

Eat Well, Live Well.



# **Ajinomoto Co., Inc. (2802) Forecast for FY2019 (Ending March 31, 2020) with Outlook**

**Takaaki Nishii  
President & CEO**

**November 6, 2019**

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# Contents

- I. Financial Statements for the Interim Period Ended September 30, 2019  
and Forecast
- II. Progress on Initiatives for the Next Medium-Term Management Plan

Reference Material

Appendixes: Consolidated Results Interim Period Ended September 30, 2019  
FY2019 Revised Forecast by Segment

Note: Business profit (consolidated) in this material:

Sales - Cost of sales - Selling expenses, Research & development expenses and General & administrative expenses + Share of profit of associates and joint ventures

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# I-1. Financial Statements for the Interim Period Ended September 30, 2019

Despite robust performance of the food products business (except for Vietnam and PH\*), sales decreased due to a slump in the animal nutrition business, but profit increased.

Year-on-Year (% increase/decrease)	Sales	Business profit
1Q-FY19	-1%	+28%
2Q-FY19	-1%	-11%
1H-FY19	-1%	+7%
Excluding currency translations and exchange rates in trade	(-0%)	(+9%)

\*Promasidor Holdings Limited

- Effect of exchange rates in translation and trade in 1H: Sales - ¥6.4 bil., BP - ¥0.4 bil.

Downward revision of the initial forecast for FY2019. Sales will be at the level of the previous year, but business profit will be lower.

	Sales	Business profit
FY2019 Revised forecast	¥1,138.5 bil.	¥88.0 bil.
(Versus initial forecast)	-2%	-9%
(Versus previous year)	+1%	-5%

★For details, refer to handout material: Consolidated Results Interim Period Ended September 30, 2019

## I-2. Summary by Segment for Interim Period Ended September 30, 2019

- ◆ If the animal nutrition business is exempted, the food products and AminoScience businesses remained robust.

Versus previous year (Unit: ¥billion)

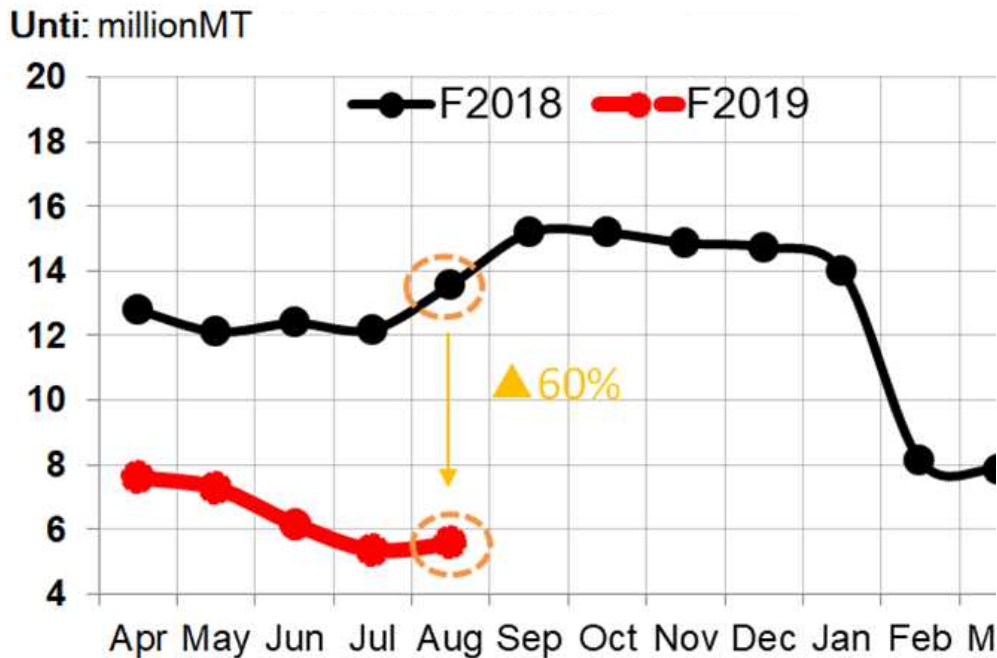
Segment	Vs. previous year	Comments	Segment	Vs. previous year	Comments
<b>Japan Food Products</b>			<b>International Food Products</b>		<b>Revised down</b>
Sales	-0.7	Decline in sales of coffee and bakery products, etc.	Sales	-1.9	Impact of Vietnam distribution inventory, impact of exchange rates, etc. (about the same as the previous year on local currency base)
Business profit	2.3	Robust overall	Business profit	2.7	Impact of impairment loss on PH trademark rights: -3.8
<b>Life Support</b>		<b>Revised down</b>	<b>Healthcare</b>		
Sales	-6.9	Animal nutrition business Impact of African swine fever	Sales	1.1	Amino acids robust
Business profit	-2.3		Business profit	0.7	



External Environment of Animal Nutrition Business

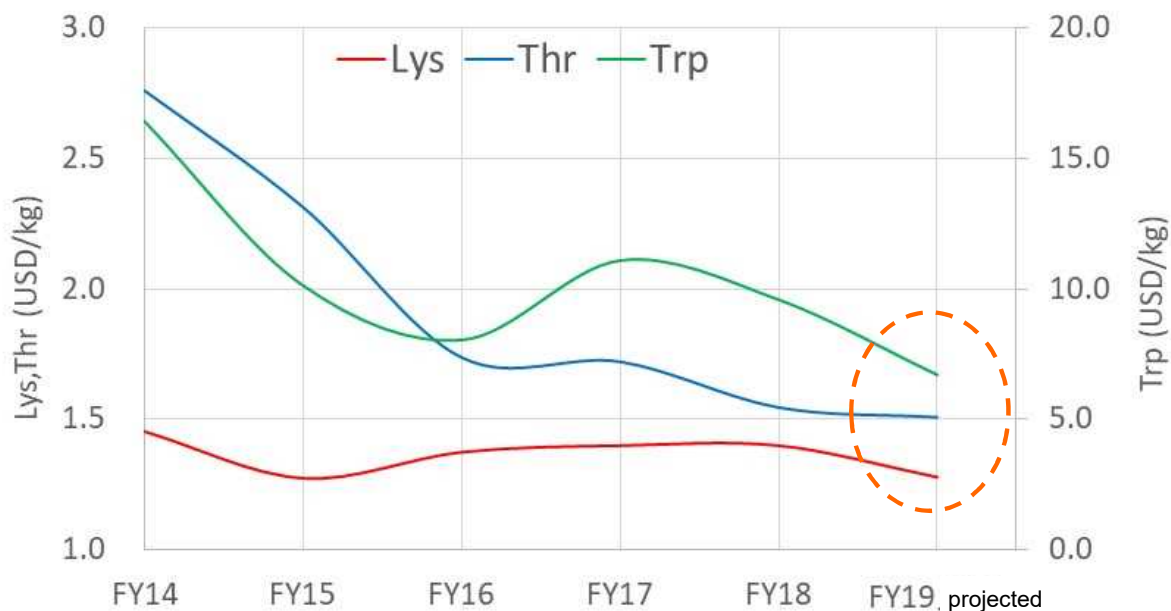
- The area affected by African swine fever has spread from China to eastern Asia and eastern Europe, and many think the impact will be prolonged as there is no vaccine.
- Sharp decline in number of pigs farmed and production of animal feed in China, which accounts for 40–50%<sup>1</sup> of global pork production.
  - ⇒ Stiffening price competition due to increase in amino acid exports from China.
- Market prices for lysine, threonine, and tryptophan all on downward trend at same time.
  - ⇒ Expected to remain low in going forward due to continuation of challenging external environment.

China Pig Feed Production<sup>1</sup>

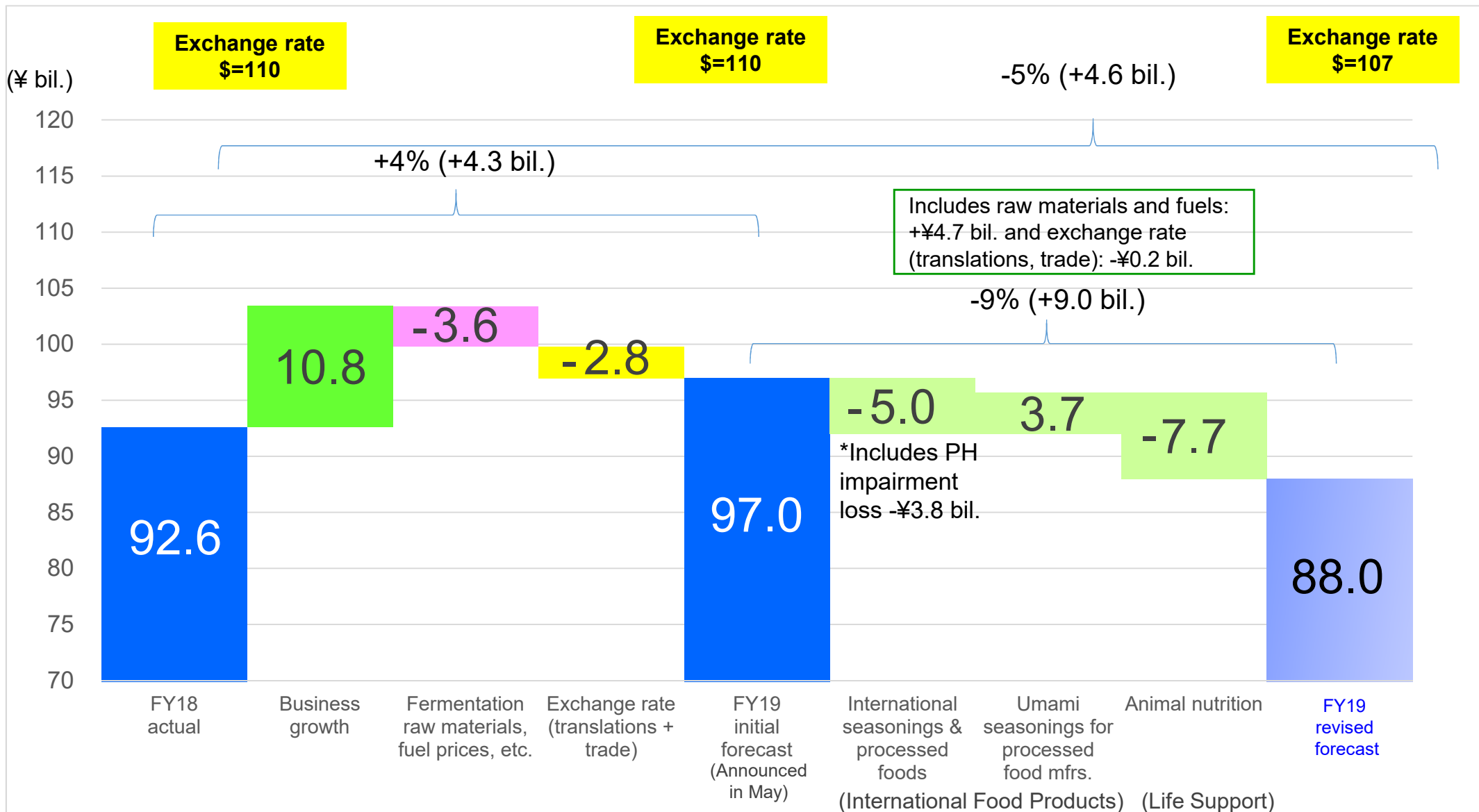


1: Estimated values by Ajinomoto Co.

Market prices<sup>1</sup> for lysine, threonine, and tryptophan



# I-4. Factors Influencing Revised Forecast of Business Profit for FY2019



## I-5. Recording of Impairment Loss in Interim Period Ended September 30, 2019

Recorded impairment loss and impairment loss on investment accounted for using the equity method

(Unit: ¥billion)

Impact on each level of profit	Business Profit	Operating profit Profit before income taxes	Profit attributable to owners of the parent company	Comments
(1) Animal nutrition	-	14.9	11.7	<b>Life Support: animal nutrition</b> Production equipment
(2) Promasidor Holdings Limited	-	4.2	4.2	<b>International Food Products: seasonings &amp; processed foods</b> Impairment loss on investment (goodwill)
	3.8	3.8	3.8	Trademark rights
(3) Bakery business	-	3.8	2.9	<b>Japan Food Products: seasonings &amp; processed foods</b> Production equipment
Total	3.8	26.9	22.8	



## I-6. Profit for FY2019

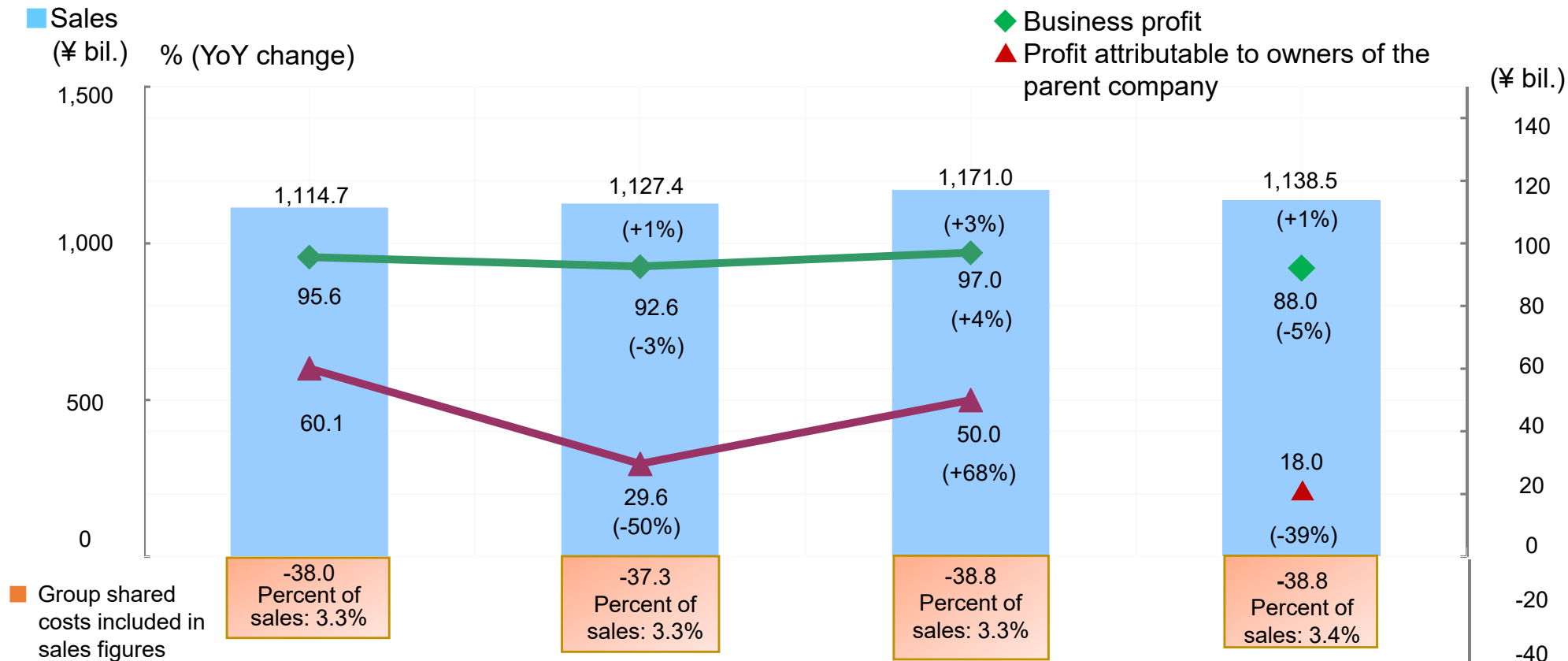
Given financial results in 2Q, revised profit for FY2019 down due to recording of some additional expenses brought forward for asset light measures.

(¥ Billion) -: losses	FY19 Revised forecast	FY19 Initial forecast	Vs. initial forecast	FY18 Actual	Vs. previous year	Comments
Sales	1,138.5	1,171.0	-32.6	1,127.4	11.0	
Business profit	88.0	97.0	-9.0	92.6	-4.6	Of which PH impairment loss: -3.8
Other operating income & expenses	-45.9	-14.3	-31.6	-39.4	-6.4	
Impairment losses	-23.3	-	-23.0	-34.6	11.6	2Q/FY19:-23.0
Other	-22.6	-14.3	-8.6	-4.7	-18.2	Structural reform costs: -15.0
Operating profit	42.0	82.6	-40.5	53.1	-11.0	
Financial income & expenses	0.1	0.3	-0.1	1.0	-0.8	
Profit before income taxes	42.2	83.0	-40.7	54.2	-11.9	
Income taxes	-15.0	-23.8	8.7	-17.7	2.6	Tax rate: Initial forecast: 28.7%, revised forecast: 35.7%
Profit (includes discontinued operations)	27.2	59.2	-32.0	39.0	-11.8	
Profit attributable to owners of the parent company	18.0	50.0	-32.0	29.6	-11.6	
Profit attributable to non-controlling interests	9.2	9.2	0.0	9.3	-0.1	



# I-7. Progress on the FY2017–2019 (for 2020) Medium-Term Management Plan

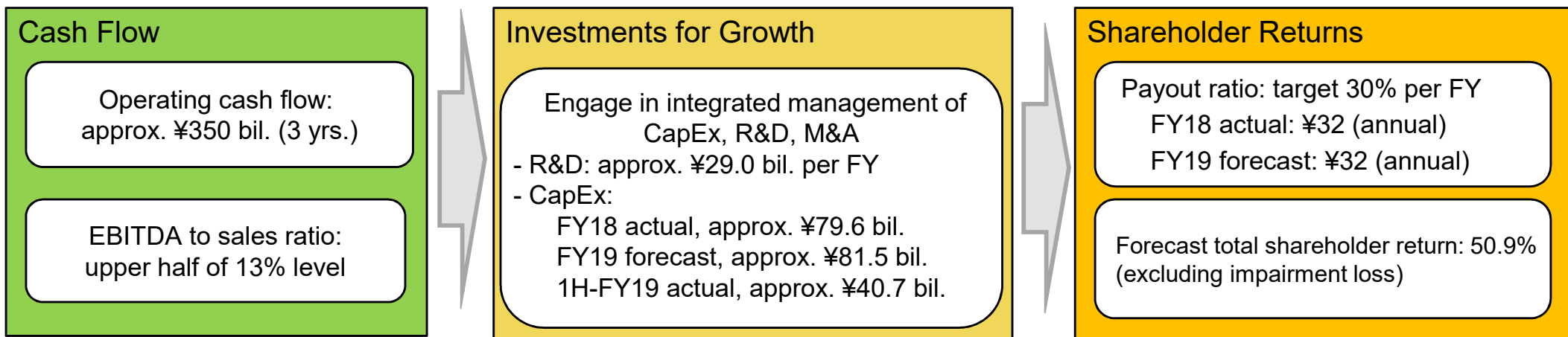
AIINOMOTO.



	FY17 Actual	FY18 Actual	FY19 Initial forecast	FY19 Revised forecast
Business profit margin	8.6%	8.2%	8.3%	7.7%
ROE	9.6%	4.7%	8.0%	3.0%
ROA	6.9%	6.6%	6.5%	6.2%
EPS	¥105.76	¥53.62	¥91.30	¥32.84

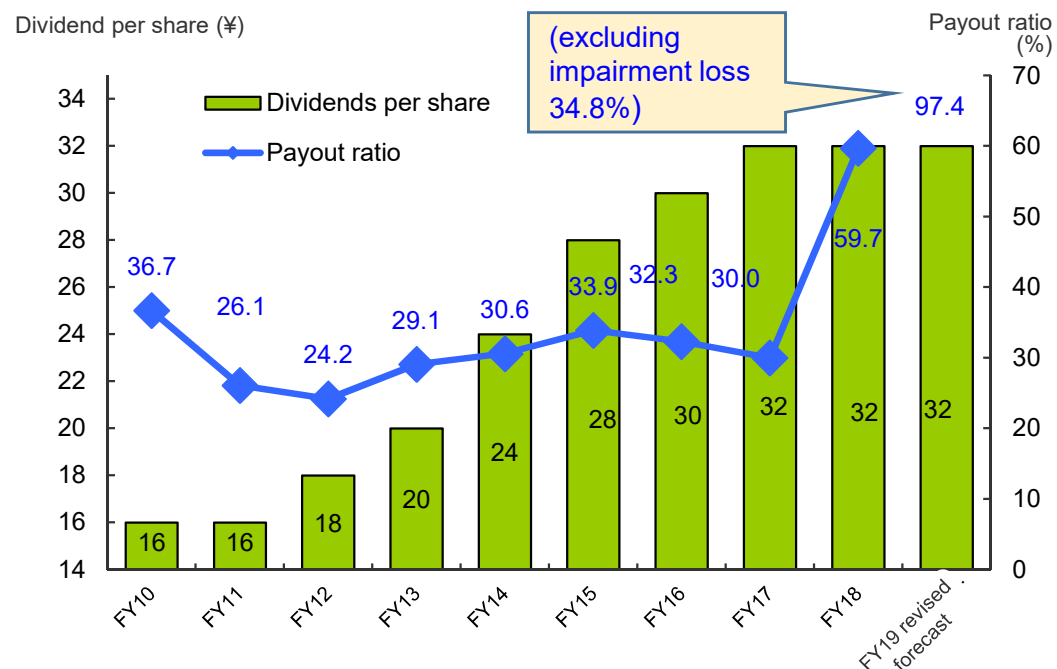
# I-8. Approach to Shareholder Returns in FY2019

Will achieve shareholder returns in line with initial forecast in FY2019 despite downward revision



- R&D: FY18 ¥27.8 bil.; 1H-FY19 actual: ¥13.8 bil.
- Capex:
  - FY18 strategic investment 53%, maintenance investment 47%
  - FY19 strategic investment 59%, maintenance investment 41%
  - (FY17-19 plan: ¥230.0 bil. FY17-19 projected: ¥240.5 bil.)
- M&A: finance by using interest-bearing debt (aim for D/E ratio of 50%; March 31, 2019 actual: 36.3%; September 30, 2019 actual: 37.6%)
- Aim to repurchase non-controlling interests by FY19 end

Net debt is interest-bearing debt - Cash on hand and in banks x 75%



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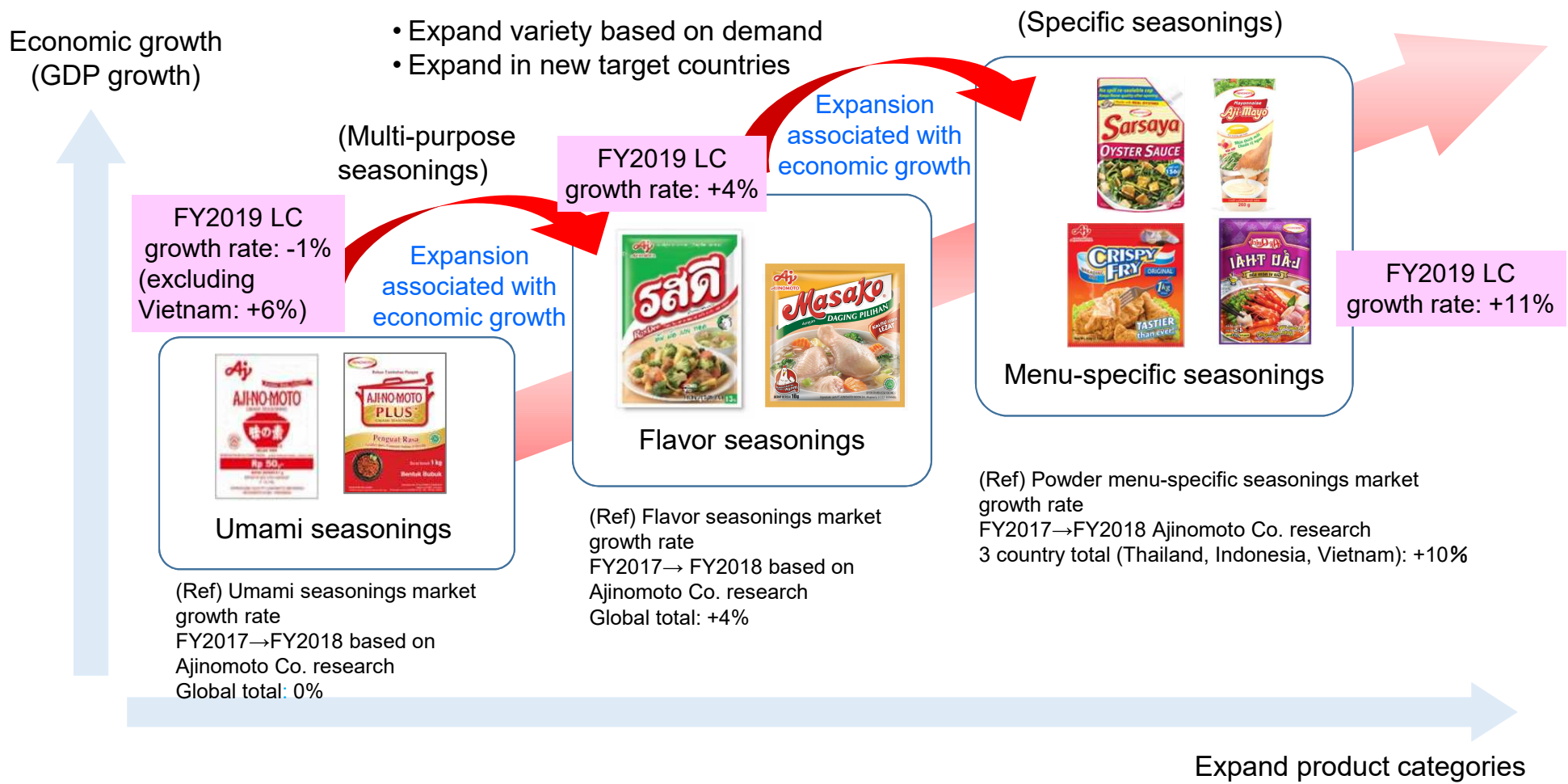
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# II-1. Growth Strategy

## International Food Products: Seasonings (GROW 1)

◆ Actively expand savory business through expansion of flavor seasonings, which have a large market, and menu-specific seasonings, which have high growth potential, based on umami seasonings.



# II-1. Growth Strategy International Food Products: Seasonings (GROW 1)

- ◆ Business with resilience despite low GDP growth and emergence of local manufacturers.
- ◆ Accelerate growth by providing solutions to global health issues.

## 1. Ensure competitive advantage

Development of products adapted to the locality (Creative capabilities)



Be particular about raw materials and ingredients, locally-based product development and untiring quality enhancement

×

No. 1 brand (Communication capabilities)



Become a trusted brand by sharing information via TV commercials, social media, etc. on how to use in key menus

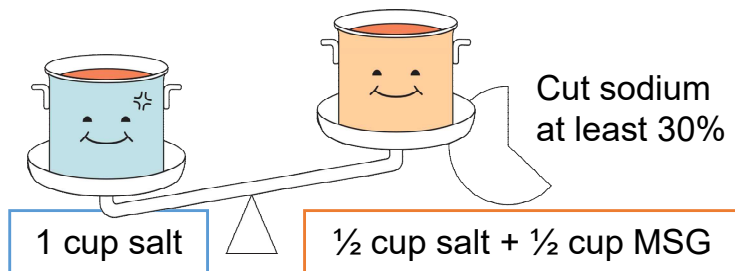
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Reaching customers (Delivery capabilities)



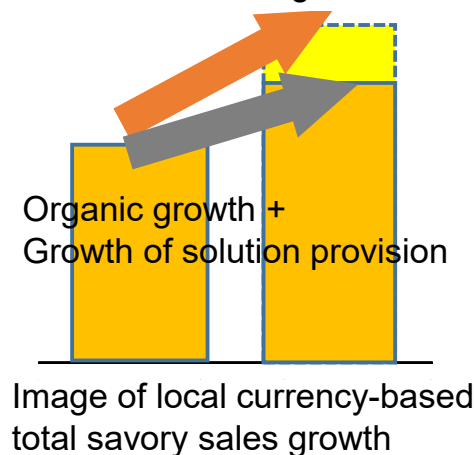
Achieve store exposure that makes our products stand out through traditional trade visits with strong customer connections and follow-up with modern trade/convenience store tracking

## 2. Provide solutions to global health issues (e.g. low salt)



Use umami to reduce salt without loss of flavor!

Provide solutions for global health issues to create both social and economic value





# II-1. Growth Strategy

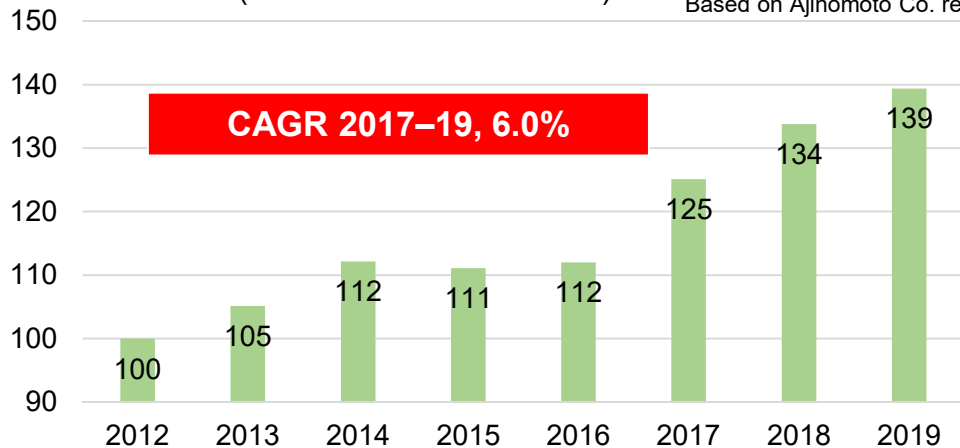
## Electronic materials business (GROW 2)

- ◆ Growth in communications applications with advent of 5G
- ◆ Steady growth in number of data center servers due to expansion of cloud services market
- Business growth due to expansion into domains adjacent to the PC domain (communication applications and servers)

Logic IC product market forecast

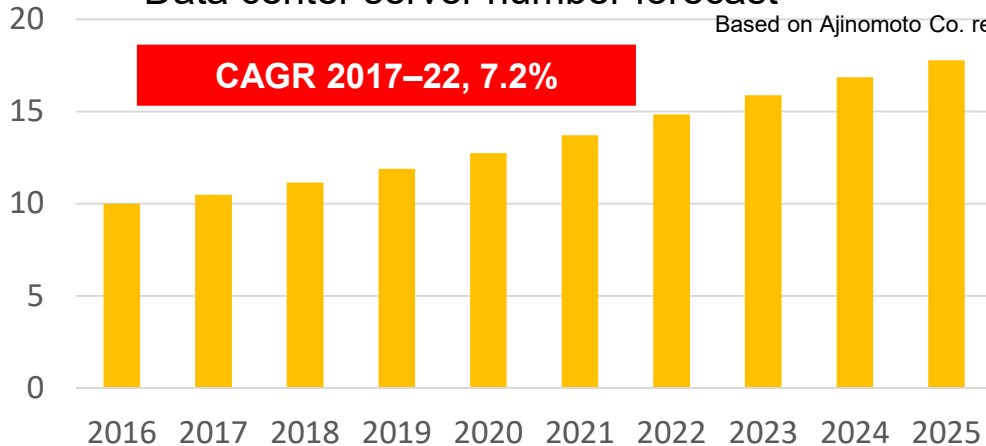
(when 2012 market is 100)

Based on Ajinomoto Co. research



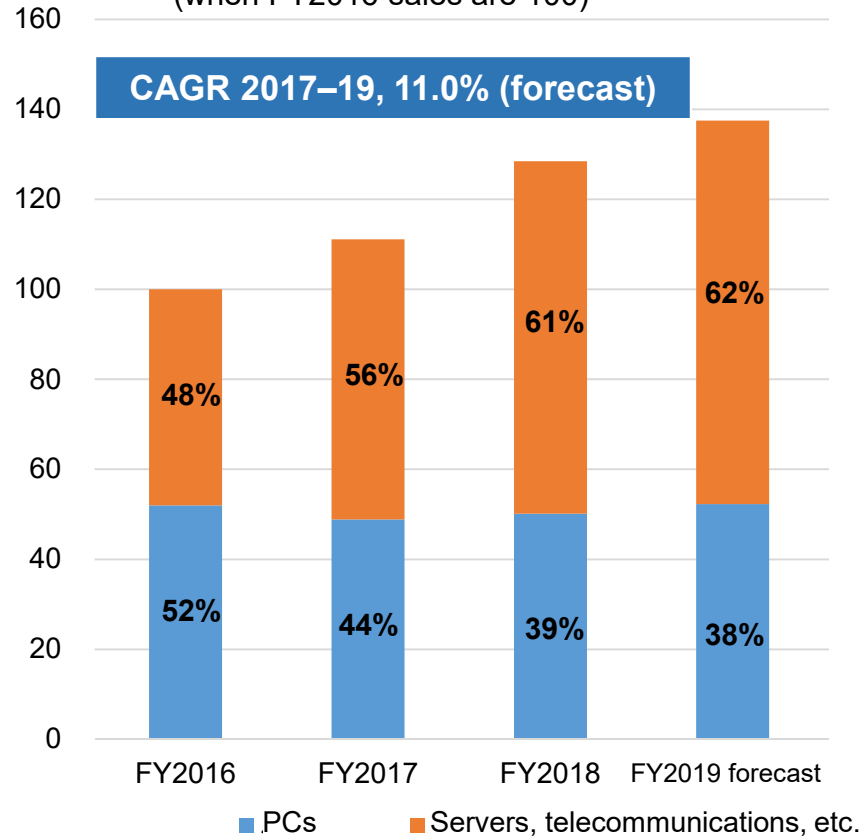
Data center server number forecast

Based on Ajinomoto Co. research



Ajinomoto Co. sales trends and ratio by application

(when FY2016 sales are 100)



Drastic reduction in the PC area, with growth in other areas (servers, telecommunications, etc.)





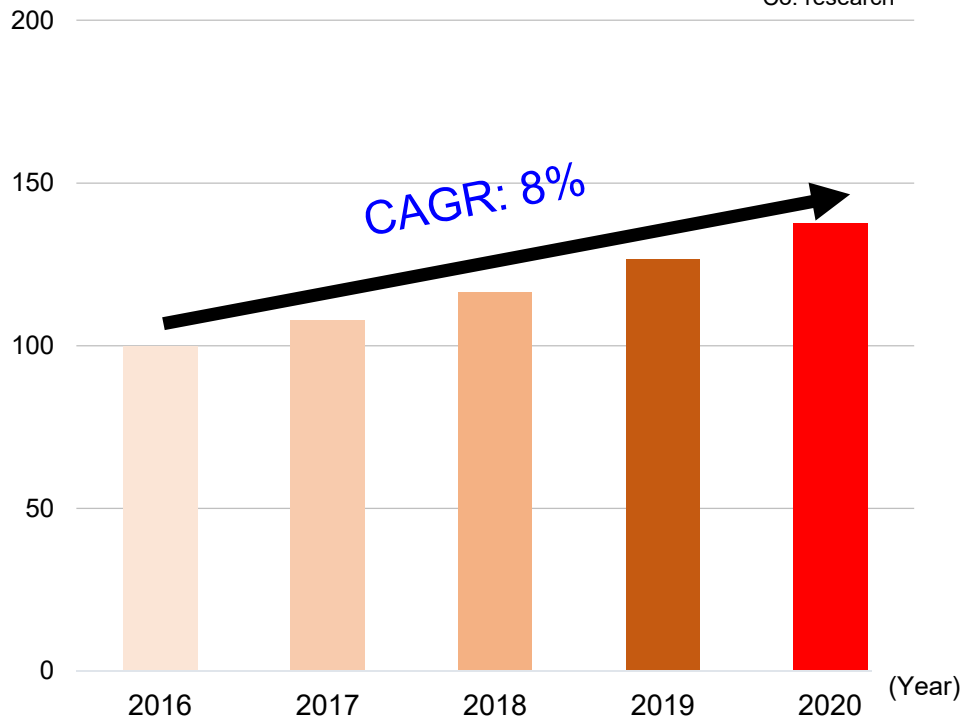
# II-1. Growth Strategy

## Pharmaceutical custom manufacturing (GROW 3)

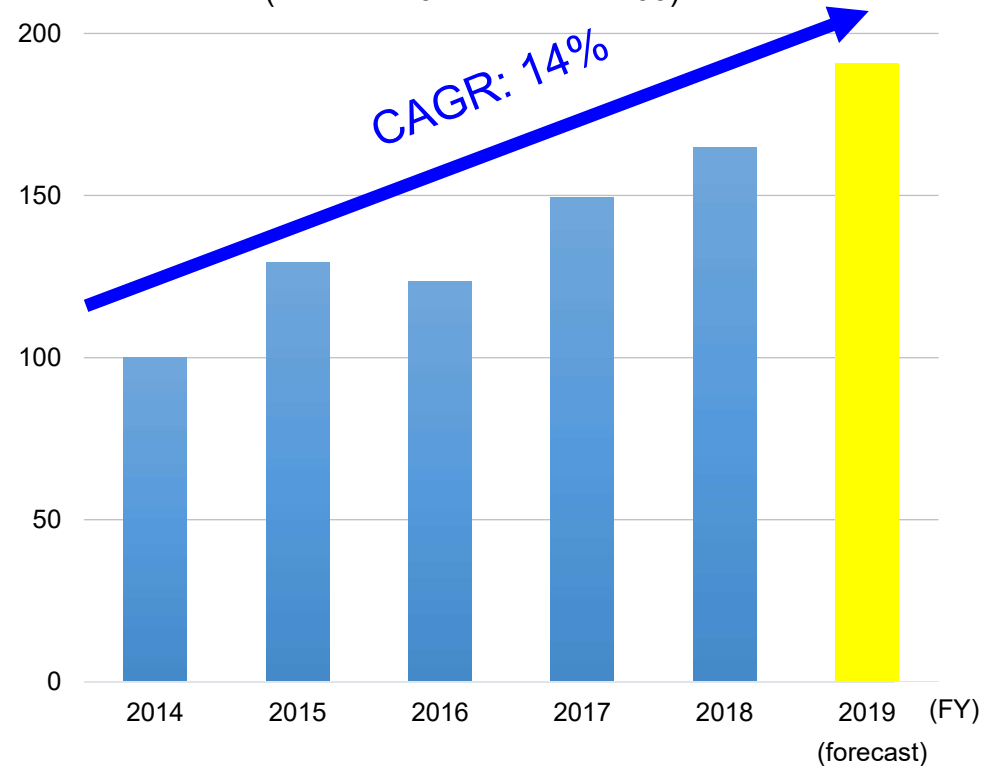
- ◆ Aim to acquire next-generation formulation development project through expansion of new technology domains (ADC<sup>1</sup>)
- ◆ Growth of oligonucleotides business in Japan and Europe based on Ajiphase technology<sup>2</sup>
- Integrate the operation of Japanese, European, U.S., and Indian sites as [Ajinomoto Bio-Pharma Services](#) and aim to further expand CDMO<sup>3</sup> business as a partner that meets the needs of global pharmaceutical companies

Target contracts in FY2019      Commercial pharmaceuticals: 55 or more  
 Drug development: 152 or more

Global CDMO market growth  
 (when FY2016 market size is 100)      Based on Ajinomoto Co. research



Ajinomoto Co. pharmaceutical custom manufacturing sales  
 (when FY2014 sales are 100)



1. ADC: Antibody-drug conjugate
2. Ajiphase technology: the only practical technology that makes it possible to mass produce oligonucleotides
3. CDMO: Contract Development & Manufacturing Organization



## II-2. Non-Financial Initiatives

\*ASV: The Ajinomoto Group Creating Shared Value

### ASV\* Value Creation Stories

### Major Initiatives

Progress toward FY2020 target: Exceeded ◎; In-line ○; Below △

#### Social

Ⓢ

1

We contribute to health and well-being by utilizing our leading-edge bioscience and fine chemical technologies which also leads to deliciousness technologies, and by delivering good and healthy food

2

We contribute to the development of a society that enables strong family/social bonds and diverse lifestyles through eating well

• Promote initiatives to improve nutrition ◎

- Increased activities based on our Nutrition Policy in each region in FY2018
- Planning to establish key initiatives that leverage our Specialty in the next MTP as we work toward further strengthening
  - **Redefining quantitative targets and working to improve nutrition and solve health issues**

• Steadily increase smart cooking ○

- Popularize smart cooking using simple to prepare foods such as frozen foods and soups
- Grow via expansion of menu-specific seasonings
- Grow via business expansion of Integrated Food Solutions for food services in Japan

#### Environmental

ⓔ

3

We contribute to the sustainability of society and the earth, with our customers and local communities, across the value chain from production to consumption

• Promote various initiatives in line with environmental targets ○

- Contribute to achieving recycling-oriented society (realize zero plastic waste), initiatives to develop monomaterials and reduce plastic consumption (partially replace with paper)
  - Initiatives to deal with climate change (respond to TCFD recommendations and disclose information appropriately)
- Implementing Southeast Asia MSG scenario analysis and considering total reduction targets while preparing to apply for science based targets (SBTs) and participation in RE100

#### Governance

ⓖ

4

We co-create value with each region through the perspectives of the customers, with our global, top-class and diverse talents

• Attain innovation by improving engagement (productivity) ◎

- FY2018: Change work style: be able to work anywhere  
1,820 total actual working hours, accelerate telecommuting including manufacture department
- FY2019: Engage in improving work style quality through digital transformation

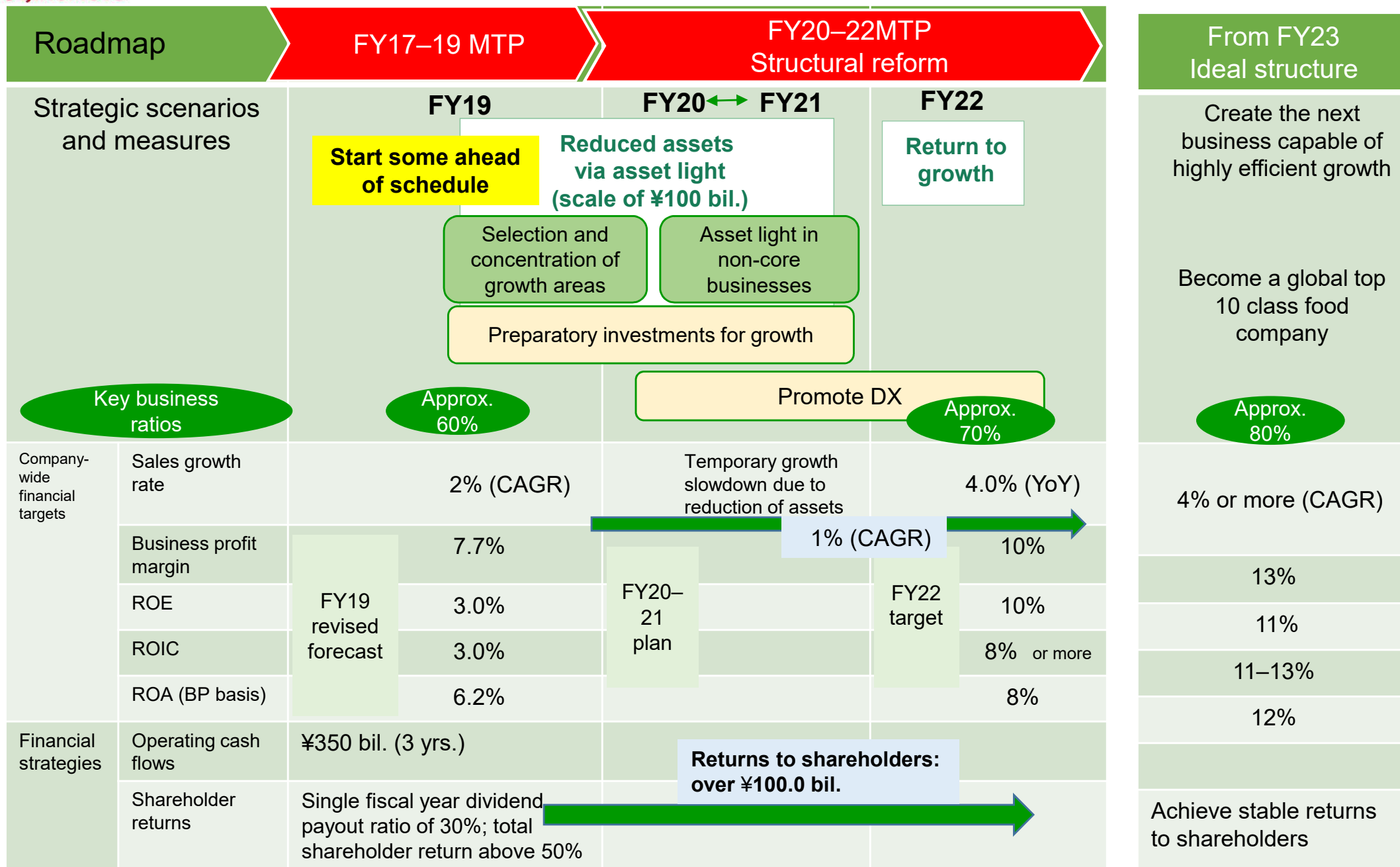
## II-2. Non-Financial Initiatives

We analysed a scenario using the Southeast Asian MSG business as a model from the perspective of raw material and fuel costs, production sites and taxes, assuming warming has progressed and average temperatures are up by 2 °C in 2050.





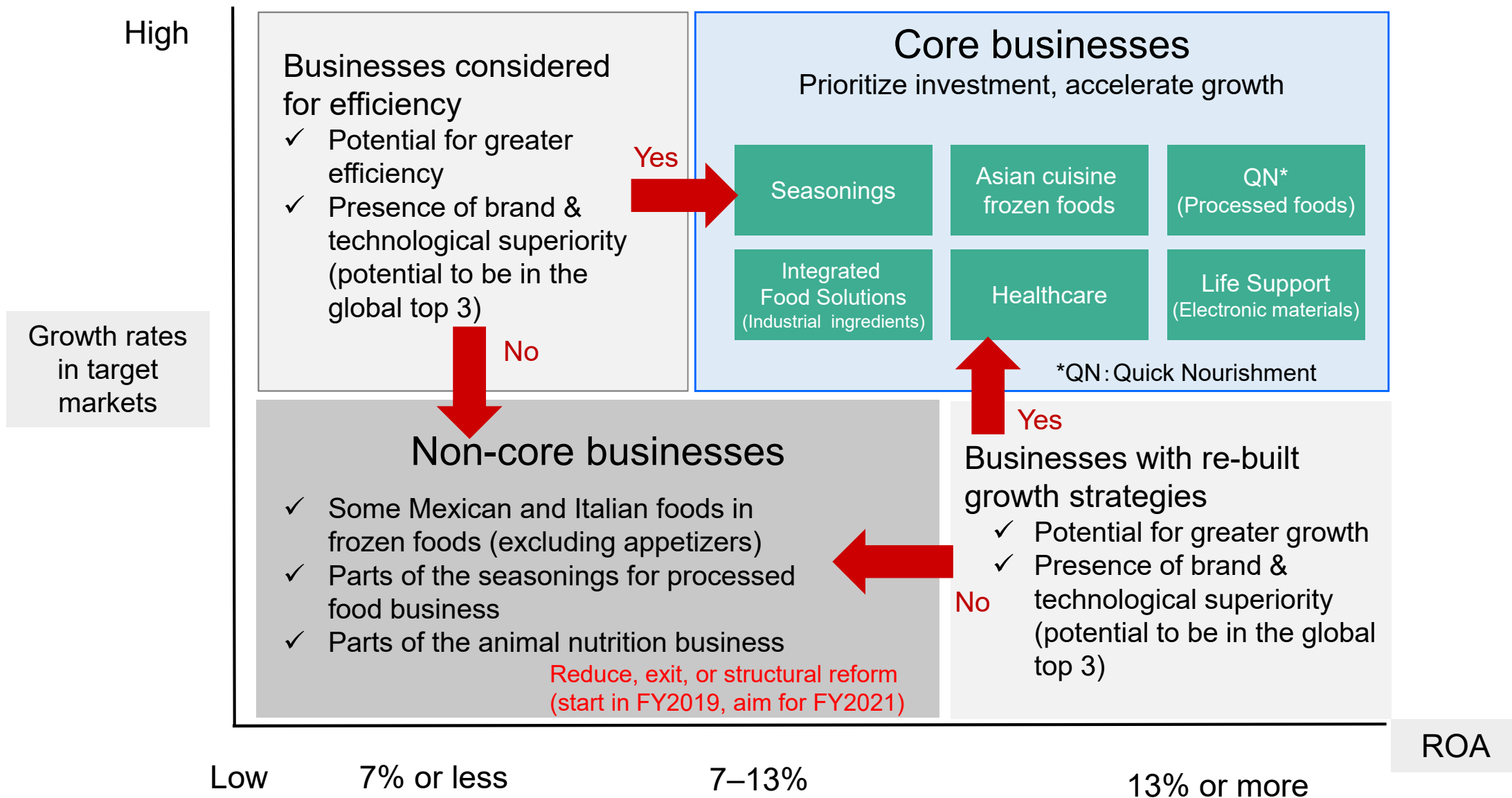
# II-3. Toward the Next Medium-Term Management Plan



## II-3. Toward the Next Medium-Term Management Plan

Focus on Core Businesses

Identified non-core businesses and started working on structural reform from this fiscal year.



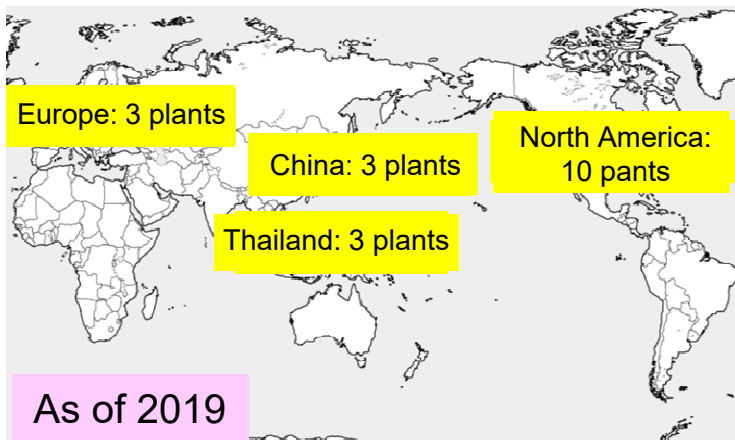


## II-4. Asset Light Measures

### 1. Global Frozen Foods Business

#### 1. Reduce fixed assets by ¥4.5 billion from FY2020 through asset light management

Planning on reorganizing production globally (from 19 plants to 15 in North America, Europe, China, and Thailand) (proceeding with further review)



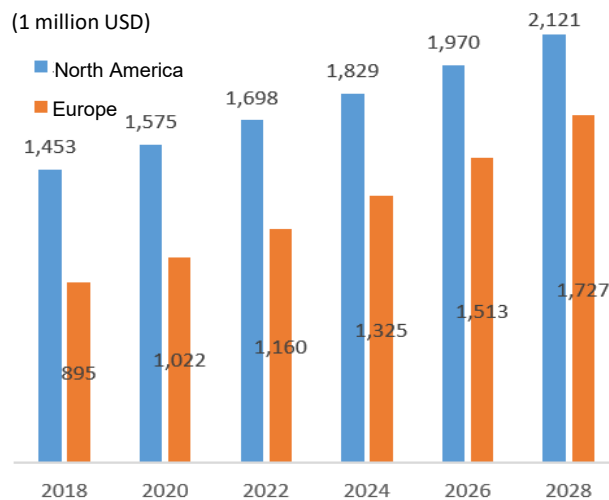
July 2020: Close AFNA Fort Worth plant  
→ Transfer production to Oakland plant

#### 2. Accelerate investment in core businesses

Accelerate capital investment to meet Asian food demand in North America and Europe

Asian cuisine frozen foods market in North America and Europe (forecast)

(Based on Ajinomoto Co. research)



North America market: 2018-28 CAGR (forecast) +3.9%

Europe market: 2018-28 CAGR (forecast) +6.8%



2020: Expand fried rice production line at AFNA Oakland plant

#### 3. Increase ROA

- Focus on growth fields
- Streamline assets

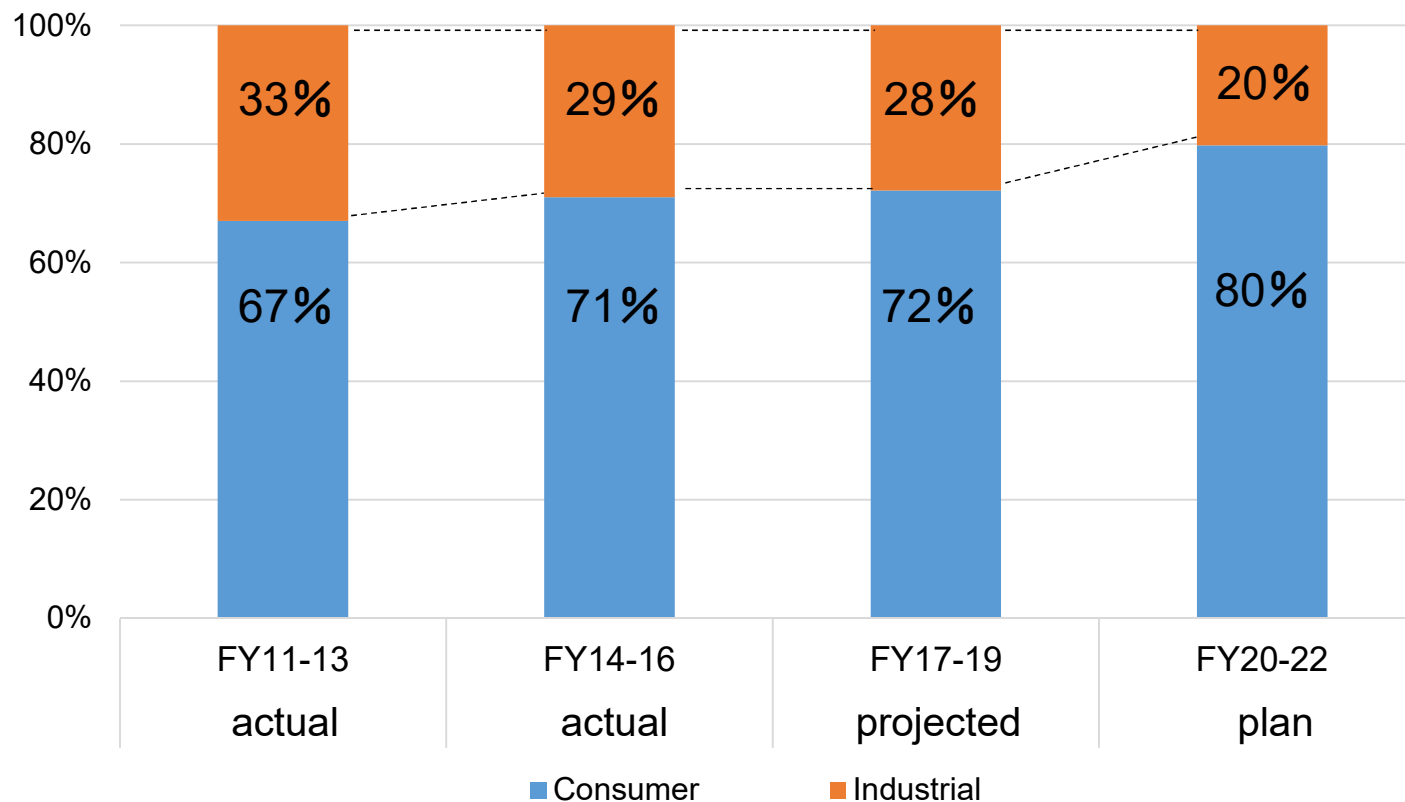
Aim for 7% ROA in frozen foods business by FY2022

## II-4. Asset Light Measures

### 2. Umami Seasonings for Processed Food Manufacturers

1. Achieve consumer ratio of 80% during the next Medium-Term Management Plan: change the sales ratio by increasing sales to consumers and reduce industrial (external) sales to processed food manufacturers.
2. Gradually introduce low-resource fermentation technology. Streamline business assets, improve costs and increase per plant productivity.

Umami seasonings for processed food manufacturers  
(Consumer/industrial ratio, sales base)



## II-4. Asset Light Measures

### Main Points of Structural Reform

1. Further reduce ratio of in-house production while planning to thoroughly review commodities.
2. Exploring external alliances, etc. in specialties.  
Growth through pipeline expansion.

#### 1) Reduce ratio of in-house production of lysine and threonine

Continue reducing in-house production of lysine and threonine in stages.

#### 2) Business profit

Commodities expected to record loss in FY2019 due to deterioration in market conditions.

- Difficult to achieve ¥5.0 billion in business profit in FY2020.

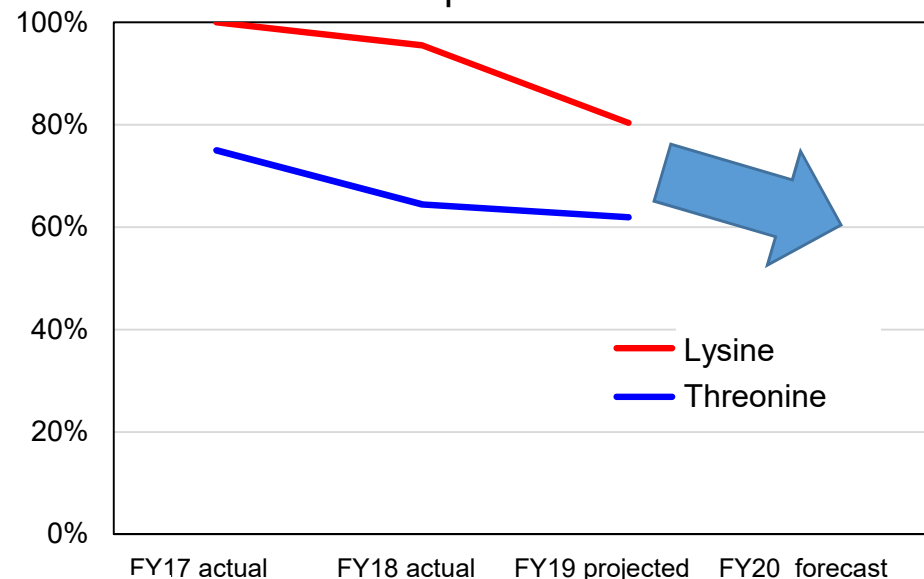
Specialty affected by sluggish valine market conditions, in the red



Going forward, expand Specialties and continue business structure reform

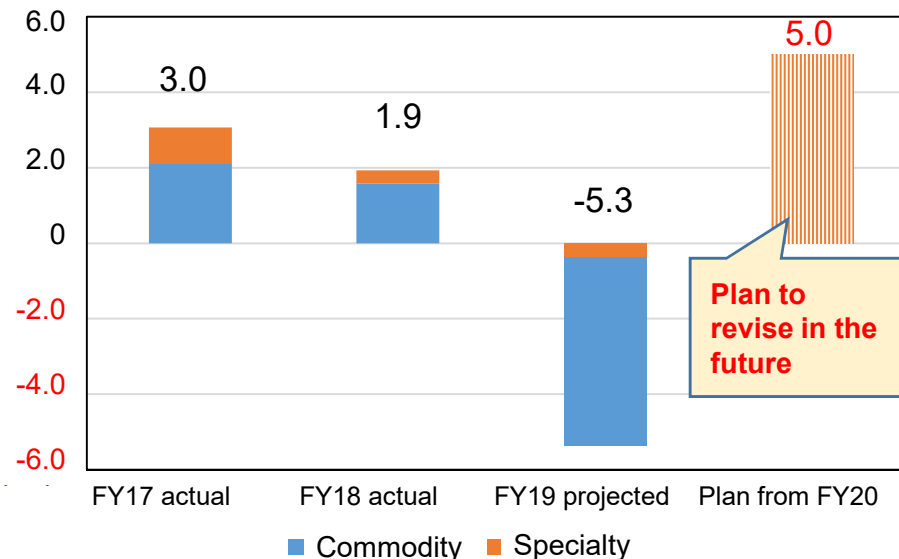
## 3. Animal Nutrition Business-1

### In-house production ratios



Business profit (¥bil.)

### Profit in animal nutrition business



### Asset Light Measures

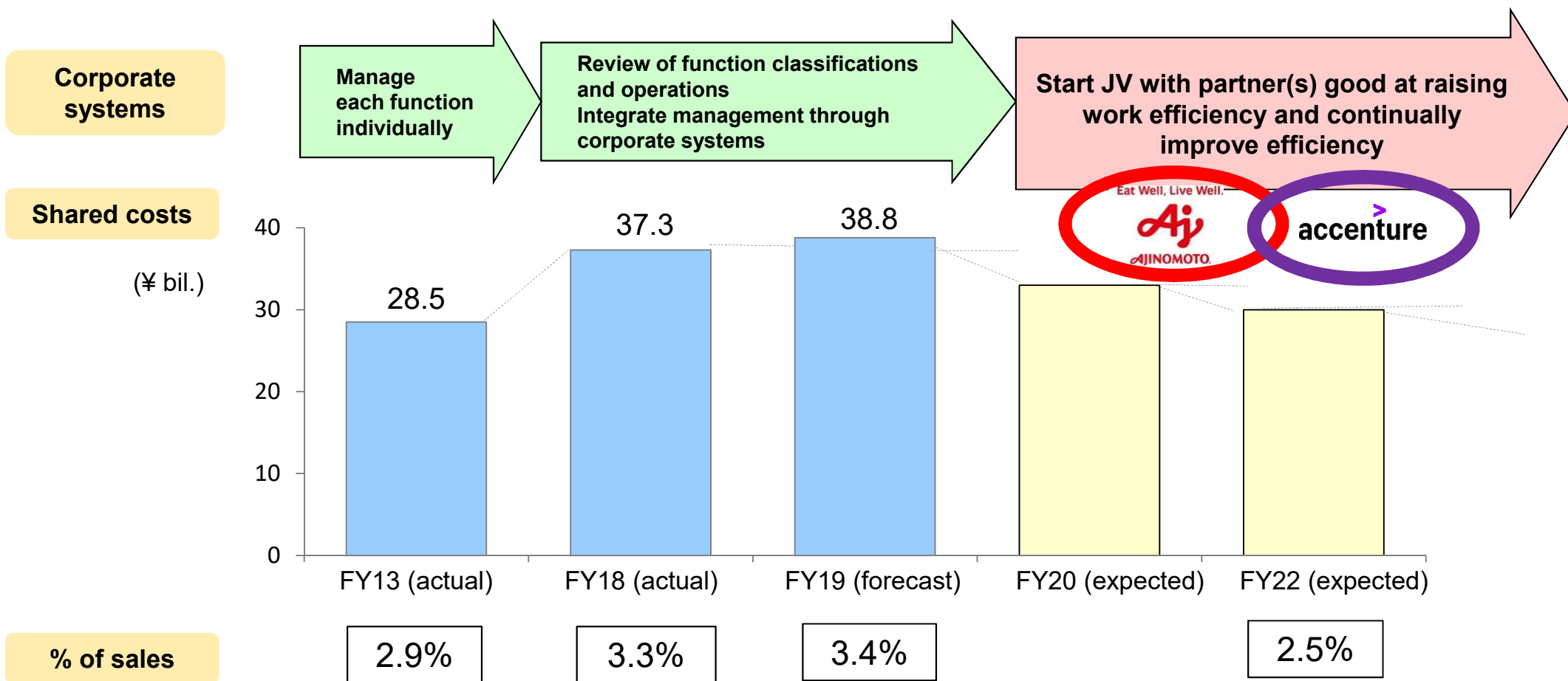
- Resource allocation (Initiatives in progress)
- ✓ Repayment of loans through reflux of the Group's cash and deposits
- ✓ Sale of policy shareholdings
- ✓ Reorganization of functional subsidiaries
- ✓ Reconsideration of JVs



## II-5. Reinforcement of Management Foundation

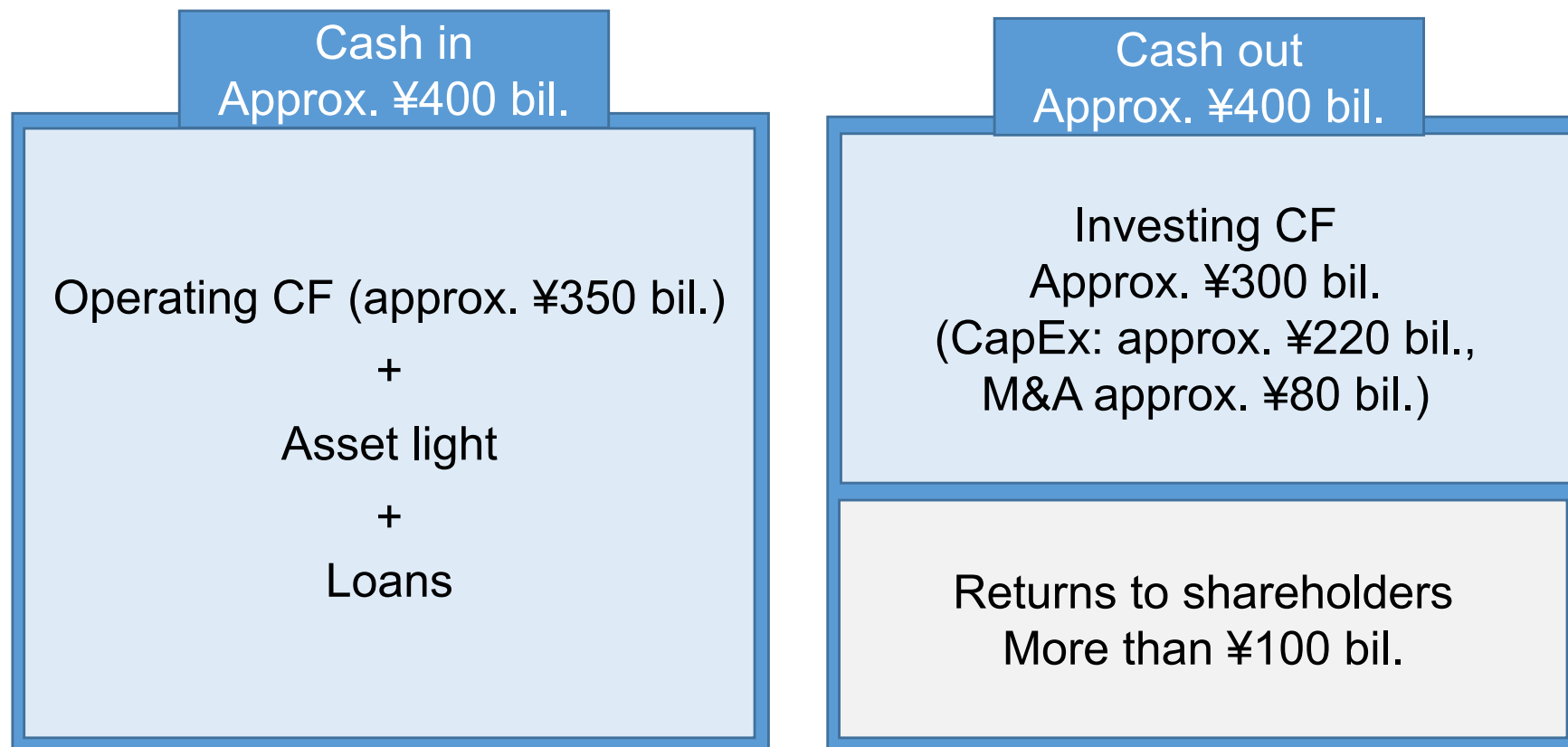
Establish “systems to promote continuous upgrading and streamlining” for a structure as a GGSC\* by promoting “enhancement of operational quality and efficiency” and “high-level fostering of human resources,” not only in business activities but also in corporate divisions.

\*Global Genuine Specialty Company



## II-6. Approach to Investment and Shareholder Returns in the Next Medium-Term Management Plan

- Strengthen organic growth of core businesses with priority investments and bring about stable returns to shareholders.
- At the same time, aim for the global level of asset efficiency and work on structural reform by moving to asset light.



## II-7. Schedule of External Announcements for the Next Medium-Term Management Plan

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February 19

Announcement of the FY2020–2022 Medium-Term Management Plan

February 21

Analyst briefing for the FY2020–2022 Medium-Term Management Plan

March 25

IR-DAY (New)

(scheduled: presentations by staff in charge of consumer foods business, AminoScience business and ESG)

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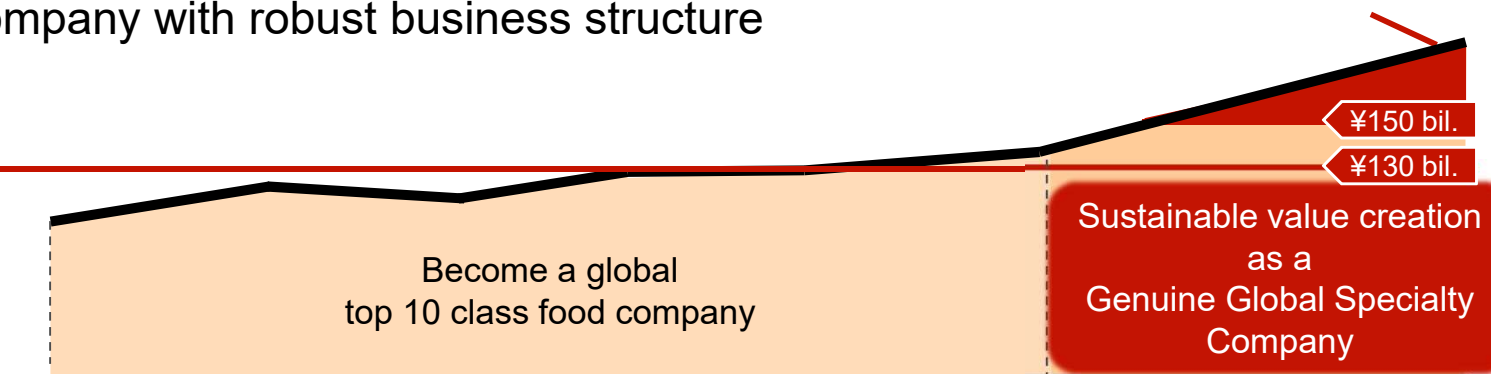
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# Roadmap to a "Genuine Global Specialty Company"

Become a global top 10 class company with robust business structure

Global top 10 class food company level<sup>1)</sup>



	FY17 Actual	FY18 Actual	FY19 Revised forecast
<b>Financial</b>			
Business profit	¥95.6 bil.	¥92.6 bil.	¥ 88.0 bil.
Business profit margin	8.6%	8.2%	7.7%
ROE	9.6%	4.7%	3.0%
EPS growth rate	13%	-49%	-38%
Intl. sales growth rate <sup>2)</sup>	5% <sup>4)</sup>	6%	3%
<b>Non-financial<sup>3)</sup></b>			
Meats and vegetables consumption	Meats: 7.2 mil. tons; 17.0% (8.3 kg/person/yr) Veg.: 4.4 mil. tons; 7.4% (5.1 kg/person/yr)	7.2 mil. tons; 17.0% (8.3 kg/person/yr) 4.4 mil. tons; 7.4% (5.1 kg/person/yr)	-
Contribution to eating together	60 occasions / household / yr	60 occasions / household / yr	-
Spare time created	37 mil. hrs / yr (5 hrs / household)	37 mil. hrs / yr (5 hrs / household)	-
Comfortable lifestyles (AminoScience)	19.80 mil. people	19.90 mil. people	-
Resolution of environmental issues	See the page after next (Non-Financial Initiatives (Environment): Progress)		
Employees with high engagement	79%	No survey taken	-
<b>Inte-grated</b>			
Brand value <sup>5)</sup>	778 mil. USD	852 mil. USD	-

Rebuilding the growth strategy

→

In concert with the next MTP

1. Global top 10 class status defined as business profit of ¥130.0 billion or higher with IFRS accounting standards.; 2. Consumer foods, local currency basis  
3. Refer to FY2017-2019 MTP (Feb. 17, 2017); 4. Includes Frozen foods; 5. Measured by Interbrand

# FY2019 Assumed Exchange Rate and Exchange Rate Sensitivity

Assumed exchange rate (vs. JPY)

\* Average rate during the period

	FY19 Initial forecast	FY19 Revised forecast	FY19 Actual		FY18 Actual*	FY17-19 MTP
			2Q	1Q		
USD	110.00	107.00	107.36	109.90	110.92	100.0
EUR	129.00	122.00	119.41	123.50	128.39	110.0
THB	3.36	3.42	3.49	3.48	3.43	2.80
BRL	29.73	28.16	27.05	28.02	29.36	30.3

## Exchange Rate Sensitivity

Foreign exchange rates (vs JPY)

	Avg. rate	Sensitivity of translation effects to full year B.P.
USD	107.00	±¥1 → approx. ¥ 100 million
EUR	122.00	±¥1 → approx. ¥ 50 million
THB	3.42	±¥0.01 → approx. ¥ 100 million
BRL	28.16	±¥1 → approx. ¥ 300 million

Impact of exchange rate for trade

(Sensitivity of translation effects to full year B.P.)

- 1 JPY	vs	USD	→	approx. ¥ 0 million
- 0.1 EUR	vs	USD	→	approx. + ¥ 100 million
- 1 THB	vs	USD	→	approx. + ¥ 500 million
- 0.1 BRL	vs	USD	→	approx. + ¥ 200 million

# Non-Financial Initiatives (Environment): Progress

\*   : FY2019 Actual & Targets

Initiatives	Indicators	FY2017 Actual	FY2018 Actual	FY2019 Target	FY2020 Target	FY2025 Target	FY2030 Target
1 Reduce greenhouse gases	Reduction rate of greenhouse gas emission volume vs. emission intensity (vs. FY2005)	35%	33%	37%	38%		50%
	Renewable energy use ratio	23%	24%	26%	28%		50%
	Chlorofluorocarbon (CFC) elimination					CFC elimination at new facilities 100%	Extremely small volume of HFCs
2 Reduce food loss	Reduction rate of food loss from receipt of ingredients through to customer delivery (vs. FY2016)	-4%	-28%	15%	20%	50%	
3 Secure food resources and protect natural environment, including ecosystems and biodiversity	Sustainable procurement	Palm oil 14% Paper 95% (JPN)	Palm oil 25% Paper 95% (JPN)		Palm oil 100% Paper 100%		The material at issue 100%
	Introduction rate of factories that reduce natural raw materials used via resource-saving fermentation technologies, by-products and alternative material technologies	79%	79%			100%	
4 Conservation of water resources	Reduction rate of water usage vs. production volume unit (vs. FY2005)	77%	78%	78%	78%		80%
5 3Rs for waste material (Reduce, Reuse, Recycle)	Reduction of waste generated via business activities/recycle ratio	99.3%	99.2%	Maintain 99% or higher	Maintain 99% or higher	Maintain 99% or higher	Maintain 99% or higher
	Zero plastic waste						Zero



**Eat Well, Live Well.**



- **Forward-looking statements, such as business performance forecasts, made in these materials are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations.**
- **This material includes summary figures that have not been audited so the numbers may change.**
- **Amounts presented in these materials are rounded down.**