

Revision to FY2023 Earnings Forecast and the Recording of Extraordinary Loss for Blommer

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- 1. Revision to FY2023 Earnings Forecast
and the Recording of Extraordinary Loss for Blommer**
- 2. Current Status and Future Outlook for Blommer**

1

Revision to FY2023 Earnings Forecast and the Recording of Extraordinary Loss for Blommer

Background Behind Recording Extraordinary Loss for Blommer

Background Behind Recording Extraordinary Loss and Future Outlook for Blommer

Since Blommer Acquisition

- Since acquiring Blommer in 2019, we have worked on the rapid succession of business and implemented PMI mainly aimed at productivity improvements. While there remains issues with productivity improvements due to the impact of COVID-19, we have strengthened sustainable procurement and generated synergy within the Group.
- During the period of the mid-term management plan “Reborn 2024”, Blommer has a certain level of facilities investments to pursue improvements to productivity and profitability. However, our external environment has changed significantly, including shift in the US labor market since COVID-19, hikes of interest rate, and increase in fixed costs for manufacturing. Furthermore, there were production problems at some plants. As a result, the earnings plan has been far short of the forecast for FY2022 and FY2023.
- Since 2022, Blommer has seen improvements in productivity thanks to the adoption of a plant-specific management structure. However, due to factors such as delays in improvements at certain plants and a decline in demand on US markets, current performance has vastly underperformed forecast based on assumptions made at the time of acquisition.

FY2023 Q3

- We reassessed Blommer's business challenges and profitability in light of changes in the business environment, including declining consumption due to deteriorating business conditions in the U.S. and rising raw material prices in FY2023 as well. As a result, impairment loss on goodwill and tangible assets were recognized for the third quarter of the current fiscal year, resulting in the recording of extraordinary loss.

Future Outlook

- We will work to improve management issues of Blommer in a short period of time, strengthen risk management, improve its production structure, and advance the shift to a portfolio centered on high-value-added products. Additionally, we will implement structural reforms to strengthen its business foundation and aim for the rapid restoration of profitability.
- We are planning to announce details of structural reform plan for Blommer in this fiscal year.

※Impairment loss on goodwill indicated in these materials refers to the additional amortization cost of goodwill due to impairment accounting for subsidiary shares in accordance with the provisions of Section 32 of the Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements (The Japanese Institute of Certified Public Accountants, Accounting Practice Committee Statement No. 7, October 28, 2022).

Revision to FY2023 Full-Year Forecast

Revision to FY2023 Full-Year Forecast

(Unit : JPY billion)

	FY2023 Pre-Forecast (November 2023)	FY2023 Forecast (January 2024)	Revision	FY2022 Results	YOY
Net sales	550.0	550.0	—	557.4	(7.4)
Operating profit	16.5	16.5	—	10.9	+5.6
Ordinary profit	15.0	15.0	—	9.7	+5.3
Profit attributable to owners of parent	16.0	6.5	(9.5)	6.1	+0.4

■ Net Sales, Operating Profit and Ordinary Profit

There is no change to the previous revised forecast announced in November 2023.

We plan to disclose the third quarter results and the operating profit by each businesses through the announcement of third quarter earnings on February 8.

■ Profit Attributable to Owners of Parent

Profit attributable to owners of parent is revised to 6.5 billion yen, due to having recorded extraordinary loss for Blommer.

Details and Impact of Extraordinary Loss for Blommer

Details of Extraordinary Loss for Blommer

(Unit : JPY billion)

	Amount recorded
Extraordinary loss for Blommer	(10.1)
Impairment loss on goodwill	(6.4)
Impairment loss on tangible assets	(3.7)

■ Impact of Extraordinary Loss

Recorded 10.1 billion yen as extraordinary loss for the third quarter of the current fiscal year.

• Impairment loss on goodwill

Recorded 6.4 billion yen as extraordinary loss after recognizing impairment loss on goodwill based on corporate value, calculated from Blommer's profitability.

• Impairment loss on tangible assets

Recorded 3.7 billion yen as impairment loss on tangible assets.

Details of the Impact on B/S, C/F and Dividend Policy due to Extraordinary Loss for Blommer

■ Impact to B/S

- We forecast a decrease in goodwill and tangible assets for the end of the third quarter, due to the impact of recording extraordinary loss for Blommer.

■ Impact to C/F

- We forecast improved profitability for the other businesses. Therefore, we forecast a year-on-year improvement in operating cash flow and free cash flow.

■ Impact to year-end dividend

- No change from the previous forecast of 26 yen plan.

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2

Current Status and Future Outlook for Blommer

Blommer's Summary

Blommer's Summary

Summary

Establishment 1939
 Business Industrial Chocolate Business
 Plants※ 3 plants in the U.S., 1 plant in Canada, 1 plant in China
 Position※ The Largest cocoa processor and the 2nd industrial chocolate supplier in the U.S.
 The 3rd largest industrial chocolate manufacturer in the world

※At the time of acquisition

Advantage

Blommer has the brand strength on the US industrial-use market and customer network in the U.S. consisting mainly of major manufacturer, and specializes in end-to-end manufacturing from cacao beans. Also, the company has high value-added products such as sugar-free products. We are implementing advanced initiatives for cocoa sustainability.

Blommer Acquisition

We acquired Blommer in January 2019.

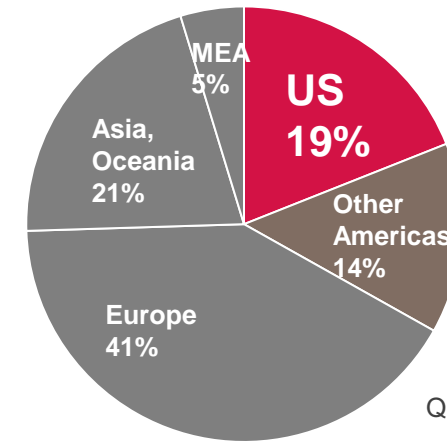
■ Purpose of acquisition

- ① Expand the Industrial Chocolate Business
- ② Strengthen our cocoa supply chain
- ③ Generate synergy

■ US market

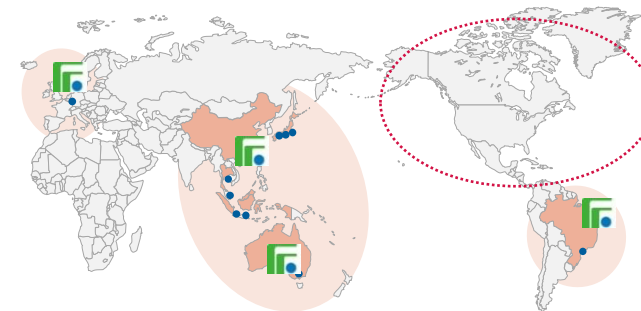
US is largest market in a single country

Market Size of Industrial Chocolate Market 2017



Quote : Company estimates

Prior to Blommer acquisition, Fuji Group did not have any chocolate plants in North America.



Measures and Issues since Acquiring Blommer

Changes in The Business Environment and Recognition of Issues

Changes in the Business Environment

The outbreak and prolongation of COVID-19 and high raw material prices due to global inflation changed significantly Blommer's external and internal business environment.

External Change Factors

- Rapid increased manufacturing fixed cost and labor cost due to inflation and hikes of interest rate
- Higher retirement rates due to changes in the work environment in some areas
- Lower sales volume due to stagnation in the US market

Internal Change Factors

- Production problems and increased fixed cost due to aging production equipment and turnover of skilled workers
- Lower sales volume at some plants due to production problems
- Operational issues in cocoa inventory management

Measures to Changes

- Strengthening the organizational structure : Improvement of management speed by dispatching headquarters management personnel and changing responsible person in production, purchasing, sales, and administrative divisions
- The adoption of a plant-specific management structure : Appropriate capital investment and staffing aiming for strong, stable, and efficient production
- Inventory management optimization : Promote measures for proper inventory management through strengthening inventory control rules of cocoa beans and collaboration between production, purchasing and sales divisions

Issues and Recognition

- Mainly the Chicago Plant, which had a weak business foundation, was greatly impacted by the external environment.
- Managing inventories was delayed due to fluctuations in interest rates and raw material prices.
- The forecast is expected to fall below forecast in FY2023 mainly due to significant changes in the external environment.
- Improvements are progressing thanks to strengthened organizational structure and plant-specific management systems. We continue initiatives for reform.

Measures and Future Initiatives

Measures and Future Initiatives

Review and reflection of measures from FY2019 to FY2023

Improving Productivity

Initial
Action
Plan

- Plan to invest 10.0 billion yen in the first three years after the acquisition for aging facilities
- Plan to improve productivity by utilizing Fuji Oil's production technology

Evaluation
and
Reflection

- Significant delays of aging measures in the first three years by the outbreak of COVID-19
- Increased equipment deterioration and production error due to the turnover of skilled workers
- Increased repair costs due to equipment deterioration at some plants

Creating Synergy within the Group

Initial
Action
Plan

- Development of Blommer's cocoa sustainability to Fuji Oil Group
- Development of high value-added products in the U.S. by utilizing Fuji Oil's technology

Evaluation
and
Reflection

- Progress in expanding Blommer's sustainable procurement to Japan and other countries
- Completion of reorganization of Blommer China to Fuji Oil China
- Delay of development of compound chocolate that utilizes Fuji Oil's oils and fats technology due to the outbreak of COVID-19

Strengthening Operating Structure

Initial
Action
Plan

- Adoption of cocoa raw material purchasing system
- Strengthening management by the adoption of a globally integrated ERP system

Evaluation
and
Reflection

- Delay of the adoption of cocoa raw material purchasing system
- Delay of the adoption of integrated a globally integrated ERP system due to issues related to internal data unification, but scheduled to be operational from FY2024

We recognized delays in improving productivity and structuring technology synergies that contribute significantly to improved business performance. We will first implement solutions to management issues in the short term to stabilize the business, and then redesign our growth strategy.

Implement structural reforms at Blommer
(Detailed information will be announced during FY2023)

Views on Structural Reform at Blommer



- **Improving Productivity**
- **Cocoa Processing Business**
- **Differentiation Strategies**

 **FUJI OIL HOLDINGS INC.**

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