Message from the CFO

Focus on Capital Efficiency and Improving Our Financial Position

Sunao Maeda

Senior Executive Officer,
Chief Financial Officer (CFO)

In July 2023, I assumed the role of CFO. Since joining the Company, I have worked mainly in finance and accounting in Japan as well as in Europe and Southeast Asia. I will apply my cumulative experience toward understanding our operating environment from a global perspective. I promise to promote a balance between financial stability and capital efficiency of the Fuji Oil Group and contribute to strengthening our management foundation and enhancing corporate value. In addition to implementing our full-year operating plan to achieve fiscal 2023 targets and the policies outlined in Reborn 2024, our mid-term management plan, I will also advance responses to our constantly changing operating environment in order to build a sound financial base.

Fiscal 2022 was a tough year for the Fuji Oil Group. While markets did shift toward mild economic growth as the global economy began to rebound from the impact of the COVID-19 pandemic, the environment influencing the Group continued to lack transparency due to global inflation, declining economic sentiment driven by monetary tightening, and soaring energy costs and raw material prices. Earnings reflected increased net sales and decreased profits, with the Vegetable Oils and Fats Business and the Industrial Chocolate Business in the United States, the Emulsified and Fermented Ingredients Business in China, and the Soy-Based Ingredients Business in Japan all recording significant declines in profits. Also, while we did reduce CCC by 11 days in part due to currency factors, the impact of higher raw material prices and yen depreciation resulted in interest-bearing debt increasing by ¥19.6 billion and the net D/E ratio worsened to 0.80, representing a decline of 0.07 points compared with the end of fiscal 2021.

Looking to accelerate action to address management issues that manifested in fiscal 2022, in fiscal 2023 we are projecting decreased net sales and increased profits. Factors contributing to higher profits include a recovery from the impact of temporary profit decline factors in fiscal 2022, including such issues as cocoa processing equipment malfunctions at Blommer in the United States, and ongoing efforts to implement appropriate sales price revisions.

As for our financial strategy, in addition to the aforementioned factors contributing to increased profits, we will also control operating cash flow with a focus on working capital to improve our financial position. Working on the assumption of a return to stability in raw material prices, we are planning to control inventory to further reduce CCC by six days to 98 days, which will generate ¥40.0 billion in operating cash flow. The Company will continue to allocate management resources while giving due consideration to capital efficiency to reduce interest-bearing debt by ¥40.0 billion compared with the end of fiscal 2022, with plans to reduce interest-bearing debt to ¥127.0 billion by the end of fiscal 2023. We project net D/E ratio will reduce to 0.56 at the end of fiscal 2023.

With Reborn 2024, we have adopted FUJI ROIC as a new tool for promoting business portfolio management. In April 2023, in light of changes in our external environment, we transferred the fixed assets of Fuji Oil New Orleans Group, a production site for oils and fats in the United States, as part of a shift to a business portfolio focused on high-value-added products. These initiatives related to our financial position will not only contribute to resolving management issues but also generate synergy with efforts to strengthen business-axis management, further promote the shift from existing domains to high-value-added new business fields, and contribute to sustainable growth for the Fuji Oil Group.

We recognize the concern among stakeholders regarding recent performance. The Fuji Oil Group is committed to uniting toward achieving the performance targets outlined for fiscal 2023, restoring problem businesses to profitability, and working to improve its financial position.

Financial Strategy

Efforts Aimed at Strengthening Our Financial Structure and Improving Capital Efficiency

Even amid a difficult operating environment of stagnant sales volume due to rising raw material prices and the impact of the COVID-19 pandemic, concerns of a recession due to global inflation and the burden of high interest rates, we will work to recover performance while strengthening our ability to generate cash. From 2022, the United States and countries in Europe in particular have continued policies of raising interest rates, and that has occurred simultaneously with ongoing yen depreciation. This situation has created an environment in which both foreign currency debt cost and balance sheet control have become critical issues. We will strengthen our financial structure by increasing efforts to diversify capital procurement while hedging foreign currency and interest rate risks.

We will also incorporate FUJI ROIC, the performance indicator we adopted from Reborn 2024, into each business division and at the workplace level as we unite as a Group toward raising our capital efficiency and strengthening our financial structure. As part of selection and concentration with a focus on capital efficiency, in fiscal 2023 we transferred the fixed assets of Fuji Oil New Orleans, LLC, for which we will record an extraordinary gain of approximately ¥12.0 billion. This was a difficult decision as the plant was part of our growth strategy and had already received significant capital injection, but I believe it was a truly meaningful decision in terms of acting from the perspective of ROIC management.

Furthermore, June 2024 marks the first call* for subordinated bonds issued after acquiring Blommer. Fiscal 2023 will be an important year in terms of advancing preparations for this first call.

* For subordinated bonds with early redemption clauses, the first call represents the first accelerated redemption date among redemption dates stipulated at the time of issuance.

Mid-Term Management Plan Reborn 2024 Strategy and Targets

Reborn 2024		FY2022 Results	FY2023 Plan
Operating Cash Flow	Approx. ¥85.0 billion (3-year cumulative total)	Operating Cash Flow: ¥7.6 billion	Operating Cash Flow: ¥40.0 billion
Improve financial position	• Reduce interest-bearing debt • Ensure redemption of subordinated bonds	• Interest-bearing debt rose by ¥19.6 billion due to increase in working capital to address rising raw material prices	• Reduce interest-bearing debt by transferring fixed assets of North American Vegetable Oils and Fats Business • Prepared for the first call of subordinated bonds
Improve capital efficiency	• Set and promote adoption of FUJI ROIC • Ensure strict selection of investments and reduce cross-shareholdings • Improve working capital and shorten and optimize CCC (reduce from 115 days to 103 days)	• Adopted ROIC management • Sold stock of four companies held as cross-shareholdings • Reduced CCC by 11 days YoY (to 104 days)	• Work to improve ROIC by setting KPIs and introducing target management at workplace level • Update investment management regulations • Continue reducing cross-shareholdings • Reduce CCC by 6 days YoY (to 98 days)
Strengthen financial monitoring	• Strengthen profit management • Implement risk mitigation, internal controls, and implement financial risk mitigation policies • Publish and start implementing tax policy	• Strengthened profit management Switched to uniform accounting periods for two consolidated subsidiaries • Published and started implementing tax policies	• Strengthen profit management Continue efforts to switch to uniform accounting period for Blommer, last company with different accounting period
Allocation			
Capital expenditures: Approx. ¥60.0 billion (3-year cumulative total)	• Growth investments focused on Industrial Chocolate Business in Americas • Rationalization investment, including reduction of environmental impact	• Capital expenditures: ¥21.5 billion Blommer: ¥3.9 billion Harald (No. 2 Plant): ¥3.9 billion	• Capital investments: Strict selection
Reduction of interest-bearing debt	• Improvement of D/E ratio	• Net D/E ratio: 0.80	• Net D/E ratio of 0.56
Shareholder returns	• Stable dividends, targeting dividend payout ratio of 30%–40%	• Year-end dividend: ¥52 Dividend payout ratio: 73.0%	• Forecast year-end dividend: ¥52 Forecast dividend payout ratio: 28.0%

Efforts to Improve FUJI ROIC

From the start of Reborn 2024, the Fuji Oil Group has been incorporating FUJI ROIC into Group management. Serving as a metric that enables us to ascertain and manage capital efficiency for each business and management unit, FUJI ROIC sets working capital and fixed assets as the denominator value. In fiscal 2022, in addition to stagnant operating profit particularly in the Americas, the Group experienced an increase in working capital due to soaring raw material prices and yen depreciation resulted in higher yen conversion costs for capital in foreign currency. As a result, companywide FUJI ROIC worsened to 2.0%.

In fiscal 2023, we plan to raise companywide FUJI ROIC to 3.2% by improving the core profitability of Group companies, continuing to apply strict standards to capital investments, and controlling working capital. To achieve this plan, from fiscal 2023 each Group company worksite is adopting a budget creation process by using an ROIC tree to conduct a factor analysis of structural elements that contribute to capital efficiency. Based on this approach, we began conducting target management by outlining feasible measures and setting KPIs for each location, thereby creating an approach whereby, through the common term ROIC, management and worksites unite toward improving capital efficiency. This framework also involves the holding company conducting regular monitoring of major KPIs and, as necessary, having its business divisions and administrative functions provide support.

To strengthen business portfolio management, in fiscal 2023 we will reevaluate investment management regulations related to new investments and the review and withdrawal decision-making process for after investments have been made. These new investment management regulations will aggressively incorporate ROIC to promote more appropriate decision-making at each management level and promote the formation of a strong business portfolio.

FUJI ROIC

$$\text{FUJI ROIC} = \frac{\text{Operating profit after tax}}{\text{Working capital + Fixed assets}}$$

FY2024 Targets

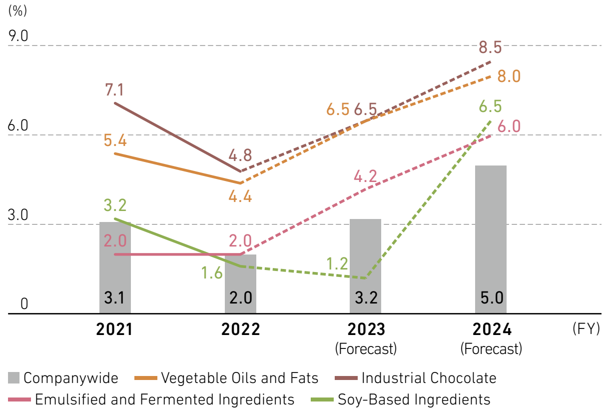
Companywide FUJI ROIC

Achieve assumed weighted average cost of capital (WACC) (5%) during mid-term management plan period

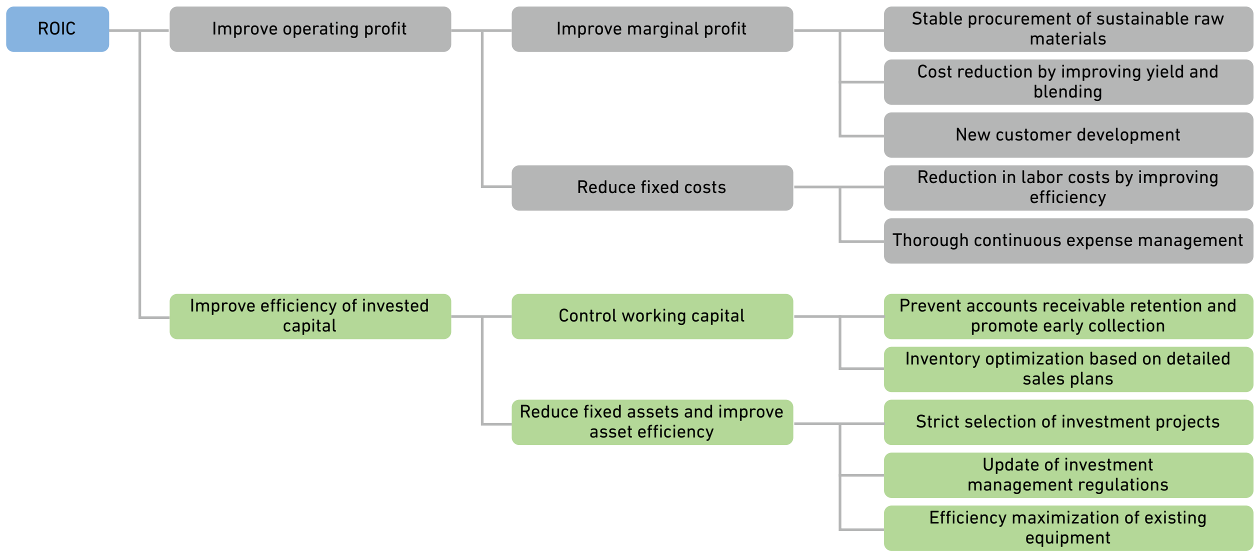
FUJI ROIC of each business unit

Allocate management resources in business units to achieve assumed cost of capital (6%)

Companywide and Business-Specific FUJI ROIC

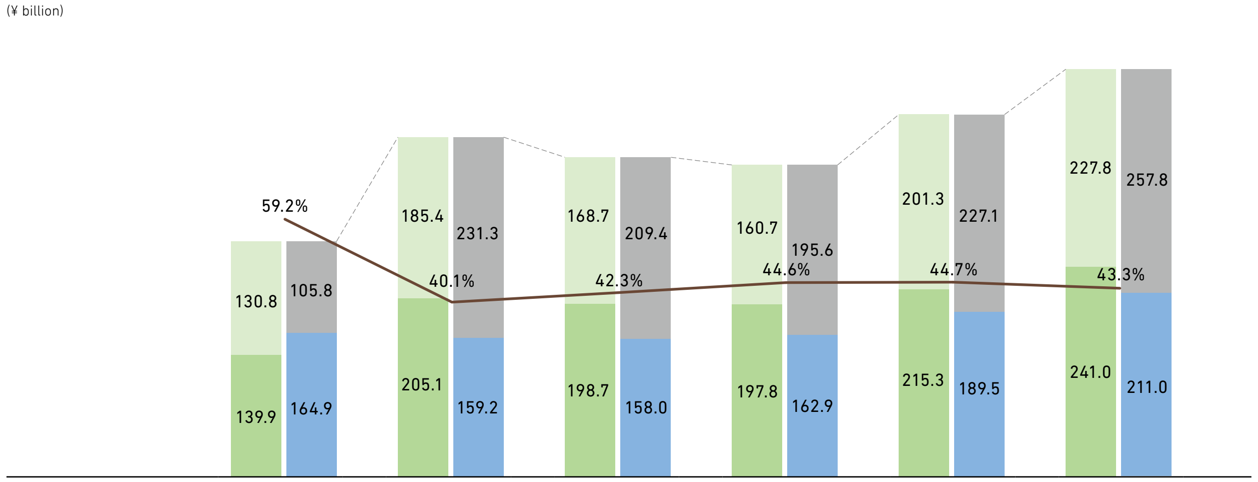


KPI Setting and Target Management Using ROIC Tree



Balance Sheet Management

Balance Sheet Composition and Equity Ratio

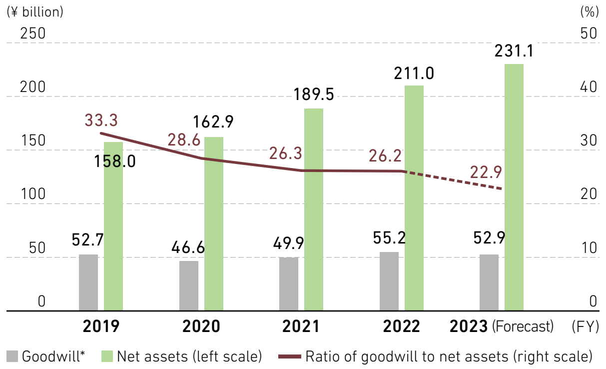


(FY)	2017	2018	2019	2020	2021	2022
Total assets	¥270.7 billion	¥390.5 billion	¥367.4 billion	¥358.5 billion	¥416.6 billion	¥468.8 billion
Equity ratio	59.2%	40.1%	42.3%	44.6%	44.7%	43.3%
NET Working capital*	¥63.3 billion	¥17.1 billion	¥63.2 billion	¥69.7 billion	¥80.5 billion	¥81.9 billion

* NET Working capital = Current assets − Current liabilities

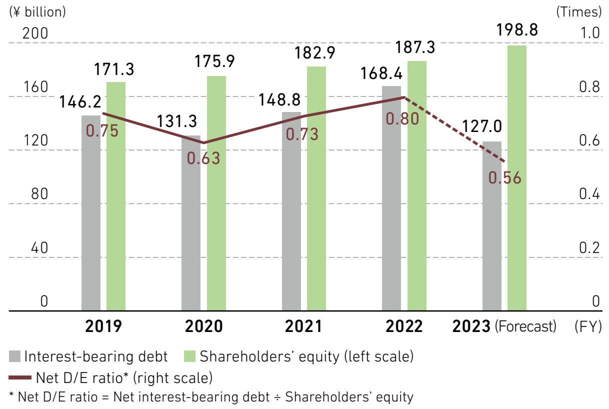
Current assets / Fixed assets/Other / Liabilities / Net assets / Equity ratio

Ratio of Goodwill* to Net Assets



* Utilization of goodwill (in a broad sense)

Net D/E Ratio*



* Net D/E ratio = Net interest-bearing debt ÷ Shareholders' equity

Total assets have been on an increasing trend since fiscal 2017. In fiscal 2018, total assets increased on the acquisition of Blommer (Industrial Chocolate Business), and working capital has increased since fiscal 2021 due to rising raw material prices.

In fiscal 2022, the price of foreign currency asset conversion ballooned due to yen depreciation, causing total assets to reach ¥468.8 billion at fiscal year-end. Of that amount, goodwill (general) amounted to ¥55.2 billion, with the ratio of goodwill to net assets remaining firmly above 20%. Also, interest-bearing debt in fiscal 2022 reached ¥168.4 billion, with the net D/E ratio worsening to 0.80, From the perspective of improving capital efficiency and strengthening our financial structure, I believe it critical that we improve our balance sheet.

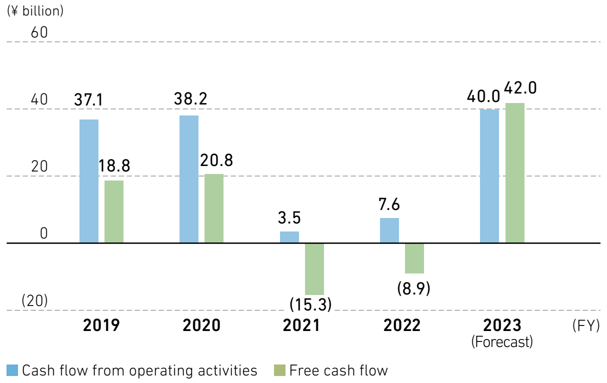
In fiscal 2023, we will continue to promote the business portfolio management initiatives commenced during the previous fiscal year. Additionally, we will reduce interest-bearing debt to improve our balance sheet and the net D/E ratio. To further strengthen the Group's financial position, we will build a sound balance sheet by accelerating efforts to strengthen our business platform and improve profitability.

Cash Flow Management

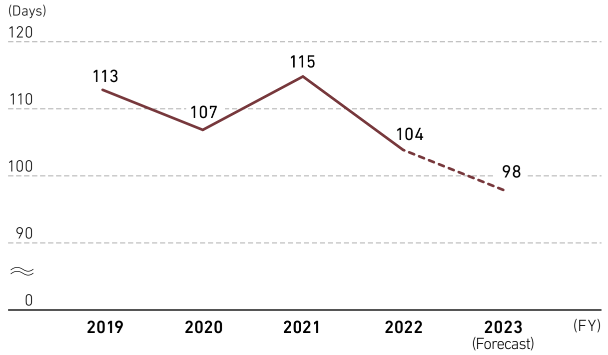
For the cumulative three-year period of Reborn 2024, we are targeting total operating cash flow of approximately ¥85.0 billion. In fiscal 2022, working capital increased due to higher raw material prices, which resulted in cash flow from operating activities of ¥7.6 billion, meaning we were unable to achieve the large-scale improvements outlined in plans at the beginning of the period. Also, while we controlled cash flow from investing activities, investment amounts were beyond what could be covered by operating cash flow, thereby resulting in two consecutive years of negative free cash flow.

Accordingly, to ensure we maintain financial discipline, we are prioritizing the generation of ¥10.0 billion or more per year in free cash flow through steady profit growth and CCC reduction. In fiscal 2023, we forecast cash flow from operating activities of ¥40.0 billion and free cash flow of ¥42.0 billion on a reduction in working capital attributable to a drop in the price of palm oil, one of our key raw materials, and the transfer of fixed assets in the North American Vegetable Oils and Fats Business. Moving forward, not only will we pursue increased profits by engaging in high-value-added businesses, but we will also focus on generating free cash flow by implementing various policies such as reducing working capital (improve CCC) and strict selection of capital investments.

Cash Flow



Cash Conversion Cycle

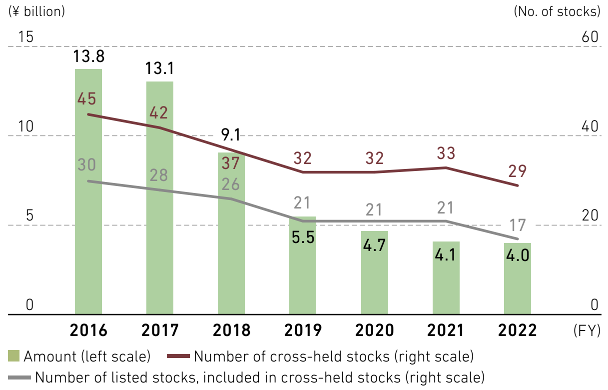


* The figure for fiscal 2019 has been calculated based on 12 months of results for Group companies that changed their accounting period.

Reduction of Cross-Shareholdings

The Fuji Oil Group has worked to reduce cross-shareholdings since fiscal 2015 following the enforcement of Japan's Corporate Governance Code. As of the end of fiscal 2022, approximately 70% of the total acquired value of shares that we had owned have been sold compared with fiscal 2015. Furthermore, of listed shares we had retained, we have completely sold all of our holdings in 16 listed stocks. Moving forward, we will continue to evaluate our holdings through comparisons with the cost of capital. Even in cases where we deem the retention of cross-shareholdings to be reasonable, we will reduce holdings of those stocks as we work to improve our capital efficiency and financial position.

Cross-Shareholdings



State of Capital Investment

In April 2023, operations commenced at the Fuji Brandenburg plant and the Harald No. 2 Plant, and a cream production factory in China began operating in August. For Blommer, we plan to make capital investments of ¥10.0 billion over the three-year period of Reborn 2024 to address aging facilities and production bottlenecks. We will continue to conduct capital investments to maximize current assets and to promote safety and security. I believe these investments are important to responding to market demand, supporting growth, and promoting capital efficiency.

Company Name	
Blommer Chocolate Company **Americas (United States) / Industrial Chocolate Business**	Capital investments to address aging facilities and resolve production bottlenecks
HARALD INDÚSTRIA E COMÉRCIO DE ALIMENTOS LTDA **Americas (Brazil) / Industrial Chocolate Business**	April 2023: No. 2 Plant commenced operations
Fuji Brandenburg GmbH **Europe (Germany) / Soy-Based Ingredients Business (soluble pea fiber)**	April 2023: Commenced operations
FUJI OIL (ZHAOQING) CO., LTD. **China / Emulsified and Fermented Ingredients Business**	August 2023: Commenced operations

Investments in Intangible Assets to Promote Growth

In addition to business investments and capital investments, we will also engage in investments in intangible assets to create new value.

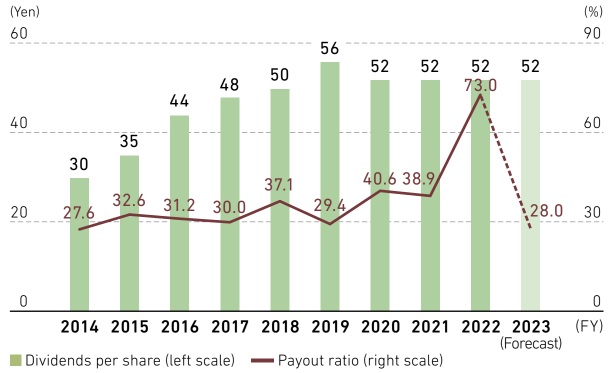
We plan to allocate roughly ¥4.0 billion toward DX to adopt a globally integrated ERP systems during the period of Reborn 2024. For R&D, the source of future profits, we allocated ¥5.7 billion in fiscal 2022 to maintain a certain level of investments even amid the difficult business environment. We will also invest in human resources, including to foster the personnel who will support the Fuji Oil Group's future growth and to raise employee engagement.

Shareholder Return Policy

As a management target for dividends during the period of Reborn 2024, we have set a dividend payout ratio of 30%–40%, and our policy is to strive for the stable and continuous issuance of dividends. In accordance with this policy, we plan to pay a full-year dividend of ¥52 per share in fiscal 2023, the same amount as in the previous fiscal year.

Since the COVID-19 pandemic, we have kept full-year dividends at ¥52. In order to prepare for unforeseen circumstances, further enhancement of our financial structure is an issue. Moving forward, we will continue to evaluate shareholder returns based on a comprehensive analysis of growth investments needed for future business development, profit levels, and dividend payout ratios, among other factors.

Dividends per Share / Payout Ratio



Responses to Address Capital Efficiency and Stock Price Levels

We adopted FUJI ROIC and are advancing initiatives toward improving capital efficiency on a business-specific level. We are aggressively incorporating the concept of ROIC into new investment management standards and are making decisions on business continuation or withdrawal. We recognize that the Company's stock price has not risen because our result of Blommer, acquired in our Group, has not met expectations as well and our overall results have been sluggish due to high raw material of the Fuji Oil Group. We will strive to improve corporate value by rebuilding business at Blommer and returning to a growth trajectory.

Improvements in Corporate Value by Communicating with Capital Markets

We recognize that communicating with capital markets is an important part of contributing to improvements in corporate value. Led by the Company's CEO and CFO, directors, including outside directors, and senior management personnel proactively engage in external communication. We listen closely to the opinions of investors and analysts and work to incorporate that feedback into improving the Company's management. By using the Integrated Report, we are also strengthening efforts to engage in specific dialogue focused on the direction of our medium- to long-term strategy, including perspectives related to non-financial information. We will continue working to enhance our communication with capital markets as we strive to improve the effectiveness of management and enhance our corporate value.

Cycle of Corporate Value Improvements through Communication