## Message from the Corporate Vice President in Charge of Finance

# Raising the efficiency of invested capital and ensure the improvement of shareholder value through ASV

**Tetsuya Nakano**
Corporate Vice President

The Ajinomoto Group's FY17-19 MTP sets a FY2020 target to raise the business profit margin to 10% and ROE to 10% or higher; however, circumstances have now made those targets difficult to reach under the current MTP. The Group is therefore trying to focus on growth investment in core businesses as well as taking an asset-light management approach that promotes efficient utilization of cash and deposits within the Group and resource allocation such as the sale of policy shareholdings with the objective of ensuring it attains those targets during the next MTP period. In preparation for the next MTP, in FY2019 the Group will begin implementing as much structural reform as possible aiming to get the Group's business back on a path toward sustainable growth.

### FY2018 Performance Summary

- Sales: Increased to ¥1,127.4 billion (+1% year on year)

Sales grew substantially for pharmaceutical custom manufacturing and amino acids for pharmaceuticals and foods, and also rose for international frozen foods, seasonings, and processed foods.

- Business profit: Decreased to ¥92.6 billion (-3% year on year)

Business profit fell sharply for frozen foods and coffee products in Japan and internationally, and the Group recorded an impairment loss of 3.2 billion yen on trademark rights at equity-method subsidiary Promasidor Holdings Limited.

- Profit attributable to owners of the parent company: Decreased to ¥29.6 billion (-51% year on year)

The Group booked impairment losses on goodwill associated with Ajinomoto Foods North America, Inc. and Ajinomoto Istanbul Food Industry and Trade Limited Company as well as an impairment loss of 27.9 billion yen associated with the investment in Promasidor Holdings Limited booked under the equity-method accounts.

- ROE: 4.7% (-4.9 percentage points year on year)
- Dividend: ¥32 (unchanged from the previous fiscal year)

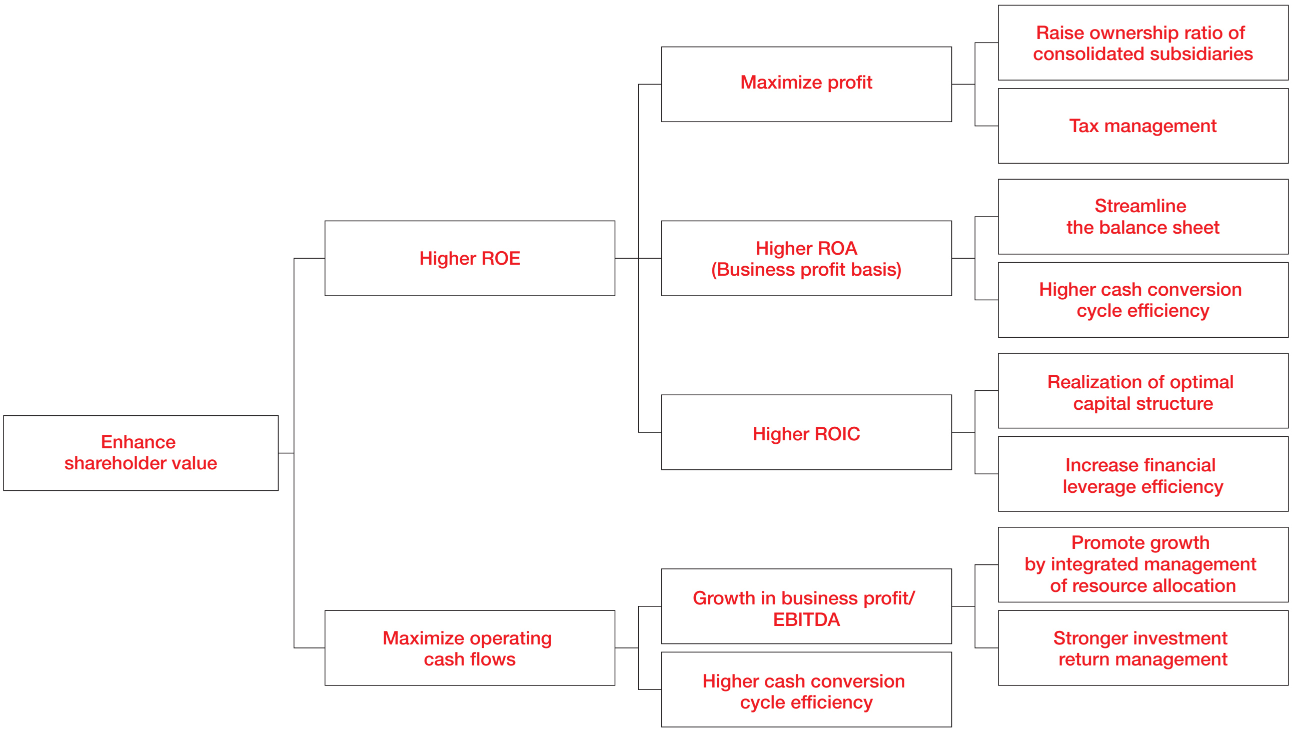
### FY2019 Performance Forecast

- Sales: ¥1,171.0 billion
- Business profit: ¥97.0 billion
- Profit attributable to owners of the parent company: ¥50.0 billion
- ROE: 8.0%

## Raising ROE and Maximizing Operating Cash Flows to Enhance Shareholder Value

The Ajinomoto Group is prioritizing raising ROE and maximizing operating cash flows to enhance shareholder value.

### Efforts to enhance shareholder value




## Raising ROE and Asset-Light Management

To realize the capital efficiency of a global top 10 class company in the food industry, the Group must control capital costs and raise ROE well above its weighted average cost of capital, which is currently about 5%. To this end, it is essential to raise the asset turnover ratio in order to realize higher corporate value by continuously improving capital efficiency. In short, to raise ROE in the current situation we are in, it is increasingly difficult to maximize profits solely through top-line growth. To raise ROE, the Group is trying to focus its growth investment in core businesses, implementing structural reform to reduce the composition ratio of non-core businesses, and initiating asset-light management for resource allocation to increase the efficiency of invested capital.

Resources will be allocated more efficiently by controlling interest-bearing debt by effectively using cash resources within the Group, reducing policy shareholdings, reorganizing the functional subsidiaries and reviewing joint-venture operations. Cash management at the regional level for Japan, North America, Europe, Thailand, and other areas will also be improved.

To raise asset efficiency in the core businesses, the Group will put stronger focus on ROA in each business. In raising the efficiency of invested capital, the Group has begun using ROIC as a new benchmark of the Group's financial structure so management has the same perspective as the Group's stakeholders.

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## Maximizing Operating Cash Flows and Investment in Growth

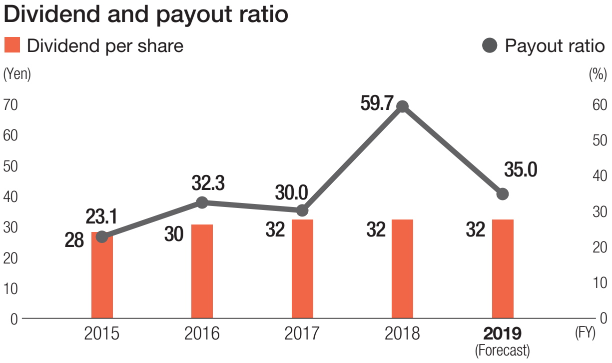
The Ajinomoto Group's management believes strengthening its ability to generate operating cash flows, which is the source of investment funds, is essential for investing in its core businesses and accelerating the Group's business growth. The Group is implementing measures to boost business growth and shorten the cash conversion cycle (CCC). In FY2018, these measures generated 123.2 billion yen in cash flows from operating activities. The CCC was shortened by 1.2 days. The Group anticipates generating approximately the same amount of operating cash flows in FY2019.

The cash that is generated will continue to be allocated to capital expenditures, R&D, and M&A but in FY2019 the main focus will be in areas designed primarily to accelerate growth. Management is planning to increase the allocation of funds to profit growth investment to roughly 60% of its planned 81.5 billion yen in capital expenditures.

## Shareholder Return Policy

The FY17-19 MTP outlines a basic policy for shareholder return of a 30% payout ratio each fiscal year and 50% or higher cumulative shareholder return over three years. In FY2018, the Group repurchased 40 billion yen worth of its outstanding shares, which was the upper limit set by the Board of Directors. Management will continue providing stable shareholder return and plans to maintain the annual dividend payment at 32 yen per share in FY2019.

### Dividend and payout ratio




## Preparing for the Next Medium-Term Management Plan

The Group's next MTP will raise capital efficiency through asset-light management and advancement of digital transformation that will lift the Group's financial structure to the global top 10 class in the food industry.

| Roadmap | FY17–19 MTP | FY20–22 MTP Structural Reform | FY23 onward Target Status |
|---|---|---|---|
| | FY19 Forecast | FY22 Target | |
| ROE | 8.0% | 10% | 11% |
| ROIC | 6.1% | 8% or higher | 11–13% |
| ROA (Business profit basis) | 6.5% | 8% | 12% |

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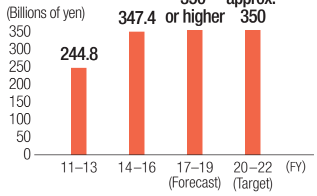
### Summary of the financial strategies in FY2019 and next MTP

| | FY17–19 MTP Target | FY17 Actual | FY18 Actual | FY19 Forecast | FY20–22 MTP Target |
|---|---|---|---|---|---|
| Cash flows | •Operating cash flows: roughly ¥350 billion<br>•EBITDA to sales ratio: above 13.5% | •Operating cash flows: ¥126.6 billion<br>•EBITDA ratio: 12.8% | •Operating cash flows: ¥123.2 billion<br>•EBITDA ratio: 12.9% | •Operating cash flows: roughly the same as in FY2018<br>•EBITDA ratio: 13.1% | •Operating cash flows: approximately ¥350 billion<br>**Operating cash flows*1 (three year total)**<br> |
| Investment for growth | Engage in integrated management of capital expenditure, R&D, M&A<br>•R&D: approximately ¥29 billion per year<br>•Capital expenditure: approximately ¥230 billion in three years | Total expenditure: ¥129.8 billion<br>•R&D: ¥27.8 billion<br>•Capital expenditure: ¥79.4 billion<br>•M&A: ¥22.6 billion*2 | Total expenditure: ¥107.4 billion<br>•R&D: ¥27.8 billion<br>•Capital expenditure: ¥79.6 billion<br>•M&A: ¥0 | Total expenditure: ¥110.2 billion plus additional<br>•R&D: ¥28.7 billion<br>•Capital expenditure: ¥81.5 billion<br>•M&A: under review | •Capital expenditure: approximately ¥220 billion<br>•M&A: approximately ¥80 billion |
| + Shareholder return | •Payout ratio: target 30%<br>•Total return ratio: target of 50% or higher Flexible share buybacks | •Payout ratio: 30.0% | •Payout ratio: 59.7% | •Payout ratio: 35.0% | •Shareholder return: greater than ¥100.0 billion (Total return ratio: target of 50% or higher) |
| Financing | •Net debt-equity ratio: target of 50% | •Net debt-equity ratio: 31.7% | •Net debt-equity ratio: 36.3% | •Net debt-equity ratio: target of 50% | •Net debt-equity ratio: target of 50% |

*1 Adoption of IFRS from FY15
*2 Excludes Agro2Agri, S.L.

## Increasing Stakeholder Dialogue

The Group has been expanding its dialogue with stakeholders by increasing its daily communications and holding an annual explanatory briefing on its integrated report. In addition, the Group held an explanatory meeting about its electronic materials business in June 2019 and plans to hold similar meetings about its other businesses.

Management intends to make ongoing dialogue with stakeholders more meaningful by increasing these efforts.