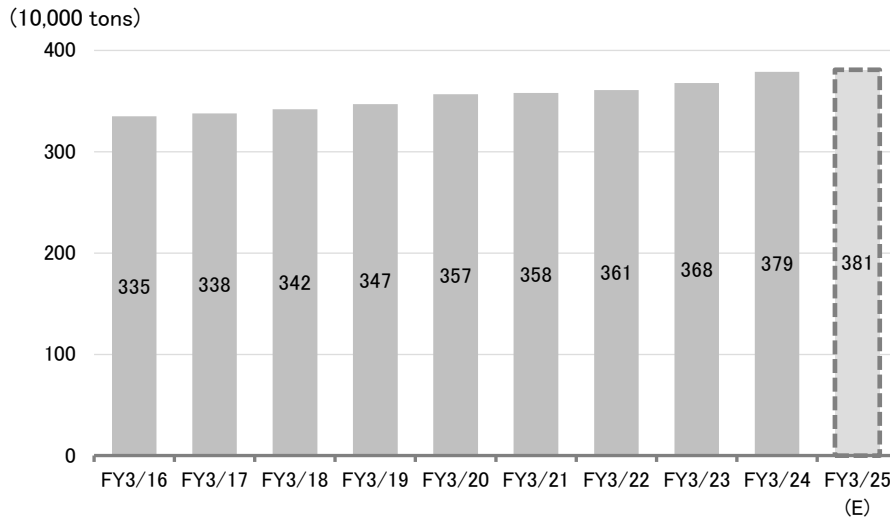
The users of the Company's products are farmers who raise chickens, pigs, and cattle. Some sales activities are carried out by staff from authorized dealers, but in general the Company's staff at each branch office handle sales activities. The Company's specialty is proposal sales and consulting sales, and it has a system in place whereby staff with expertise in each animal species can propose products that meet the needs of customers. The Company also works closely with research laboratories, and technical staff often accompany sales staff on customer visits. Compound feed consulting that utilizes the latest technology from cow genome analysis and raw milk fatty acid analysis is a typical example of its attentive customer service. Regarding sales prices, prices are revised every three months in the animal feed industry. Fluctuations in raw materials prices are gradually reflected, but profit margins are affected by the extent and timing of the fluctuations.

(2) Characteristics of the animal feed business: The mechanism behind profit fluctuations

The animal feed business has been steadily increasing sales volume. In FY3/16, sales volume (animal and aquatic) was 3.35 million tons, but in FY3/24, it reached 3.79 million tons, approximately 1.13 times that amount. Increasing sales volume in a nearly flat market means that the Company has expanded its market share. Even recently, the Company's sales volume for 1H FY3/25 increased 1.3% year on year, while the national animal feed sales volume for the same period increased 0.5% (according to the Company), indicating that the Company is growing faster than the market. The increase in sales volume can be said to be the result of the Company's strengths and organizational capabilities.

Business overview

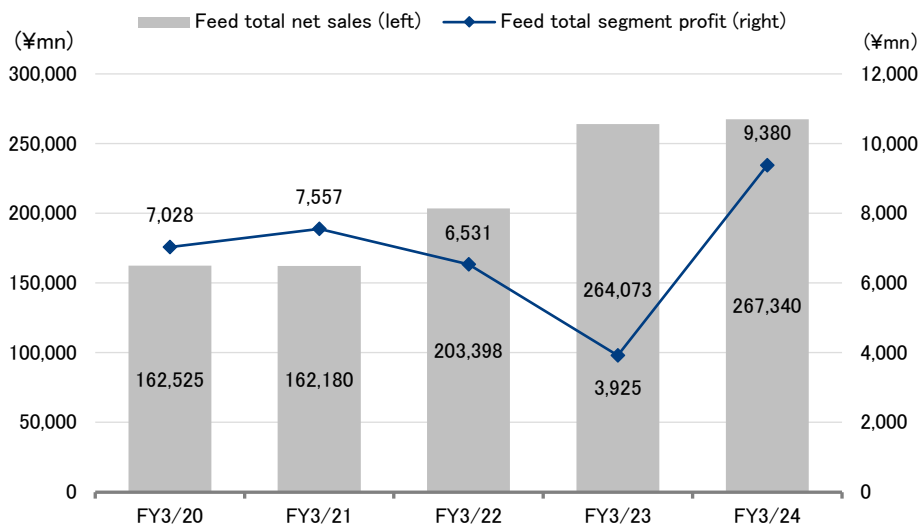
Feed sales volume (animal + aquatic)



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

Although sales prices are revised quarterly in response to raw materials price trends, they are influenced by the extent of revisions announced by JA Zen-Noh, the price leader, and therefore cannot be determined by the Company alone. Raw materials prices fluctuate depending on corn production volume as well as supply and demand. They are also influenced by exchange rates as they are purchased overseas. Generally, when the yen appreciates, import prices become cheaper, which is advantageous. Raw materials prices and sales prices are linked over the long term, but profits fluctuate due to differences in timing of price revisions. In 1H FY3/25, the import price of corn fell and sales prices were able to remain at a constant level, so it can be said that an environment was created in which it was easy to make profits. It is not a simple equation that higher sales and volume lead to higher profits, so it is important to keep this in mind when looking at the Company's performance.

Feed business (animal + aquatic) business results



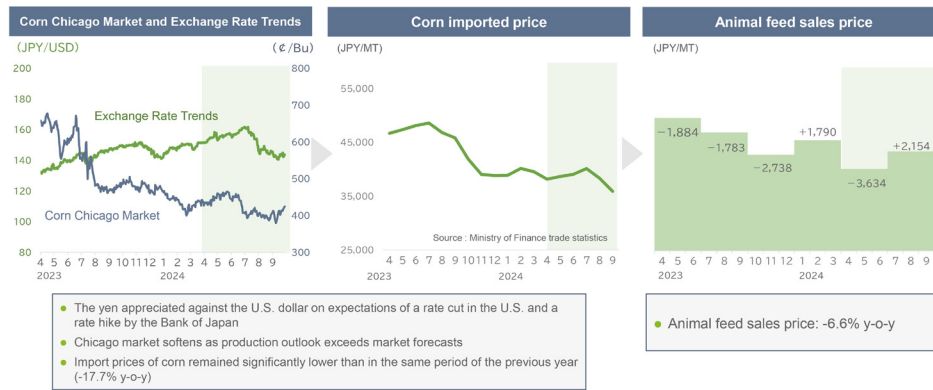
Source: Prepared by FISCO from the Company's financial results

Business overview

[Animal feed price revisions]

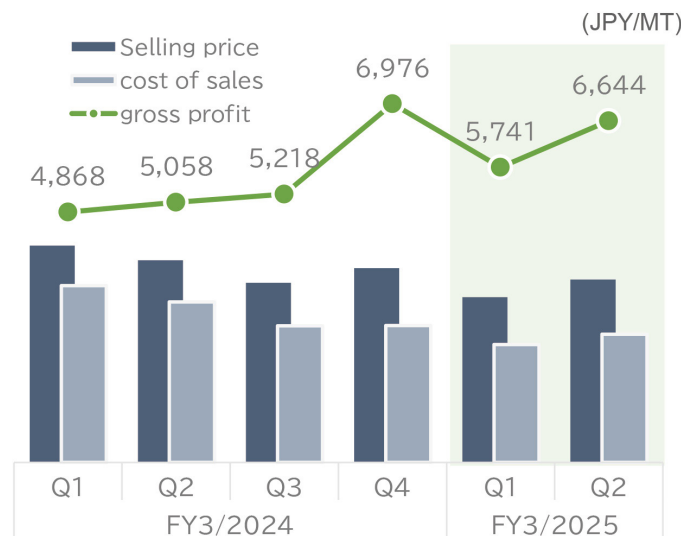
The selling prices of animal feed are revised quarterly to reflect the market price of corn, which is the main raw ingredient, ocean freight rates, foreign exchange rates, and other factors. JA Zen-Noh announces its price revision first, and compound feed manufacturers, including the Company, also make revisions. The amount of the revision varies by animal type and brand. The system of quarterly price revisions as an industry and customer understanding of this system can be said to provide a foundation for compound feed manufacturers to secure profits unless there are sudden changes in the environment. On the other hand, while keeping an eye on the revisions made by JA Zen-Noh, the price leader, making price revisions in line with raw materials price trends is the key to ensuring profits, so this is an important decision to make. Incidentally, in the aquatic feed industry, price revisions are made on an irregular basis by companies, and there are cases where there is a time lag in the revision of selling prices. The Company's animal feed sales price was reduced by ¥3,634 compared to the previous quarter in the April–June 2024 period (JA Zen-Noh reduced it by approximately ¥4,600), and increased by ¥2,154 in the July–September 2024 period (JA Zen-Noh increased it by approximately ¥2,200).

Trend for raw materials price and selling price for animal feed



Source: The Company's results briefing materials

Sales price and gross profit per ton for animal feed



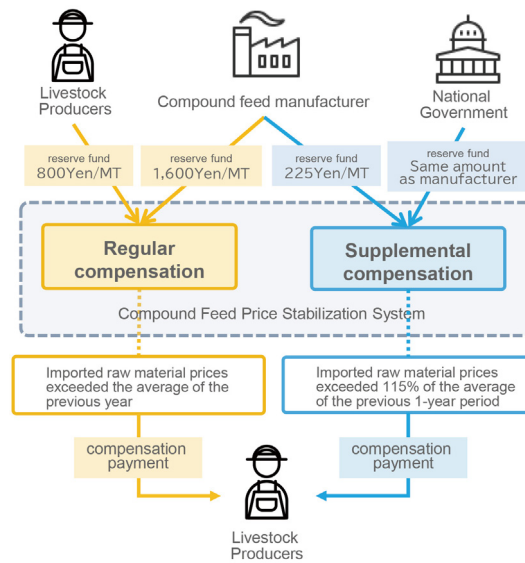
Source: The Company's results briefing materials

Business overview

[Compound feed price stabilization system]

With respect to animal feed, in order to ease the drastic impacts on livestock producers from rapid rises in the price of imported raw materials, a compound feed price stabilization system has been established. In this system, livestock producers and compound feed manufacturers accumulate cash in a “regular compensation” reserve fund, while compound feed manufacturers and the national government accumulate cash in a “supplemental compensation” reserve fund to tap into during times when price spikes are unusually large and cannot be covered by regular compensation, and these reserve funds are used to make compensation payments to livestock producers. Both systems are activated when the quarterly raw materials price exceeds the average import price for the past year by a certain amount, and compensation is paid. The reserve funds paid into the system by compound feed manufacturers are recorded as SG&A expenses, and increases or decreases in this amount affect the Company’s performance. In recent years, the price of imported raw materials has continued to rise, and the reserve funds paid into the system by compound feed manufacturers has risen to ¥1,825 per ton (¥1,425 in the same period last year). In addition, production volume has increased, so the reserve burden is trending higher. The amount the Company paid into the reserve funds in 1H FY3/25 increased by ¥789mn YoY to ¥3,286mn. This amount is comparable to the operating profit for 1H FY3/25 (¥3,355mn), which highlights the large impact it has.

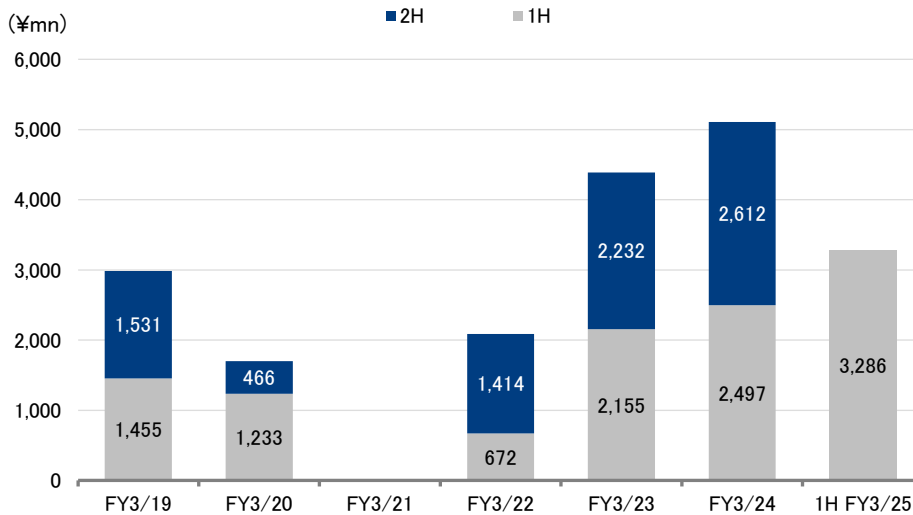
**How the compound feed price stabilization system works
 (Example: 1H FY3/25)**



Source: The Company's results briefing materials

Business overview

Compound feed price stabilization system reserves



Source: Prepared by FISCO from the Company's results briefing materials and annual securities report

2. Aquatic feed business

- Strength 1: Stable production and supply system centered on large production plants
- Strength 2: Cutting-edge research and development system centered around the Aquatic Research Center
- Strength 3: Specialists in marine product sales assigned to each branch office and technical backup system

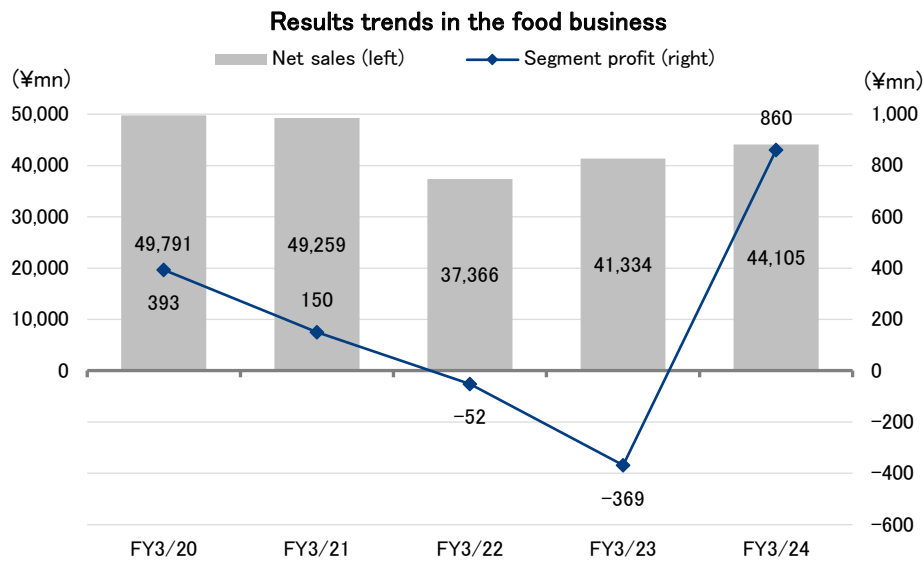
The business process of the aquatic feed business shares much in common with the animal feed business. The aquatic feed business purchases raw materials, produces compound feed and sells it to aquaculture producers across Japan. Fish meal, which accounts for 40% of raw materials, is a resource dependent on natural supply. As a result, there are global concerns about issues like resource depletion and tight supply-demand conditions. These concerns create strong upward pressure on fish meal prices. The Company's Chita Factory and cutting-edge Kitakyushu Aquatic Feed Factory are responsible for aquatic feed production. In Japan's marine aquaculture market, the main fish species are red sea bream and yellowtail, with the Company excelling in feed for red sea bream. Sustena ZERO, an eco-friendly, fish meal-free feed for red sea bream, has been the Company's greatest hit product since its full integration, and its future development is worth watching closely. Sales volume in 1H FY3/25 was 54,000 tons (compared to 55,000 tons in 1H FY3/24), down 1.3% YoY. Although feed for red sea bream posted strong sales, the main reason for the decrease in sales volume was a reduction in demand due to the impact of rising seawater temperatures. However, the Company's market share is believed to have steadily increased, as its decrease in sales volume was smaller than the decrease in the national aquatic feed production volume (down 2.0%, based on the Company's research). Although primarily a feed production and sales company, the Company is actively working to establish feeding technologies such as promoting growth through temporary feeding restrictions (compensatory growth) and incorporating new ingredients. The Company aims to drive business growth by establishing sustainable, next-generation aquaculture.

Business overview

3. Food business

- Strength 1: Safe and reliable foods that only feed manufacturers can deliver
- Strength 2: Ability to supply products finely tailored to the needs of consumers as a packer with manufacturing bases in the areas of consumption
- Strength 3: Capacity to develop high-quality specialty products in collaboration with producers

The food business can trace its beginnings to the purchasing of animal products (poultry eggs, pork, etc.) primarily from buyers of compound feed. These purchased animal products are then sold to customers, such as retailers and the food service industry. Purchase prices are influenced by poultry egg market trends and wholesale prices of pork carcass, with profits more easily made during periods of declining prices. This is partly due to a time lag between changes in purchase prices and when those changes can be reflected in sales prices. In addition, Magic Pearl, a seasoned boiled egg product sold by a subsidiary of the Company, was launched in 1980, and has since become a long-selling product primarily sold at stores in train stations. Continued growth is expected in the future with the completion of a new factory with expanded production capacity in March 2025.



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

Results trends

Profit increased in 1H FY3/25 due to improved cost of sales and higher sales volume of animal feed

1. Overview of 1H FY3/25 results

In the 1H FY3/25 consolidated results, the Company reported steady increases at each profit level, despite a decline in net sales, with net sales of ¥148,298mn (down 5.3% YoY), operating profit of ¥3,355mn (up 18.0%), ordinary profit of ¥3,805mn (up 20.0%), and profit attributable to owners of parent of ¥3,092mn (up 55.4%).

In the mainstay animal feed business, net sales decreased due to a decline in average sales prices for animal feed compared to the same period of the previous fiscal year. Since net sales are heavily influenced by price revisions each quarter, net sales may not fully indicate performance in some respects. However, sales volume increased, indicating steady growth in the business. In cost of sales, the price of raw materials, such as corn (a key ingredient in compound feed), softened. Combined with the foreign exchange impact of a stronger yen, raw material prices fell, and gross profit increased. SG&A expenses increased due to factors such as a higher provision to reserves for the compound feed price stabilization system (up ¥789mn YoY). However, the animal feed business achieved a significant increase in segment profit, up 34.5% to ¥4,941mn, driven by the increase in gross profit. In the aquatic feed business, net sales rose 4.7% to ¥13,533mn as the average sales price surpassed that of the same period of the previous fiscal year. However, segment profit decreased 27.3% to ¥444mn. This decrease was mainly due to a delay in the timing of sales price revisions and a slight decrease in sales volume, amid a 7% increase in fish meal prices. In the food business, net sales decreased 12.1% to ¥18,482mn, and segment profit decreased 69.9% to ¥19mn, as the purchase prices for both poultry eggs and meat were pushed up by factors such as a decrease in supply due to the effects of a heat wave.

1H FY3/25 results

	1H FY3/24		1H FY3/25		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	156,645	100.0%	148,298	100.0%	-5.3%
Cost of sales	142,821	91.2%	132,154	89.1%	-7.5%
Gross profit	13,824	8.8%	16,143	10.9%	16.8%
SG&A expenses	10,980	7.0%	12,787	8.6%	16.5%
Operating profit	2,844	1.8%	3,355	2.3%	18.0%
Ordinary profit	3,171	2.0%	3,805	2.6%	20.0%
Profit attributable to owners of parent	1,989	1.3%	3,092	2.1%	55.4%

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

Results trends

Maintaining a sound financial base that will enable capital investments of approximately ¥60.0bn over the next 6 years

2. Financial condition and management indicators

Total assets at the end of 1H FY3/25 decreased ¥6,729mn from the end of the previous fiscal year to ¥124,309mn. Current assets decreased ¥7,485mn, mainly due to decreases of ¥6,534mn in notes and accounts receivable - trade, and ¥1,342mn in cash and deposits. Non-current assets increased ¥755mn.

Total liabilities declined ¥9,132mn to ¥71,049mn. Current liabilities declined ¥2,959mn, mainly reflecting an increase of ¥2,218mn in short-term borrowings, and a decrease of ¥4,397mn in notes and accounts payable - trade. Non-current liabilities decreased ¥6,173mn, mainly due to a decrease of ¥5,833mn in long-term borrowings. The balance of interest-bearing debt (the sum of short-term borrowings, long-term borrowings, and corporate bonds) decreased ¥3,615mn to ¥28,143mn. Net assets increased ¥2,403mn to ¥53,260mn, reflecting an increase in retained earnings, which was due to factors including the recording of profit attributable to owners of parent.

Regarding management indicators for 1H FY3/25, the current ratio was 154.7% (compared to 160.0% at the end of FY3/24), while the equity ratio was 42.3% (compared to 38.4% at the end of FY3/24). Additionally, the Company has secured committed credit facilities. Therefore, the Company has a sound and stable financial base. The Company can be described as one of the few in its industry with the solid financial base needed to carry out the investments (approximately ¥60.0bn over 6 years) set forth in its medium-term management plan.

Consolidated balance sheets and management indicators

	(¥mn)		
	FY3/24	1H FY3/25	Change
Current assets	88,204	80,719	-7,484
Cash and deposits	10,876	9,534	-1,342
Notes and accounts receivable - trade	51,829	45,294	-6,534
Non-current assets	42,834	43,589	755
Total assets	131,038	124,309	-6,729
Current liabilities	55,121	52,162	-2,959
Notes and accounts payable - trade	34,360	29,963	-4,397
Short-term borrowings	10,580	12,798	2,218
Non-current liabilities	25,060	18,887	-6,173
Long-term borrowings	21,178	15,345	-5,833
Total liabilities	80,182	71,049	-9,132
Total net assets	50,856	53,260	2,403
Total liabilities and net assets	131,038	124,309	-6,729
Stability			
Current ratio (current assets ÷ current liabilities)	160.0%	154.7%	-5.3pp
Equity ratio (shareholders' equity ÷ total assets)	38.4%	42.3%	3.9pp

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

■ Outlook

Initial forecasts for FY3/25 remain unchanged, with operating profit of ¥6,100mn expected. Steady progress ratio of 55% for operating profit in 1H

In its FY3/25 consolidated results, the Company expects a decrease in net sales and declines at each profit level, while keeping its initial forecasts unchanged. It forecasts a 2.2% YoY decrease in net sales to ¥307,000mn, a 21.3% decrease in operating profit to ¥6,100mn, an 18.6% decrease in ordinary profit to ¥6,300mn, and an 11.5% decrease in profit attributable to owners of parent to ¥4,500mn.

The price of corn, a key ingredient, is lower than in the same period of the previous fiscal year, reflecting factors such as a forecast of a good harvest supported by favorable weather conditions in the U.S., a major growing area, and an increase in the planting area. Additionally, the prices of other raw materials have generally been below the levels of the same period in the previous fiscal year, due to factors such as rising inventory levels in major growing areas. However, the earnings outlook remains uncertain due to repeated increases in provisions to the compound feed price stabilization system and projected increases in logistics costs. In this environment, the Company has set out to achieve the goals of the “Medium-Term Management Plan 2026 – 1st STAGE for NEXT 10 YEARS –,” whose first year is FY3/25. To this end, the Company is working to strengthen sales operations, renew and enhance production systems, improve research facilities, pursue the challenge of next-generation aquaculture, and establish business models through collaboration between animal products and animal feed. The progress rates for 1H relative to the full-year results forecasts are 48.3% for net sales (49.9% in 1H FY3/24), and 55.0% for operating profit (36.7% in 1H FY3/24). Progress for net sales is in line with the previous year, while progress for profit is above the previous year’s level. Barring any significant fluctuations in raw materials or sales prices in the animal feed business, we at FISCO believe that the Company can fully achieve its results forecasts for FY3/25.

FY3/25 results outlook

	FY3/24		FY3/25			
	Results	vs. net sales	Forecast	vs. net sales	YoY	1H progress rate
Net sales	313,875	100.0%	307,000	100.0%	-2.2%	48.3%
Operating profit	7,748	2.5%	6,100	2.0%	-21.3%	55.0%
Ordinary profit	7,737	2.5%	6,300	2.1%	-18.6%	60.4%
Profit attributable to owners of parent	5,084	1.6%	4,500	1.5%	-11.5%	68.7%

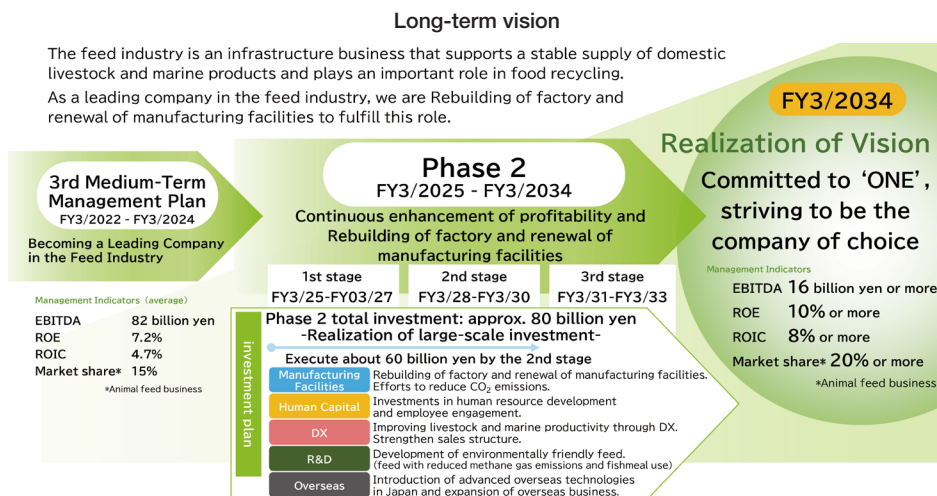
Source: Prepared by FISCO from the Company’s financial results

Topics

Striving for continuous strengthening of profitability and renewal and enhancement of production systems under the medium-term management plan. Planning for capital investment of ¥60.0bn over the next 6 years

1. Long-term vision

In March 2024, the Company announced its long-term vision, which sets a course for the next 10 years. Over the last 10 years, the Company’s main priority has been “the establishment of a business foundation through the integration of the two companies.” During this decade, the Company grew to become a leading company in the feed industry. Without becoming complacent with this success, the Company has adopted a new vision: “Committed to ‘ONE,’ striving to be the company of choice.” The Company targets the following management indicators for FY3/34, 10 years from now: EBITDA of ¥16.0bn or more, ROE of 10% or more, ROIC of 8% or more, and a share of 20% or more of the animal feed market. The recovery of investment can take several decades given the characteristics of the feed industry, so only a few companies can make sufficient upfront investments. Against this backdrop, as a leading company in the feed industry, the Company will renew and enhance its production systems to realize a sustainable livestock and fisheries industry. Some of the Company’s 14 factories face aging issues as they have been operating for more than 60 years. In an era when securing human resources is challenging, it is essential to invest in plant facilities using automation, labor-saving, energy efficiency and other advanced technologies. These investments will also contribute to the solution of environmental problems. Regarding the investment plan, the Company expects to invest around ¥60.0bn during the 6-year period from FY3/25 to FY3/30. The capital investment result for the previous medium-term management plan period averaged about ¥2.5bn per year. In contrast, the new investment plan calls for the Company to expand the amount of investment to an annual average of ¥10.0bn over the next 6 years. In the first 3 years (1st Stage), investments are expected to accelerate from the second half of this stage. The necessary funds will be generated primarily from operating cash flows. While maintaining financial discipline, the Company will also procure funds through interest-bearing debt. The Company is eager to enhance asset efficiency by optimizing its existing asset holdings.



Source: The Company's medium-term management plan briefing materials

Topics

2. Medium-term management plan (FY3/25 to FY3/27)

The Company is currently implementing a medium-term management plan that runs from FY3/25 (the current fiscal year) to FY3/27, the final fiscal year. Based on how the Company identifies phases, the plan corresponds to the 3 years covered by the 1st stage of Phase 2. Phase 2 covers a 10-year period (through FY3/34). The management indicators targeted by the Company for FY3/27 are EBITDA of ¥11.5bn (compared to an average of ¥8.2bn during the previous medium-term management plan period), ROE of 8% or more (compared to 7.2%), ROIC of 6% or more (compared to 4.7%), sales volume of 3.90 million tons (compared to 3.69 million tons), and total investment of ¥60.0bn (6 years, compared to a total of ¥7.4bn over 3 years during the previous medium-term management plan period). Beginning with the current medium-term management plan, EBITDA, ROIC, and total investment have been added as new management indicators. In addition, as reference values, the forecasts for FY3/27 are net sales of ¥327.2bn (¥288.3bn) and ordinary profit of ¥7.0bn (¥4.8bn). Looking at the plan as a whole, the Company's policy of steadily conducting capital investment and management with an awareness of the cost of capital have been reflected in the management indicators.

ROIC has emerged as a new management indicator. The Company is working to increase the visibility of ROIC and has broken this indicator down to improvement activities in each business. For example, the Company has prioritized preventing the loss of sales opportunities by holding surplus inventories of products and raw materials. However, going forward, it will shift to an approach that optimizes inventory management for the entire Company. In these and other ways, proposals for improvement are starting to emerge from the front lines. In addition, the Company will continuously strengthen profitability by enhancing coordination between the aquatic feed, food, and overseas businesses, centered on the animal feed business, to capture synergies. In the animal feed business, the Company will work to raise operating efficiency by enhancing coordination among sales, factories, and research centers, along with introducing Customer Relationship Management (CRM). The Company is targeting sales volume of 3.80 million tons in FY3/27 (3.68 million tons in FY3/24). In the aquatic feed business, the Company seeks to strengthen sales systems, end dependence on fish meal, and deepen its consulting services. It is targeting a sales volume of 1.15 million tons in FY3/27 (compared to 1.10 million tons in FY3/24). In the food business, the Company will work to capture synergies with the animal feed business, while renewing and strengthening the production system for the Magic Pearl brand of seasoned boiled eggs. In terms of finances, the Company intends to increase cash efficiency by introducing a Cash Management System (CMS).

Management indicators for the medium-term management plan (FY3/25 to FY3/27)

	Average during the previous medium-term management plan	FY3/27 Target
Management indicator	EBITDA	¥8.2bn
	ROE	7.2%
	ROIC	4.7%
	Sales volume	3.69 million tons
	Total investment	¥7.4bn (Total for FY3/22 to FY3/24)
Reference values	Net sales	¥288.3bn
	Ordinary profit	¥4.8bn

Source: Prepared by FISCO from the Company's medium-term management plan briefing materials

Topics

3. Promoting R&D and product development

The Company has assigned more than 60 R&D personnel to 4 R&D centers and has been developing superior products for society. In addition, the Company is actively incorporating overseas technologies in cooperation with Japanese universities and research institutions, as well as the research institutions of grain majors, U.S. universities, and other partners. In the feed industry, the Company can be described as one of the few business enterprises that can make R&D investments on this scale. As notable achievements, in the animal feed business, the Company has made progress on projects such as the development of cattle methane gas measurement technologies and methane-reducing feed. Previously, methane gas measurement was cumbersome because it had to be performed in a confined indoor space. The Company has successfully developed an easy way to measure methane outdoors using GreenFeed, a U.S. cattle methane emission measuring device that was introduced to Japan for the first time. This breakthrough is expected to accelerate the development of methane-reducing feed. In addition, in the aquatic feed business, the Company has been developing fish meal-free feed and low fish meal feed in response to concerns about the depletion of fish meal, a key ingredient, and surging fish meal prices. Launched by the Company in 2023, Sustena ZERO is a fish meal-free feed for red sea bream that does not contain any fish meal. Sustena ZERO has seen significant growth in sales volume as it has maintained high palatability and realized high growth results comparable to existing products.

Initiatives in the animal feed business

2 Strategies based on "new products" and "new technologies" : Providing increased value to the field with a clear concept.

Product Concept

- Improved ability
- Genetic characteristics
- Problem Solving
- Environmental Response
- Animal Welfare

Source: The Company's medium-term management plan briefing materials

Initiatives in the aquatic feed business

2 Taking on the Challenge of Next-Generation Aquaculture.

- Development and dissemination of fishmeal-free and low-fishmeal feeds
- Establish new growth technologies
- Promote the introduction of overseas technologies

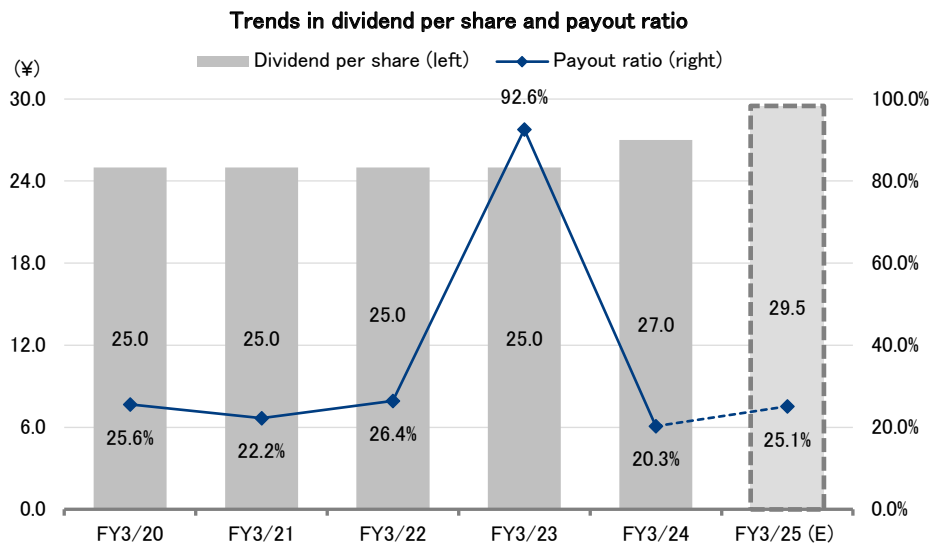
Year	Fishmeal usage rate (%)
FY3/24	41%
FY3/27	37%
FY3/34	33%

Source: The Company's medium-term management plan briefing materials

Shareholder returns policy

Plans to pay a dividend of ¥29.5 for FY3/25, an increase of ¥2.5 YoY, amounting to a payout ratio of 25.1%

The Company's basic policy is to enhance internal reserves to strengthen the financial base, which is the foundation of its long-term development, and provide stable dividends. Under this policy, the Company is targeting a consolidated payout ratio of 25% or more. The Company plans to effectively use internal reserve funds as investment funds to maintain and increase its competitiveness in the future. Following its full integration in FY3/15, the Company has either maintained or increased its annual dividend every fiscal year. Even in FY3/23, when profits declined due to the impact of the external environment, the Company did not reduce the annual dividend, with the payout ratio reaching 92.6%. More recently in FY3/24, the annual dividend was ¥27.0 per share and the payout ratio was 20.3%. In FY3/25, the Company forecasts an annual dividend of ¥29.5 per share (comprising an interim dividend of ¥14.5 per share already paid, and a year-end dividend of ¥15.0 per share planned), and a payout ratio of 25.1%. The Company deserves recognition for providing stable dividends and steadily increasing them.



Note: The Company conducted a 5-for-1 reverse stock split of its common shares on October 1, 2020. Therefore, dividends in FY3/21 and prior fiscal years have been retrospectively adjusted to reflect the reverse stock split.
 Source: Prepared by FISCO from the Company's financial results



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