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FEED ONE

Supplementary Materials for Financial Results Q2 of FY Ending Mar. 2023

November 8, 2022

FEED ONE CO., LTD.

TSE Prime Symbol：2060

FY2023 Business Environment

1. Impact of Imported Raw Materials

Status

- The primary raw material, corn import prices, soared and raised feed sales prices.
- Due to the rise in imported raw materials, the reserve fund for the compound feed price stabilization system has increased(* Details are explained on page 8).

Impact

Pressure on gross profit and increase in SG&A expenses.

→ Large negative impact

2. Impact of Covid-19 & Livestock Epidemics

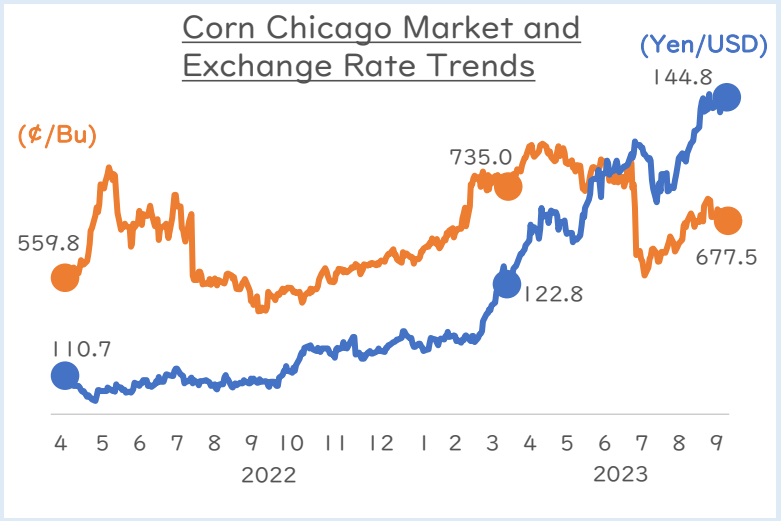
Status

- Consumption of livestock products is stronger than the previous year due to a recovery trend in the restaurant industry.
- Swine fever quelled by vaccination, but recovery was delayed due to some outbreaks.
- AI Impact recovers slowly, but signs of infection spread recently.

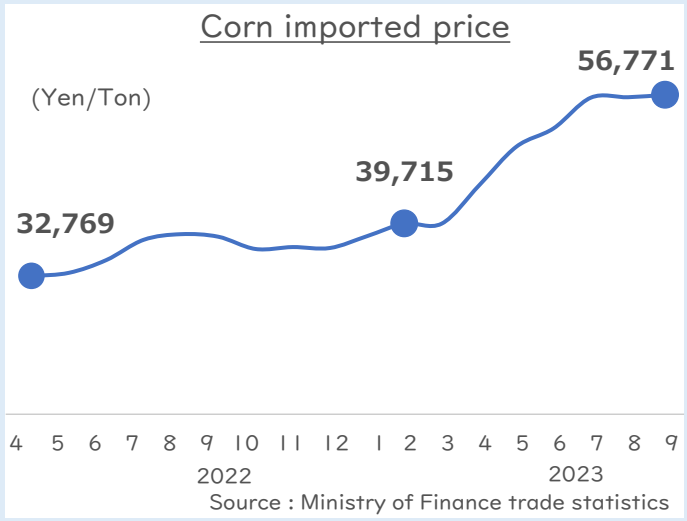
Impact

The total distribution volume of compound feed in Japan remained generally flat, but our sales volume slightly increased.

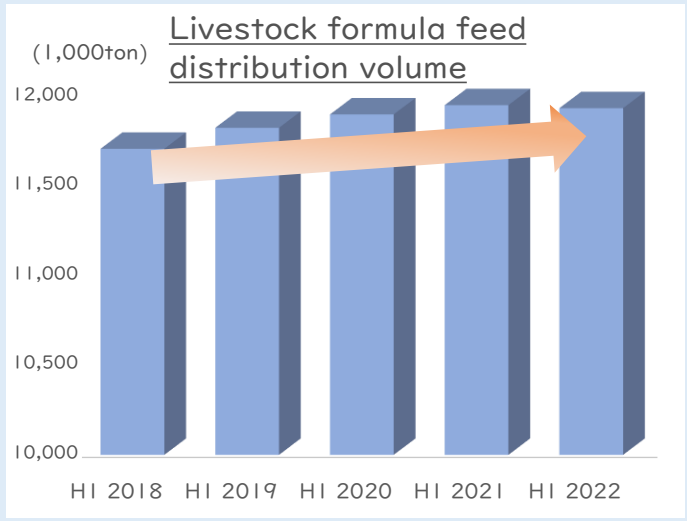
→ Small negative impact



→Main raw material:
Corn Chicago market price soars
→Exchange rate:
Yen depreciation accelerates after March 2022



→Import price(H1) of corn, the main raw material, increased 47.4% YoY.



→The compound animal feed distribution volume in Japan generally remained flat.

Summary of Financial Results for H1 of FY2023

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(Millions of Yen, %)

	H1 FY 2022	H1 FY2023		
			YoY difference	YoY
Net Sales	117,858	144,890	+ 27,031	+ 22.9
Cost of Sales	105,656	134,386	+ 28,729	+ 27.2
Gross Profit	12,202	10,504	- 1,698	- 13.9
SG&A expenses	8,797	10,603	+ 1,806	+ 20.5
Operating Profit	3,404	- 99	- 3,504	—
Ordinary Income	3,914	103	- 3,811	- 97.4
Net Income attributable to owners of the parent company	2,829	- 29	- 2,859	—

Explanation of YoY change for each account

- Net Sales :Sales increased due to higher sales prices of Animal Feed in the feed business.
- Gross Profit :Significant decrease due to increase in raw material costs.
- Operating Profit / Ordinary Income
  :Decrease due to increase in the reserve fund for Compound Feed Price Stabilization System (SG&A expenses)
- Net Income :Fall into the red due to loss on disposal of fixed assets and impairment loss.

H1 FY2023 Segment Status

(Millions of Yen, %)

		H1 FY2022	H1 FY2023		
				YoY difference	YoY
Feed business	Net Sales	97,641	124,241	26,600	+ 27.2
	Segment profit	4,656	1,175	- 3,481	- 74.8
Food business	Net Sales	19,005	19,466	461	+ 2.4
	Segment profit	- 164	- 201	- 36	—
Others	Net Sales	1,212	1,181	- 31	- 2.6
	Segment profit	138	114	- 23	- 16.9

(Thousand metric tons, %)

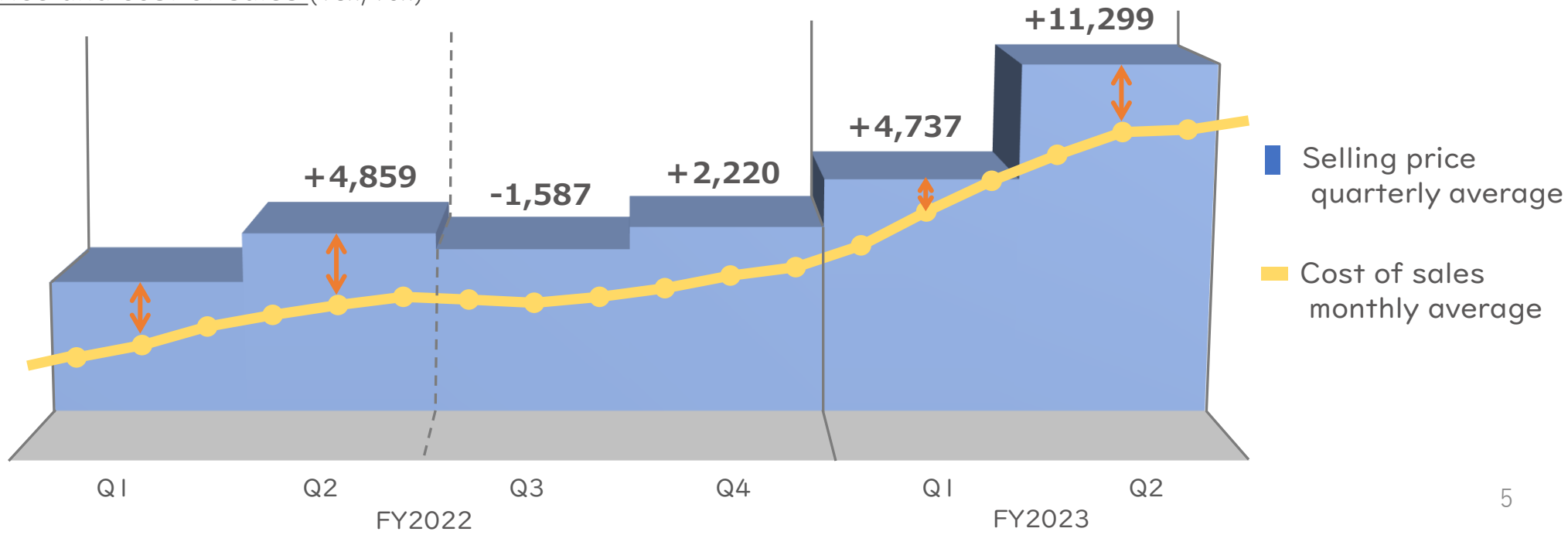
Sales volume	H1 FY2022	H1 FY2023		
			YoY	Comments
Animal feed	1,707	1,736	+ 1.7	For layers +4%, for broilers +6%, for pigs -2%, for cattle +3%
Aquatic feed	48	57	+ 18.8	For marine fish +23%, for freshwater fish -2%

Selling Price and Cost of Sales Trends (1) Animal Feed

In Q1, despite price hikes, gross profit declined due to a large increase in the cost of sales. In Q2, the cost of sales rose further, but gross profit improved due to progress in passing on the higher cost of sales to the cost of goods sold.

- Selling prices are revised quarterly in accordance with fluctuations in raw material prices.
- The ratio of raw material costs to the cost of sales is over 80%, and imported corn prices, which account for 50% of raw materials, are significantly higher than in the same period of the previous year.

Sales price and cost of sales (Yen/Ton)



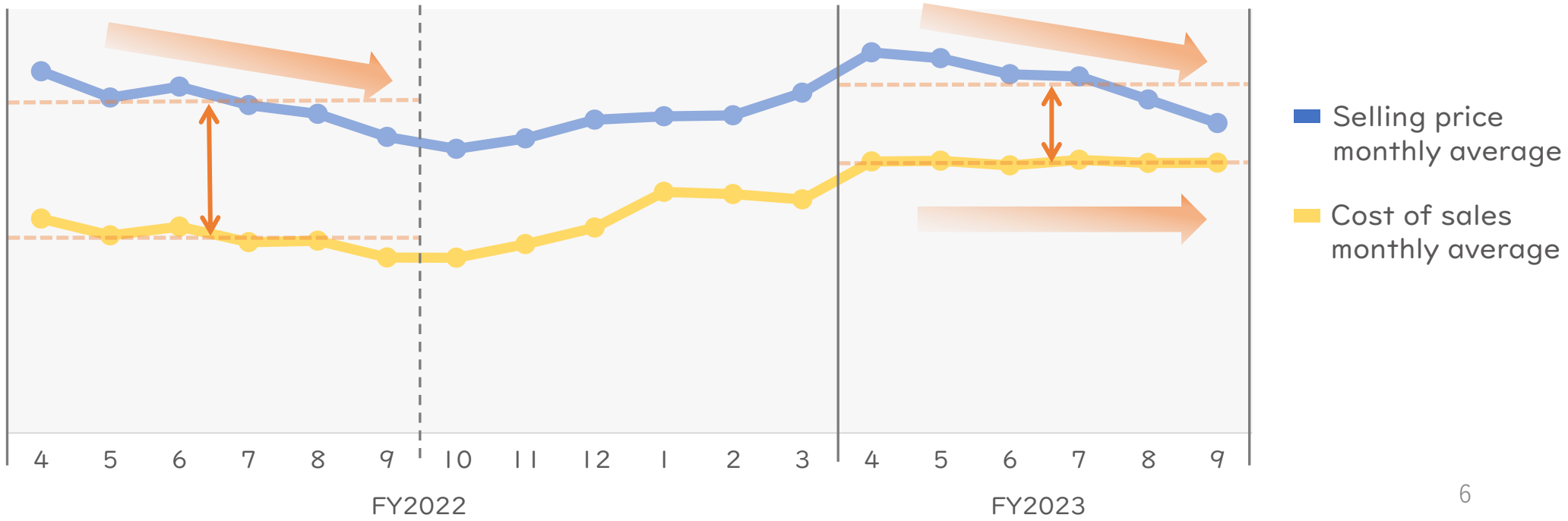
Selling Price and Cost of Sales Trends (2) Aquatic Feed

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Selling prices declined as usual, but cost of sales remained flat, resulting in a decrease in gross profit.

- ▶ Raw material cost accounts for more than 80% of product costs.
- ▶ Fishmeal cost accounts for more than 40% of the raw materials.
- ▶ No periodic revision of selling prices occurs. Prices will be revised in consideration of major fluctuations in the market price of raw materials and other factors.

Sales price and cost of sales (Yen/Ton)



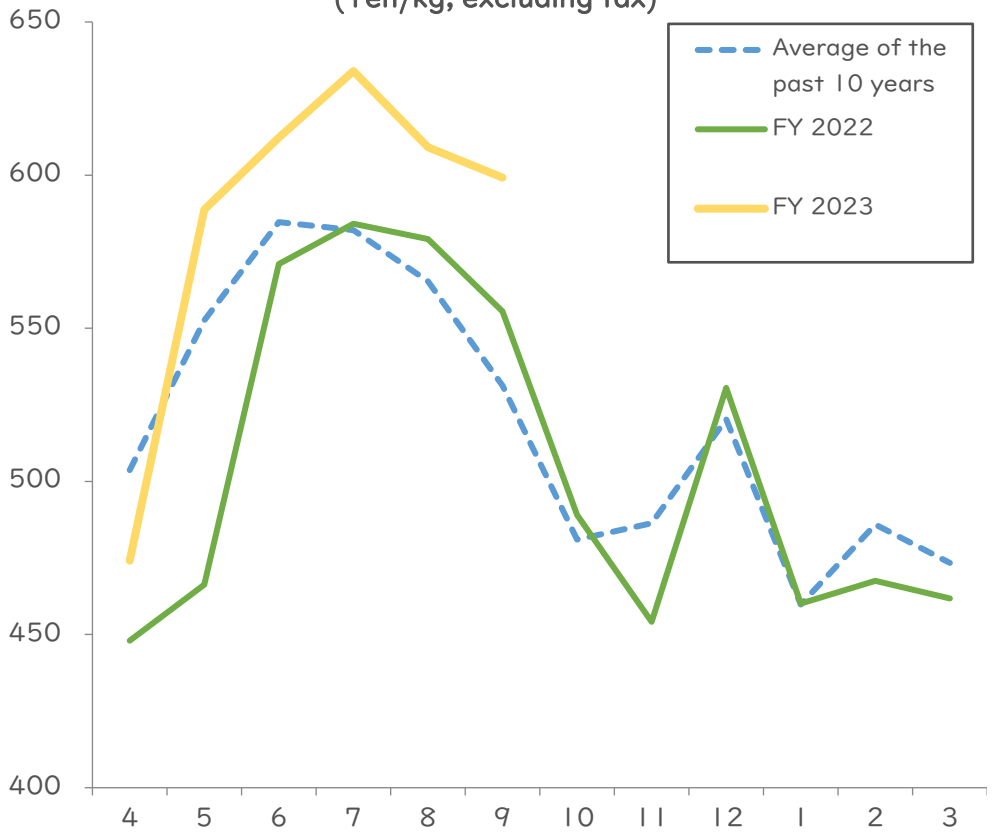
Livestock Products Market Conditions Food Products Business

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Pork carcass market price was higher than the previous year and earnings deteriorated, while egg market price was lower than the previous year and earnings improved.

Wholesale price of pork carcass (3 markets, high quality)

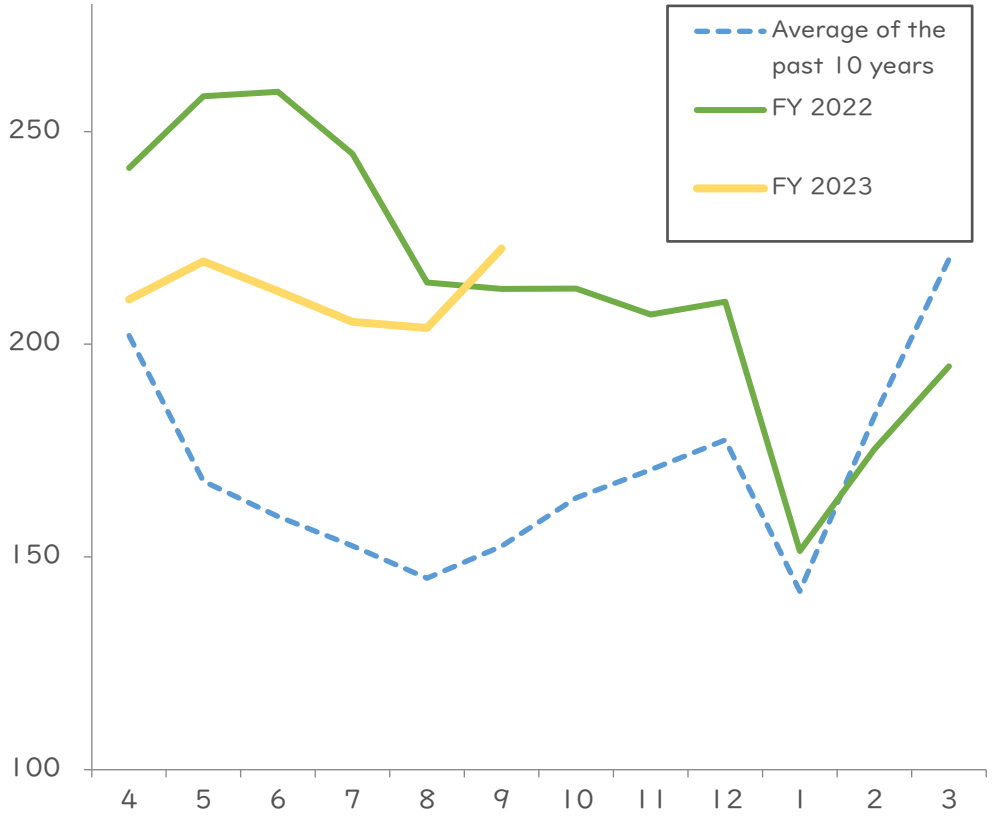
(Yen/kg, excluding tax)



(Source: Ministry of Agriculture, Forestry and Fisheries "Meat Distribution Statistics")

Egg wholesale price (Zen-Noh: Tokyo M)

(Yen/kg, excluding tax)



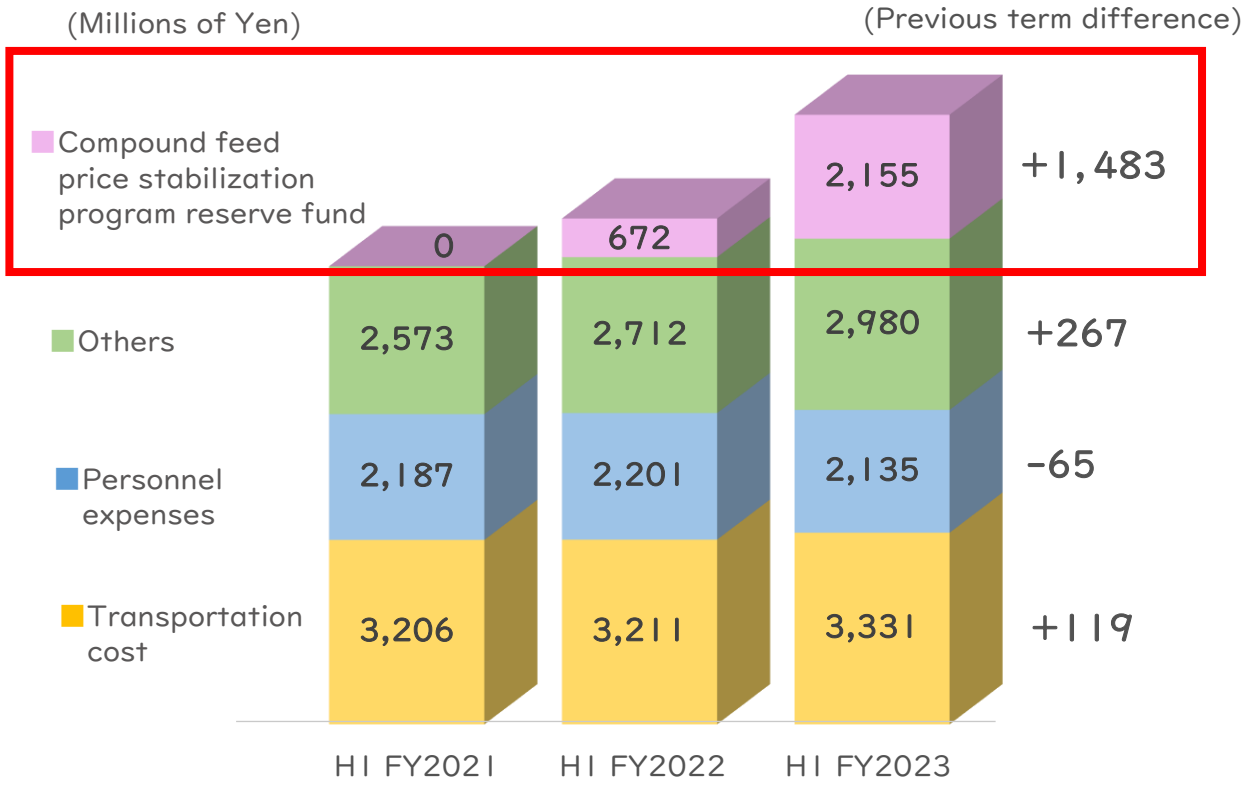
(Source: JA Zen-Noh Egg Co.)

SG&A Expenses and Compound Feed Price Stabilization System

SG&A expenses

- Increase in compound feed price stabilization system reserve fund.
- Increase in other provisions for doubtful accounts and activity expenses.

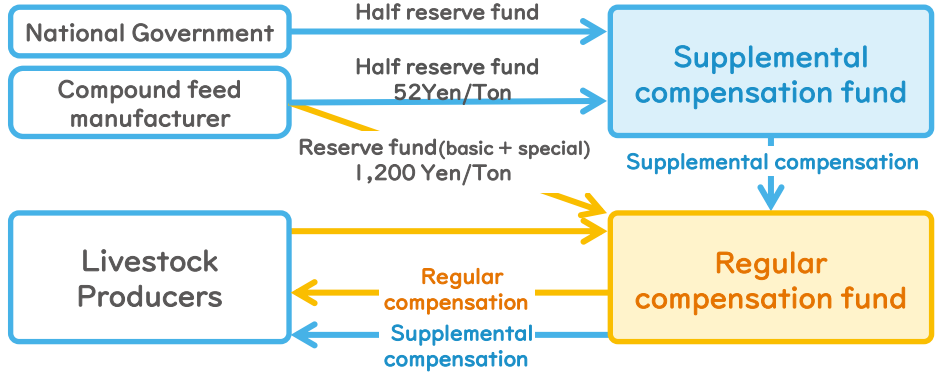
(Millions of Yen)



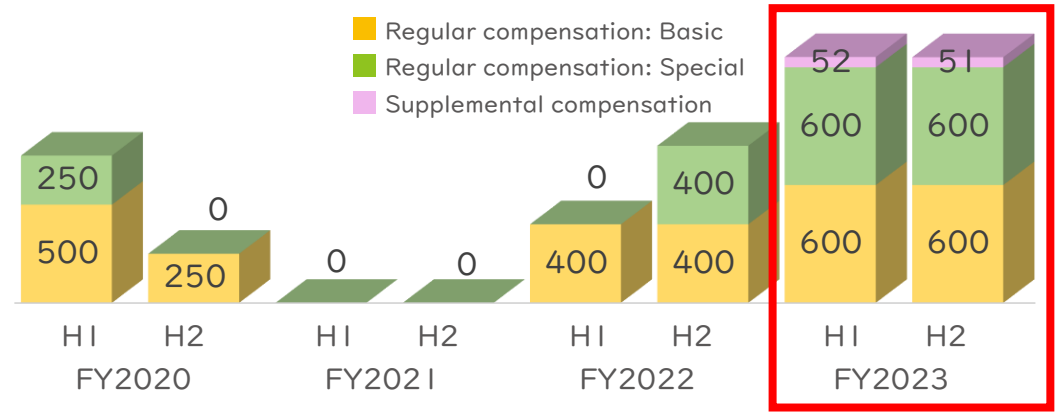
Compound feed price stabilization system

- Aim to mitigate the impact of rising feed prices on livestock operations.
- A reserve fund is triggered from FY2022 due to the grant of compensation funds. In FY2023, the unit price will be increased and a compensation fund for abnormalities will be generated.

Mechanism of the system (Example: H1 FY2023)



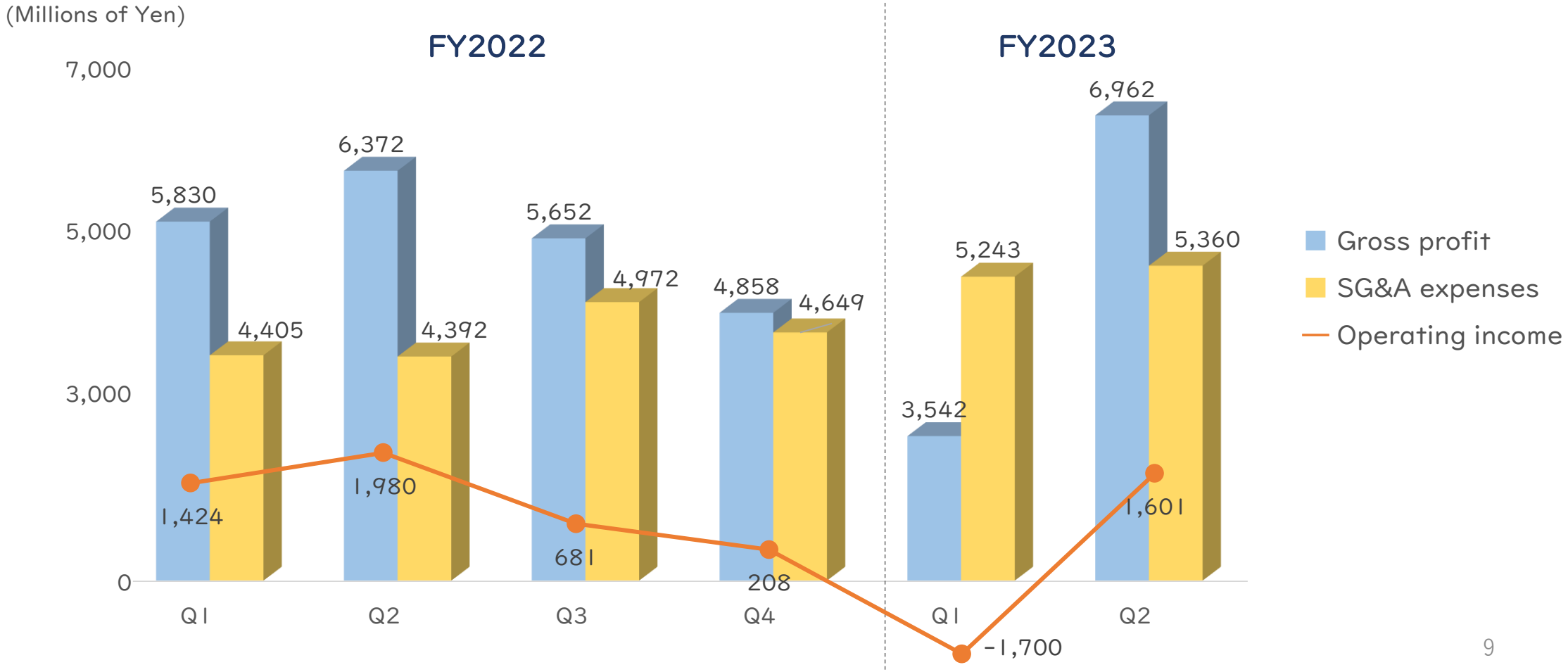
Transition of reserve fund (compound feed manufacturer)



Quarterly Financial Results

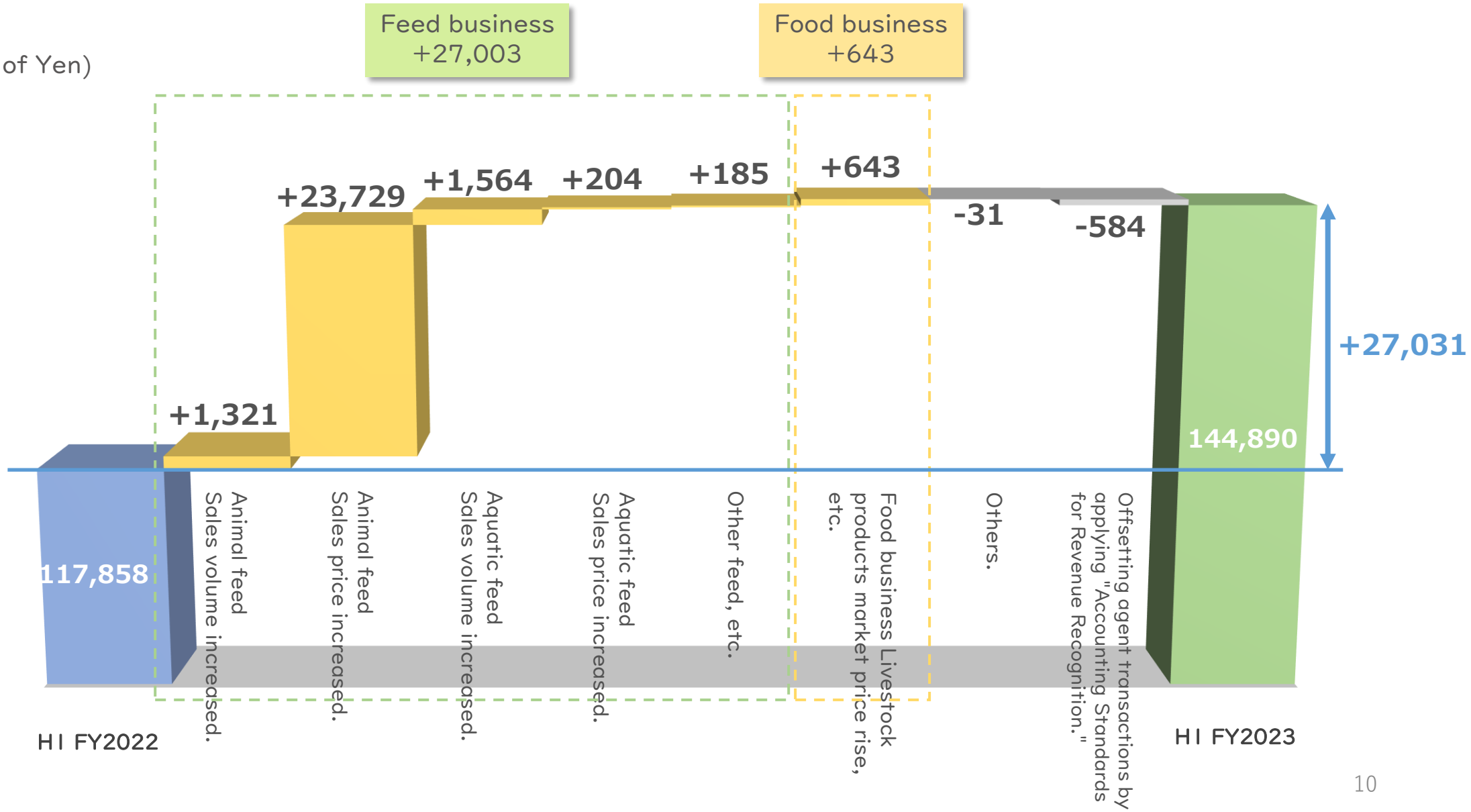
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Gross profit declined sharply in the first quarter, resulting in an Operating Income in the red.
In Q2, operating income was in the black due to a large increase in gross profit as a result of the price pass-through of Animal Feed.

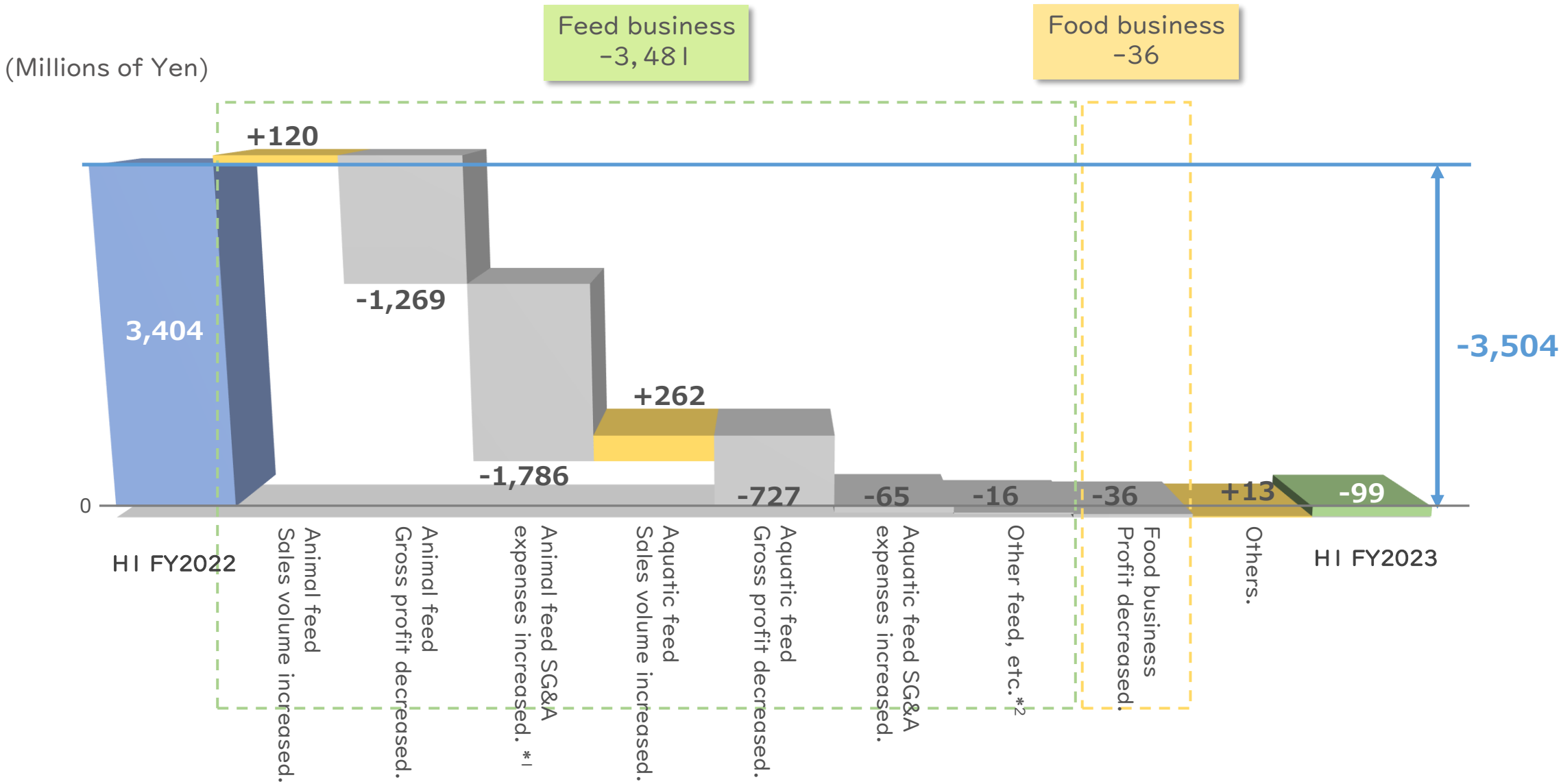


Factors of Net sales increase / decrease

(Millions of Yen)



Factors of Operating profit Increase / decrease



*1 Increase in reserve fund for Compound Feed Price Stabilization System: -1,483 million yen.
*2 Additional depreciation due to partial closure of the Chita Factory: -22 million yen.

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FY2023 earnings Forecast

FY Ending Mar. 2023 earnings Forecast

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(Millions of Yen, %)

	FY ended Mar. 2022	FY ended Mar. 2023 Forecast	YoY	Forecast at beginning of term
Net Sales	243,202	305,000	+ 25.4	301,000
Operating Profit	4,293	800	- 81.4	4,100
Ordinary Income	5,067	1,000	- 80.3	4,000
Net income attributable to owners of the parent company	3,659	500	- 86.3	2,500

(Thousand metric tons, %)

Sales volume	FY ended Mar. 2022	FY ended Mar. 2023 Forecast	YoY	Comments	Forecast at beginning of term
Animal feed	3,521	3,586	+ 1.8	For egg-laying hens +1%, broilers +5%, pigs +1%, cattle +1%	3,586
Aquatic feed	93	104	+ 11.8	For marine fish +13%, for freshwater fish +12%	104

- Net Sales : Revise upward due to a rise in sales price of Animal Feed in the feed business.
- Operating Profit : Revise downward due to a rise in raw material costs.
- Sales Volume : Progressing according to the business plan, no change.

Assumptions and Focused Tasks for FY2023 Earnings Forecast

1. Business Environment in the H2

Raw material prices

Continued yen depreciation in exchange rates.
Raw material prices soared due to yen depreciation.

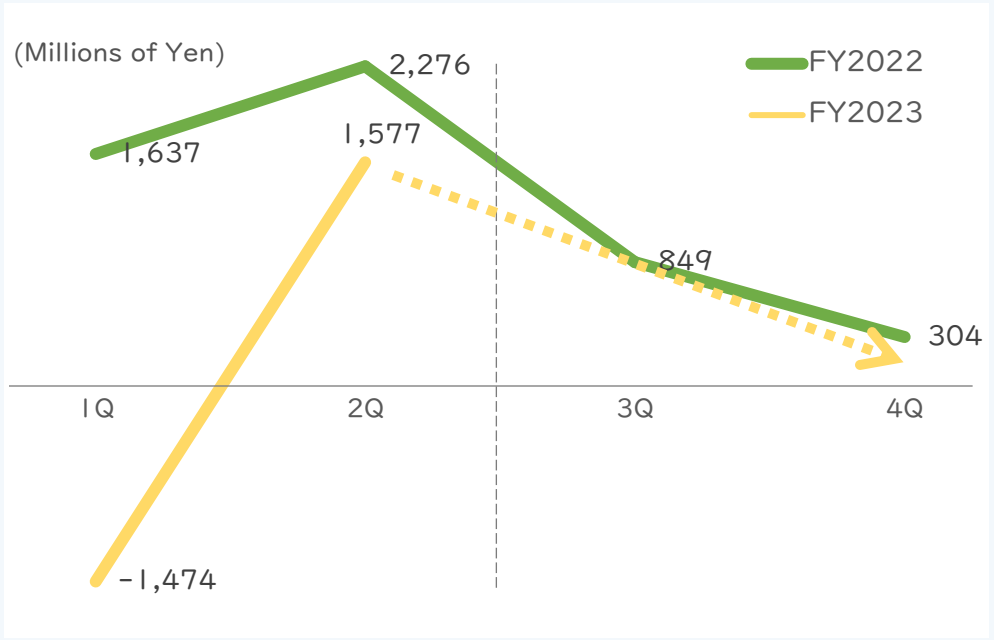
Sales price

With prices remaining at high levels due to soaring raw material prices, it is difficult to pass on prices.

Reserve fund for Compound Feed Price Stabilization System

1,251 yen/ton as forecasted at the beginning of term.
(* 800 yen/ton in the H2 of the previous fiscal year.)

Ordinary Income Transition Chart



2. Focus tasks: Strengthening profitability for sustainable growth

Sales volume expansion and capital investment

2.1% increase expected from the previous year as planned due to our high technological capabilities.

Reinforcement of manufacturing base to meet increased sales volume.

Strengthening Profitability

Expand sales of high-value-added products.

Competitive raw material purchasing.

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