おいしさのみなもと
FEED ONE

Supplementary Materials for Financial Results Q3 of FY Ending Mar. 2023

February 8, 2023

FEED ONE CO., LTD.

TSE Prime Symbol：2060

Business Environment

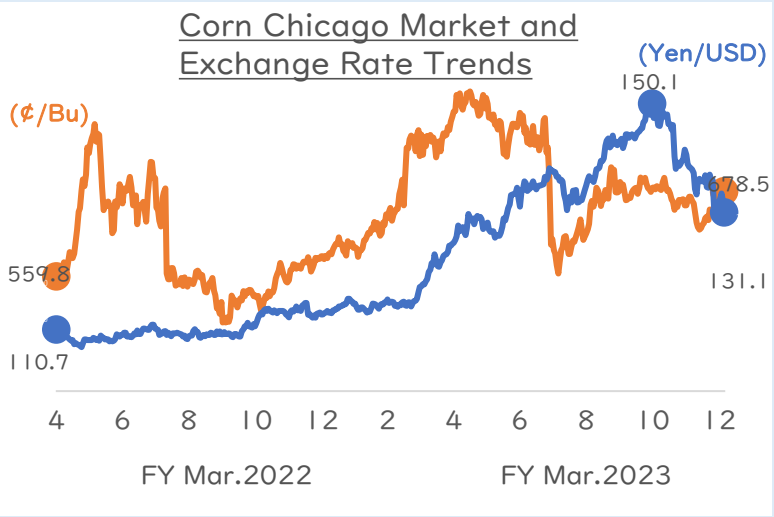
1. Impact of Imported Raw Materials

Status

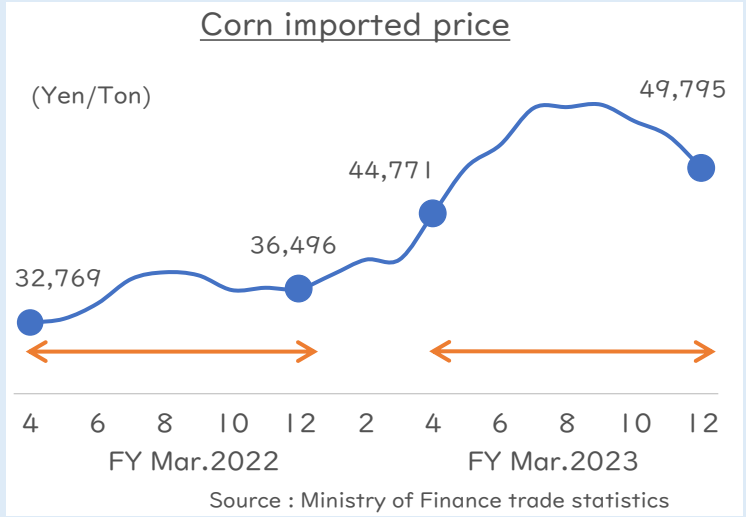
- The Chicago futures market price for corn, the primary raw material, softened temporarily but remained high.
- The yen continued to depreciate against the U.S. dollar until late October.
- Due to the above factors, corn import prices increased by approximately 46.4% y-o-y.

Impact Net sales increased, but gross profit decreased.

→ **Large negative impact**



- Chicago prices for corn have temporarily softened but remain high.
- Although the YEN rate against the US Dollar plunged in October 2022, it has recovered slightly.



- Import price of corn, the main raw material, increased 46.4% YoY.

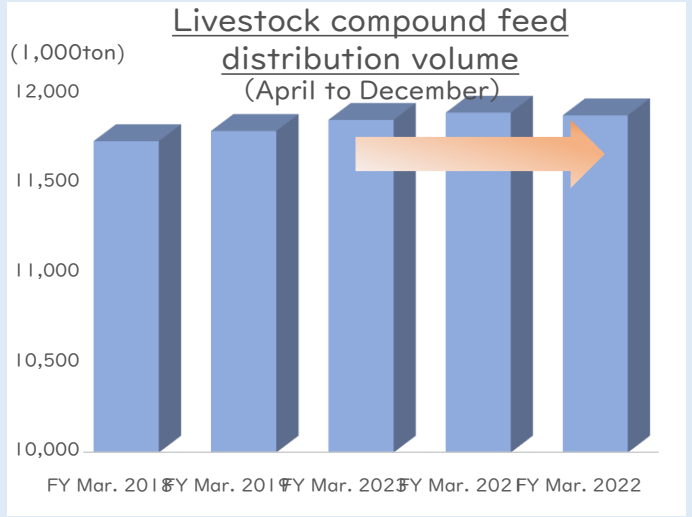
2. Impact of Covid-19 & Livestock Epidemics

Status

- The food service industry showed a recovery trend, and consumption of livestock products in general also recovered.
- Swine fever was quelled by vaccination, but recovery was delayed due to some outbreaks.
- AI has seen a greater spread of infections than in the previous year, and there are concerns about the further spread in the future.

Impact The total distribution volume of compound feed in Japan remained generally flat.

→ **Small negative impact**



- The Livestock compound feed distribution volume in Japan generally remained flat.

Summary of Financial Results for Q3 FY Mar.2023

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Although sales increased due to higher sales prices for animal and aquatic feeds, the cost of sales and SG&A expenses increased, resulting in a significant decrease in profit.

(Millions of Yen, %)

	Q3 FY Mar.2022	Q3 FY Mar.2023	YoY
Net Sales	182,757	228,746	+ 25.2
Cost of Sales	164,902	211,993	+ 28.6
SG&A expenses	13,769	15,996	+ 16.2
Operating Profit	4,085	756	- 81.5
Ordinary Income	4,763	1,039	- 78.2
Net Income attributable to owners of the parent company	3,309	636	- 80.8

YoY

● Net Sales

Increased sales due to higher sales volumes and sales price increases for animal and aquatic feeds

● Cost of Sales

The price of corn, the main raw material, remained high due to the ongoing depreciation of the yen. Energy prices increased.

● SG&A expenses

Increase in Compound feed price stabilization program reserve fund and distribution costs.

Q3 FY Mar.2023 Segment Status

(Millions of Yen, %)

		Q3 FY Mar.2022	Q3 FY Mar.2023		
				YoY difference	YoY
Feed business	Net Sales	151,992	196,552	+ 44,560	+ 29.3
	Segment profit	5,762	2,616	- 3,146	- 54.6
Food business	Net Sales	28,893	30,321	+ 1,428	+ 4.9
	Segment profit	- 79	- 270	- 191	—
Others	Net Sales	1,871	1,872	+ 0	+ 0.0
	Segment profit	236	201	- 35	- 14.9

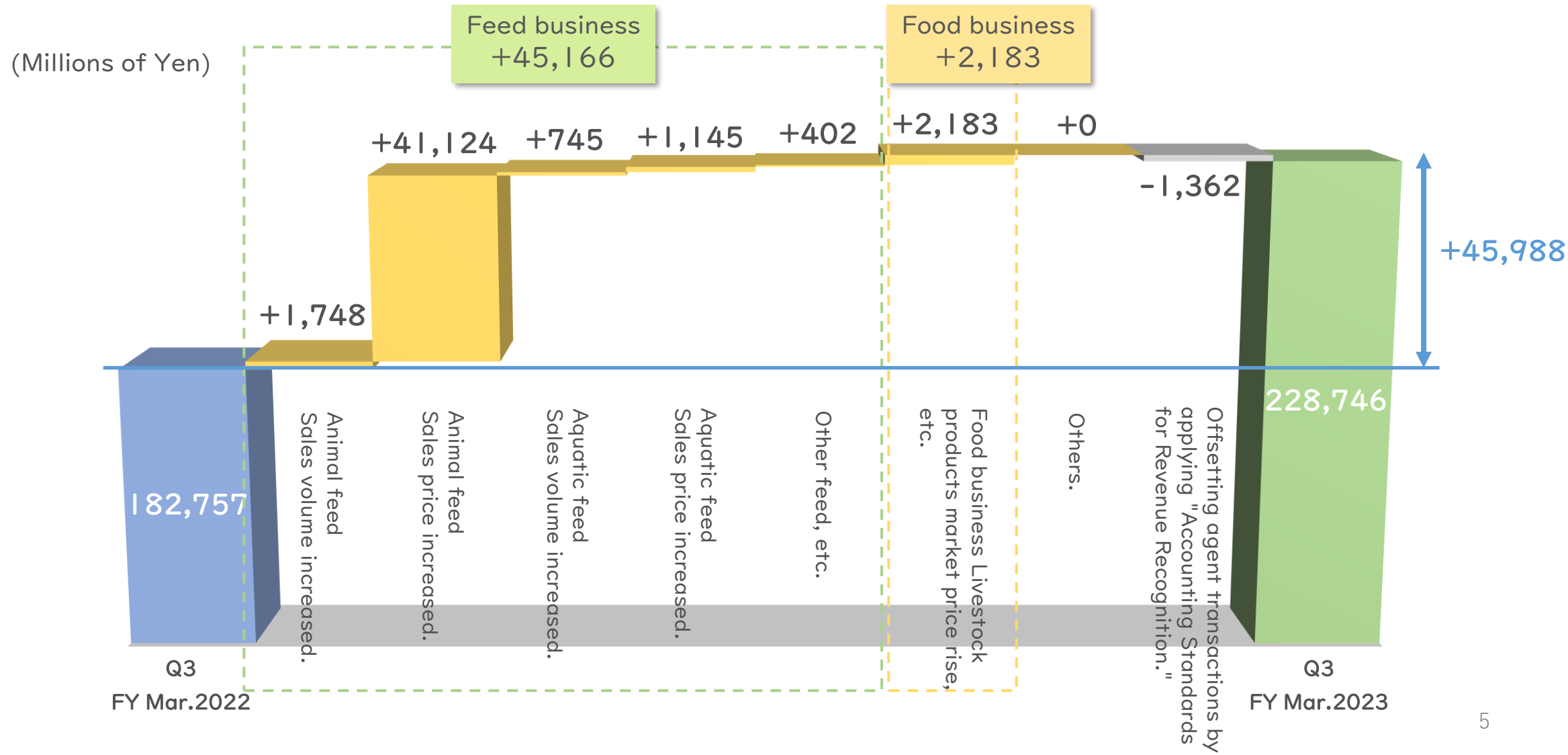
(Thousand metric tons, %)

Sales volume	Q3 FY Mar.2022	Q3 FY Mar.2023		
			YoY	Comments
Animal feed	2,644	2,683	+ 1.5	For layers +2.4%, for broilers +3%, for pigs -0%, for cattle +1.9%
Aquatic feed	76	81	+ 6.2	For marine fish +8%, for freshwater fish -7%

Factors of Net sales increase / decrease

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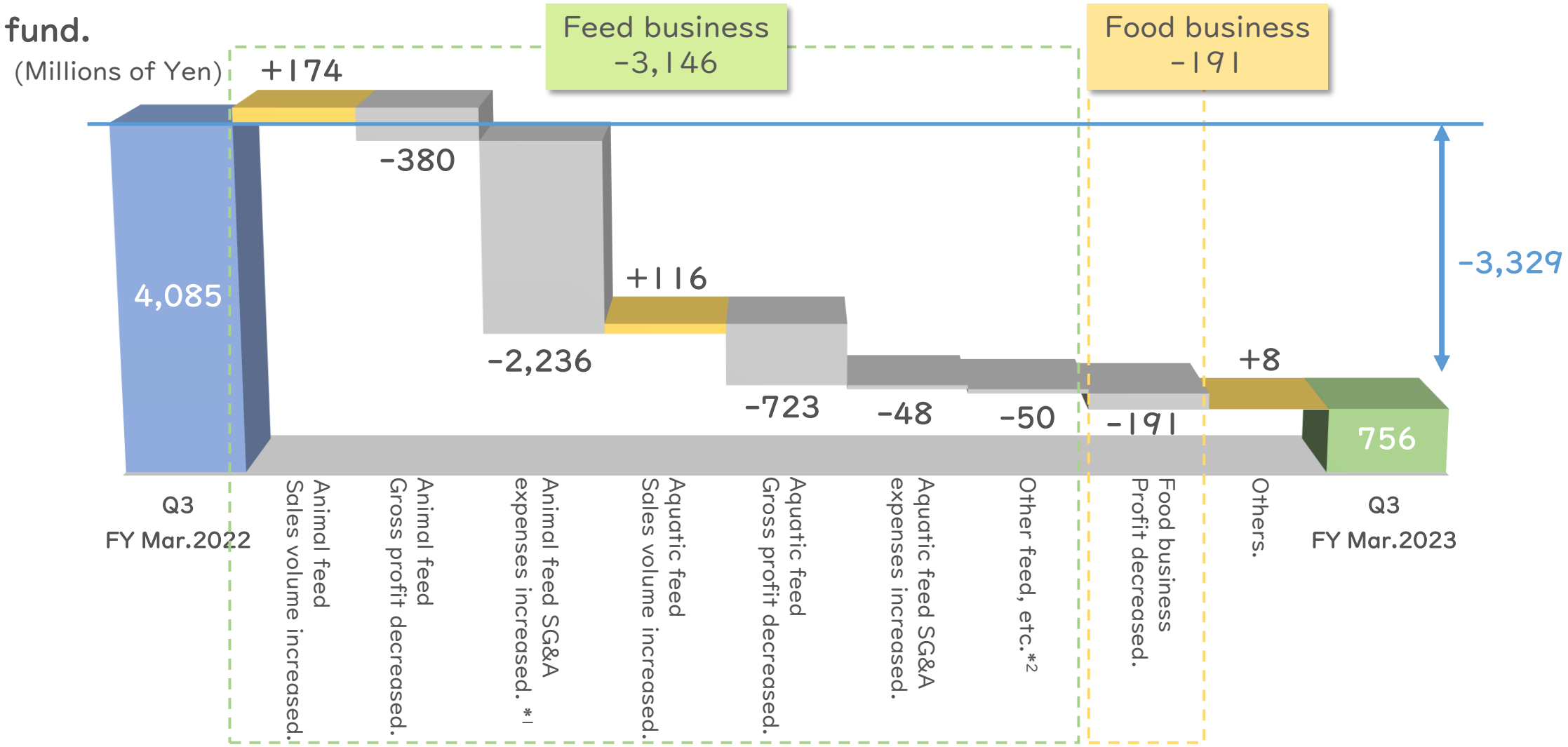
Sales increased mainly due to higher Animal feed sales price.



Factors of Operating profit Increase / decrease

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Profit decreased due to an increase in the compound feed price stabilization system reserve fund.



*1 Increase in reserve fund for compound feed price stabilization system: -1,881 million yen.
*2 Additional depreciation due to partial closure of the Chita Factory: -22 million yen.

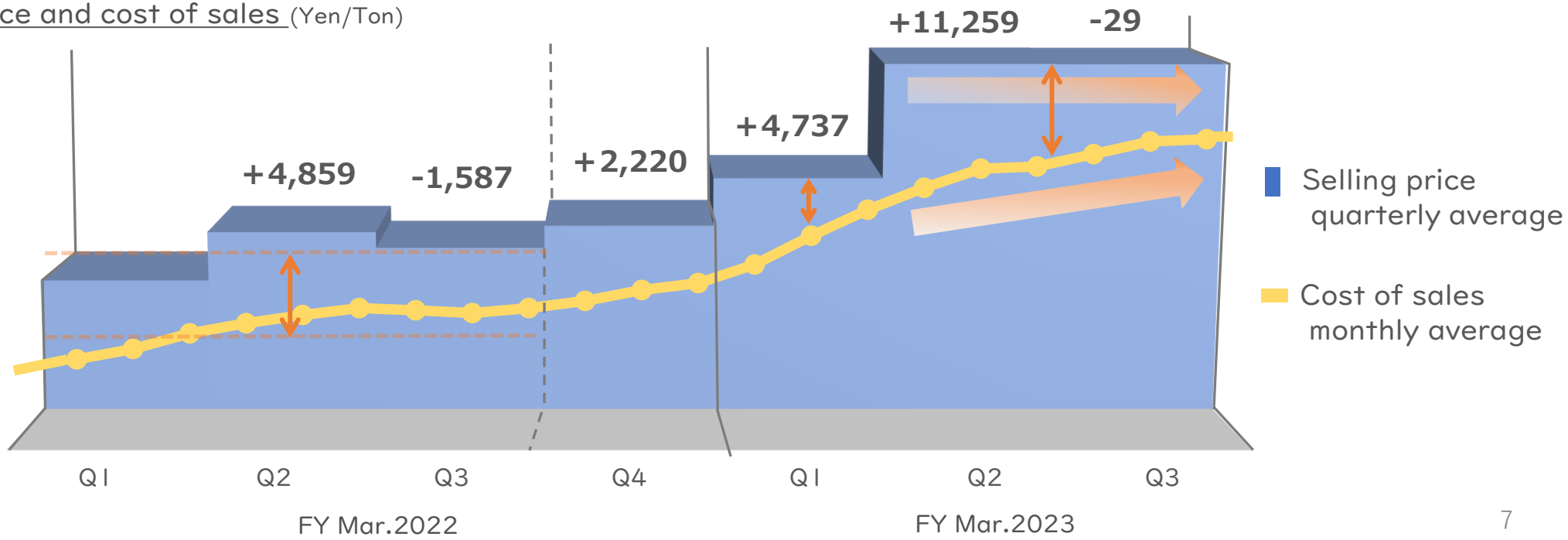
Selling Price and Cost of Sales Trends (Ⅰ) Animal Feed

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In Q3, selling prices remained flat, but the cost of sales rose, resulting in a decrease in gross profit.

- 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)



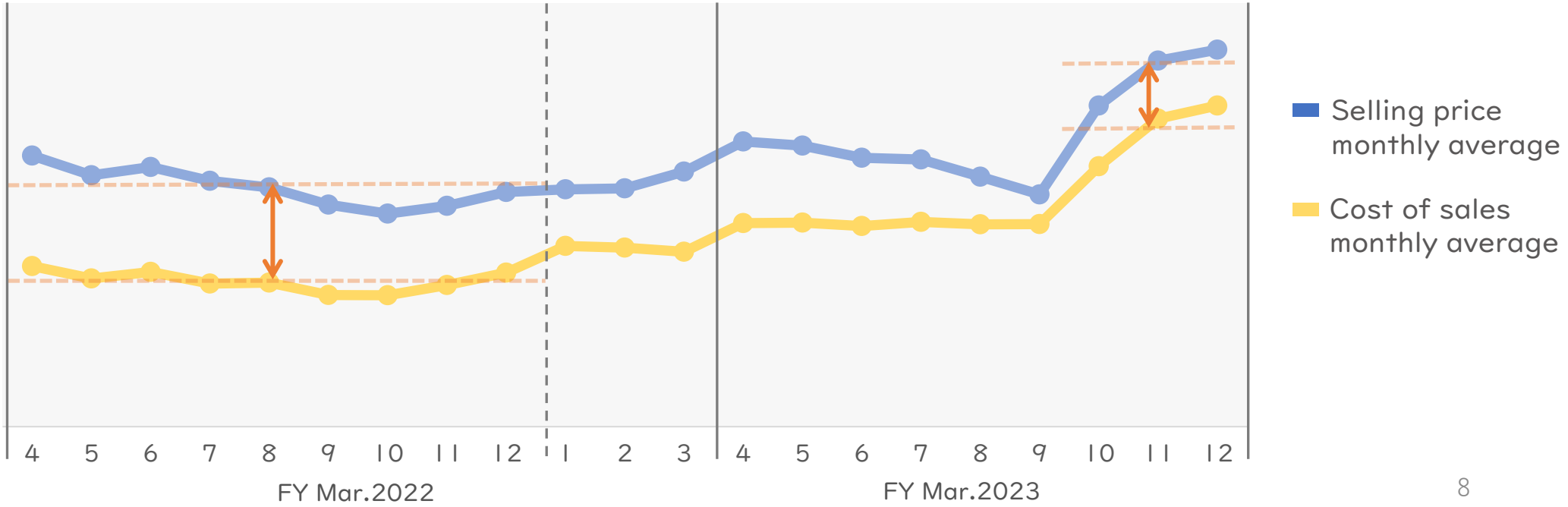
Selling Price and Cost of Sales Trends (2) Aquatic Feed

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In Q3, gross profit improved due to progress in price pass-through, but raw material prices continued to soar.

- ▶ 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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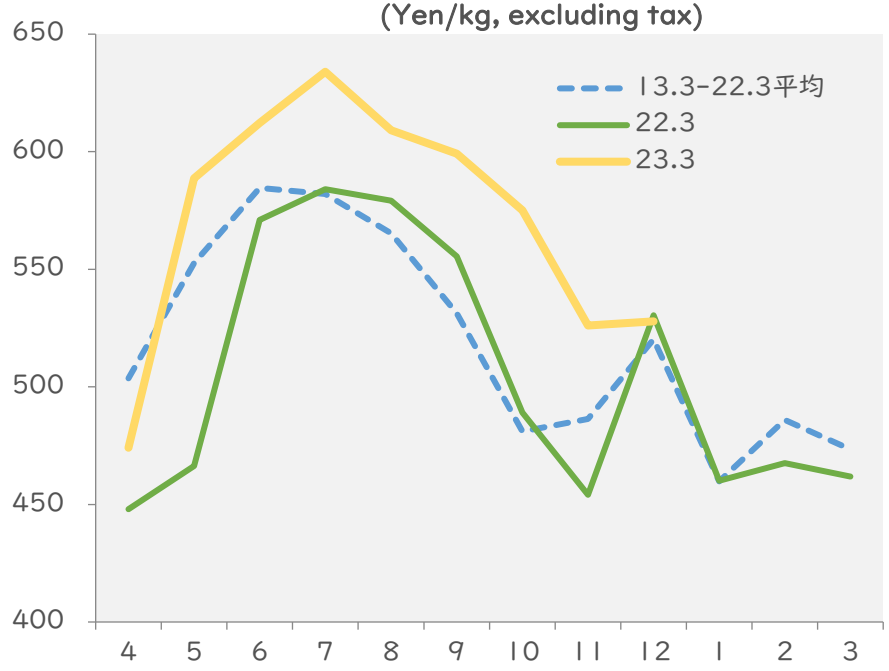
Pork Carcass Market

Egg wholesale Market

- Pork carcasses and chicken eggs are the main livestock products we handle.
- An increase in procurement costs due to rising livestock product prices is a factor in deteriorating earnings.

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

(Yen/kg, excluding tax)

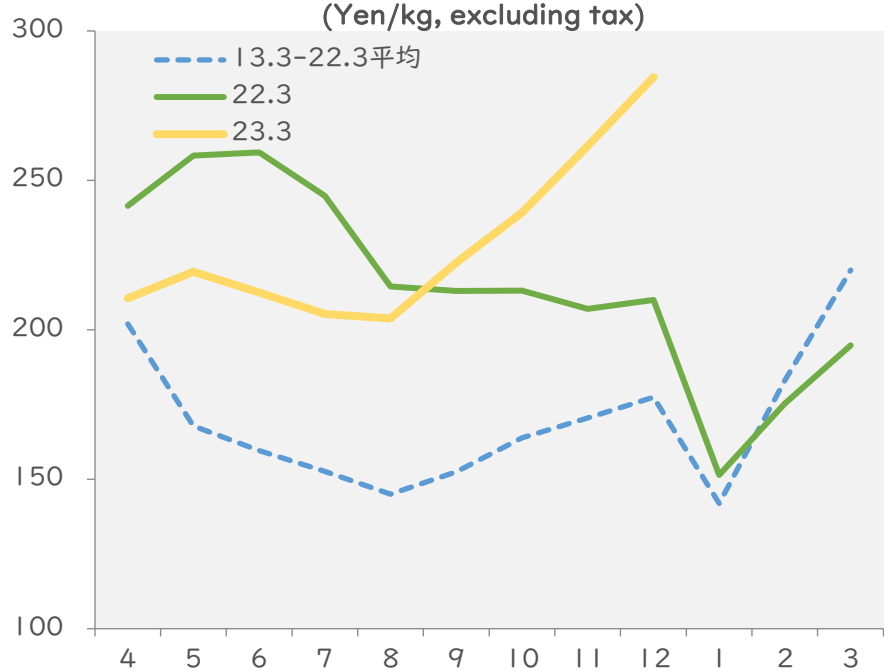


(Source: Ministry of Agriculture, Forestry and Fisheries "Meat Distribution Statistics")

- Market prices were higher than the previous year due to replacement demand from soaring imported hog prices.

Egg wholesale price (Zen-Noh: Tokyo M)

(Yen/kg, excluding tax)



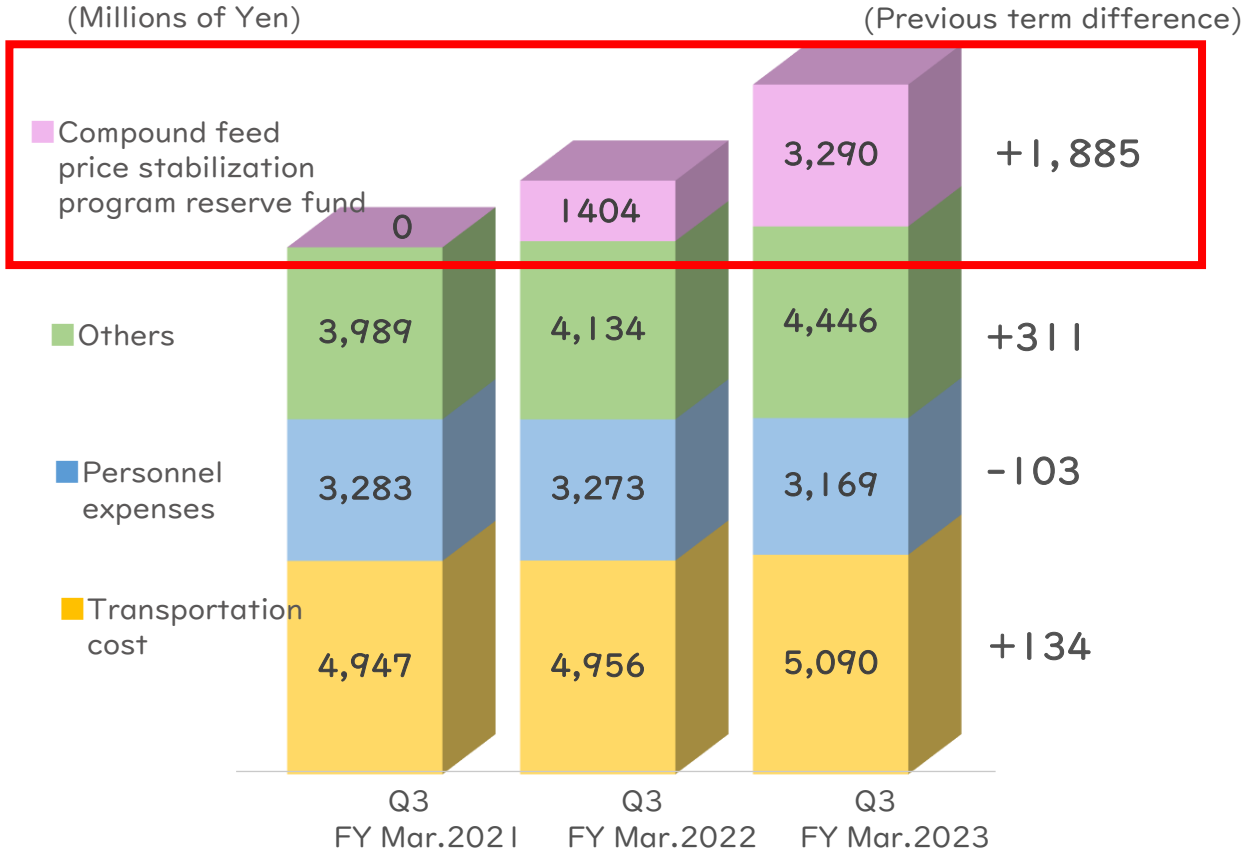
(Source: JA Zen-Noh Egg Co.)

- The market was unusually volatile, going against the usual trend of high prices in the second half of the year due to the spread of avian influenza throughout the country.

SG&A Expenses and Compound Feed Price Stabilization System

SG&A expenses

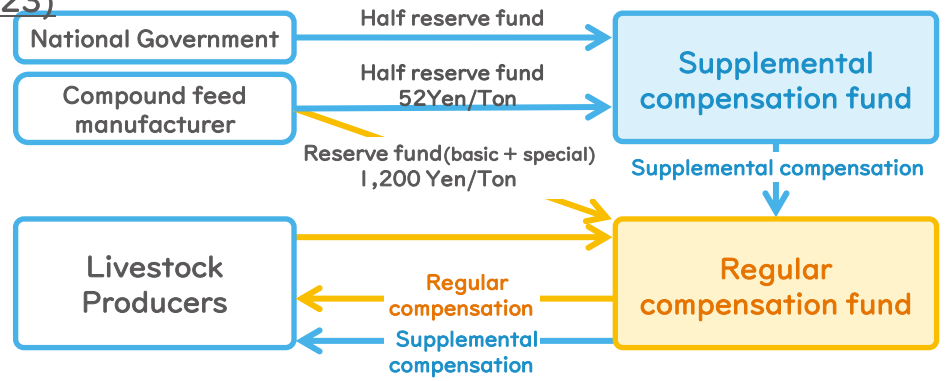
- Increase in compound feed price stabilization system reserve fund.
- Increase in other provisions for doubtful accounts and activity expenses.



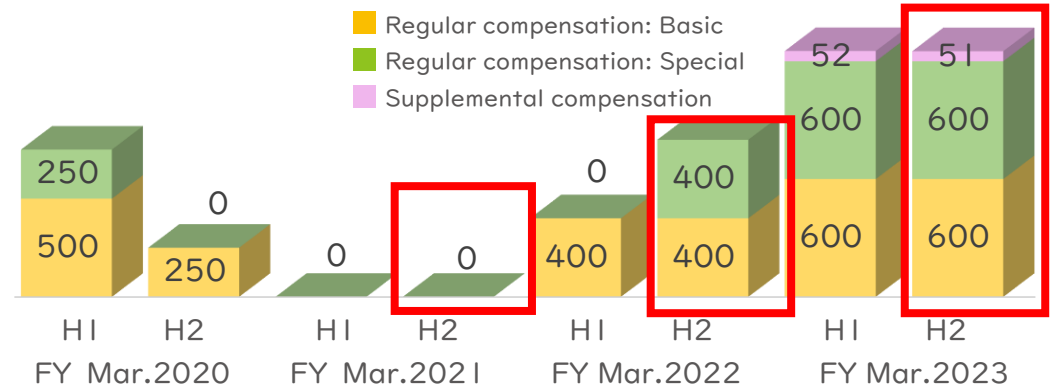
Compound feed price stabilization system

- Aim to mitigate the impact of rising feed prices on livestock operations.
- A reserve fund is triggered from FY Mar.2022 due to the grant of compensation funds. In FY Mar.2023, the unit price will be increased and a compensation fund for abnormalities will be generated.

Mechanism of the system (Example: H1 FY Mar.2023)



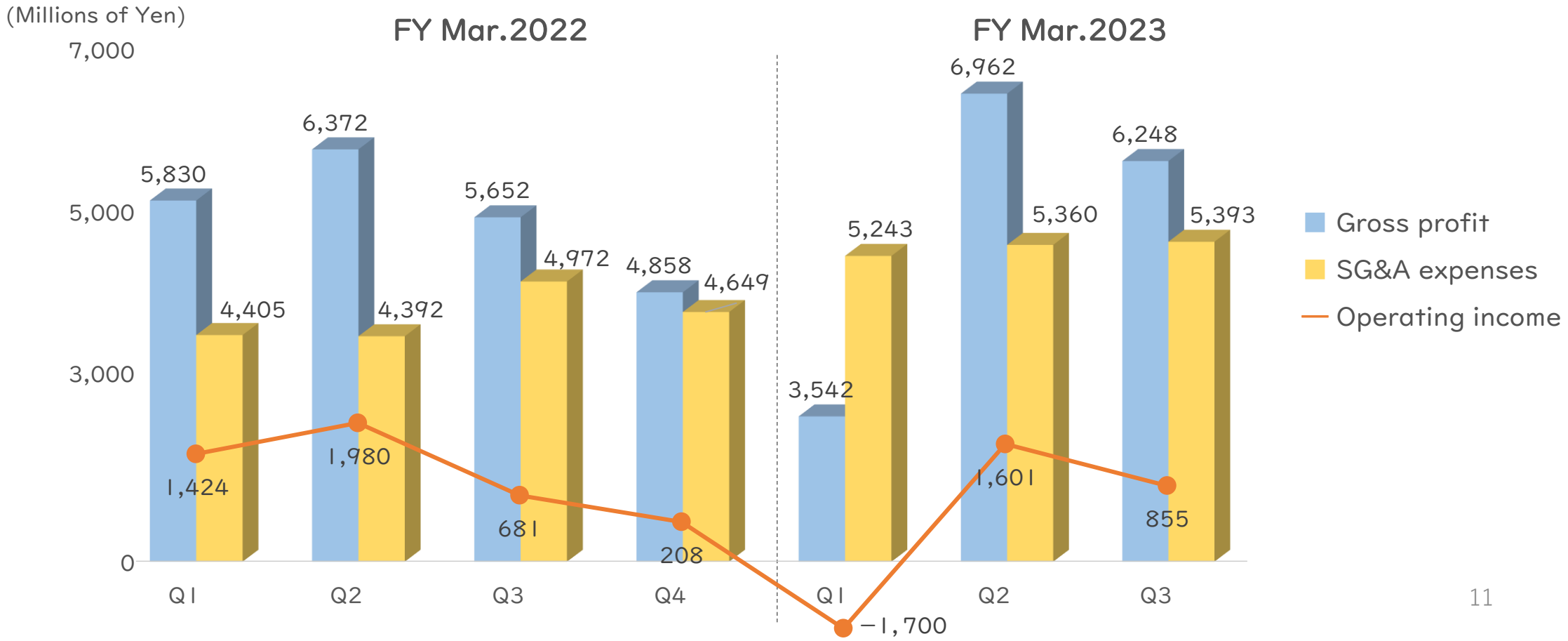
Transition of reserve fund (compound feed manufacturer)



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.
- In Q3, Animal feed prices were flat, but operating income shrank due to higher costs.



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FY Mar.2023 earnings Forecast

FY Mar.2023 earnings Forecast

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Although ordinary income exceeded the full-year forecast as of the third quarter, we have decided to leave the full-year forecast unchanged in light of the business environment in the fourth quarter.

(Millions of Yen, %)

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

※ Forecast disclosed on November 8, 2022

Summary of 4th Quarter Forecast

- Raw material prices
  Prices are expected to decline due to a lull in the trend toward a stronger dollar and weaker yen.
- Selling price
  Price reductions expected to exceed raw material price declines due to increased competition.
- Livestock Market
  Predicting a spike in the price of chicken eggs due to the avian influenza.

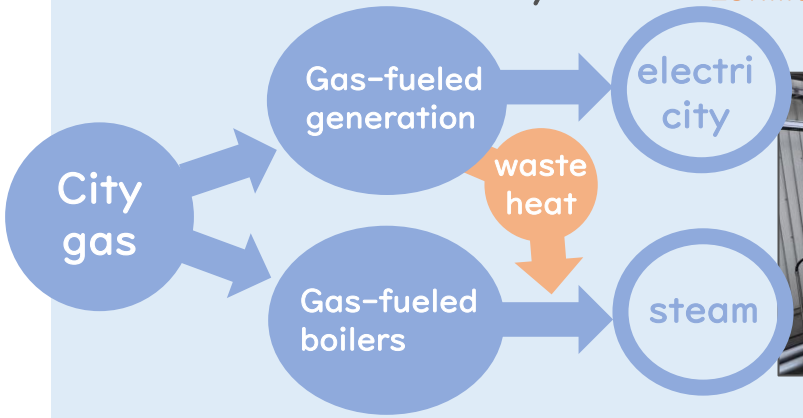


Topics

Topics -Promotion of ESG management-

● Decarbonization Initiatives

In November 2022, gas cogeneration facilities were installed at two factories in Kitakyushu. → Estimated annual reduction of approx. 200 t-CO_2





● Sponsorship and volunteer participation in the Yokohama Marathon

By volunteering, we are working to live in harmony with the community and contribute to the development of the region.





● CDP2022 Climate Change Program

For the first time this year, we responded to the annual corporate sustainability survey conducted by CDP, an international non-profit organization.

Received a "B-" score

in Climate Change 2022.

CDP
DISCLOSURE INSIGHT ACTION

● Educational Support Activities for Students

We support students' education through introductions to SDG initiatives and work experience in formula feed production and quality control operations.





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