# Focus shift to efficiency of invested capital and organic growth

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## Improving adaptability to the changing external environment

The FY2017-2019 (for FY2020) Medium-Term Management Plan set targets to bolster the Ajinomoto Group's financial structure to a business profit margin of 10% and ROE of 10% or higher in fiscal 2020. At this point, we expect to fall short of those targets. We have been steadily implementing our financial capital strategy, such as strategically allocating our financial resources by acquiring the non-controlling interest in subsidiaries and incrementally decreasing cross-shareholdings, providing shareholder return, and applying a global tax strategy. However, the external environment changed dramatically, and our core business investments did not produce the full results we had anticipated. We also determined that we must use our financial resources more efficiently.

### Fiscal 2019 performance summary

- **Sales:** Decreased to ¥1,100.0 billion (–1% YoY)
  Sales increased for pharmaceutical custom manufacturing and amino acids for pharmaceuticals and foods but decreased significantly for animal nutrition.
- **Business profit:** Increased to a record high ¥99.2 billion (+6% YoY)
  While profit decreased significantly for animal nutrition, profit increased for umami seasonings for processed food manufacturers, overseas seasonings & processed foods, amino acids, and domestic frozen foods, specialty chemicals, and coffee products.
- **Profit attributable to owners of the parent company:** Decreased to ¥18.8 billion (–36% YoY)
  The Group booked an impairment loss of ¥31.8 billion associated with seasoning and animal nutrition production equipment in Europe, bakery business production equipment, investment in Promasidor Holdings Limited accounted for using the equity method, trademark rights of Promasidor Holdings Limited, and goodwill and trademark rights of Ajinomoto Istanbul Food Industry and Trade Limited Company.
- **ROIC:** 3.0%
- **Organic growth rate:** 0.3% YoY

### Fiscal 2020 performance forecast

- **Sales:** ¥1,057.0 billion
- **Business profit:** ¥90.0 billion
- **Profit attributable to owners of the parent company:** ¥32.0 billion
- **ROIC:** 3.9%
- **Organic growth rate:** 0.3% YoY

### FY2017-2019 Medium-Term Management Plan review

| **Financial targets** | FY17-19 MTP targets for FY20 | FY19 result |
|---|---|---|
| Business profit | ¥137.0+ billion | **¥99.2 billion** |
| Business profit margin | 10% | **9.0%** |
| ROE | 10%+ | **3.3%** |
| EPS growth rate | Double-digit annual growth | **–35.9%** |
| International consumer foods sales growth rate | Double-digit annual growth | **+1%** |
| **Financial strategy** | FY17-19 MTP | FY17-19 result |
| Operating cash flows | ¥350.0 billion 3-year total | **¥364.7 billion** 3-year total |
| EBITDA to sales ratio | 13.5%+ | FY19 **14.9%** |
| Investment for growth | Integrated capital expenditure, R&D, and M&A management<br>● **R&D** approx. ¥29.0 billion per year<br>● **Capital expenditure** approx. ¥230.0 billion 3-year total | ● **R&D** FY17 **¥27.8 billion**, FY18 **¥27.8 billion**, FY19 **¥27.5 billion**<br>● **Capital expenditure** **¥242.7 billion** 3-year total<br>● **M&A** **¥29.1 billion** 3-year total |
| Shareholder return | ● **Payout ratio** Target 30% annually<br>● **Total return ratio** Target 50%+ 3-year total | ● **Payout ratio** FY17 **30.0%**, FY18 **59.7%** (30.7%*2), FY19 **93.1%** (37.5%*2)<br>● **Total return ratio** **85.9%** 3-year total (56.7%*2) |
| Financing | **Net debt*1-equity ratio** Target 50% | **Net debt-equity ratio** FY19 **46.5%** |

*1 Net debt is interest-bearing debt (excluding lease liabilities) – cash and deposits x 75%   *2 Excluding impairment loss

## Focusing on the efficiency of invested capital and returning to organic growth

We declared in our vision for 2030 to become a "solution-providing group of companies for food and health issues." We will realize this vision by focusing our businesses on improving people's lifestyle habits related to food and health and by establishing the Ajinomoto Group as a sustainably growing global corporation with ROIC of 13% and an annual organic growth rate of 5% by fiscal 2030. Along the way, we will maximize the potential of our business foundation by continuing to hone and build on our strengths and by stressing our competitive advantages while flexibly adapting to changes in the external environment.

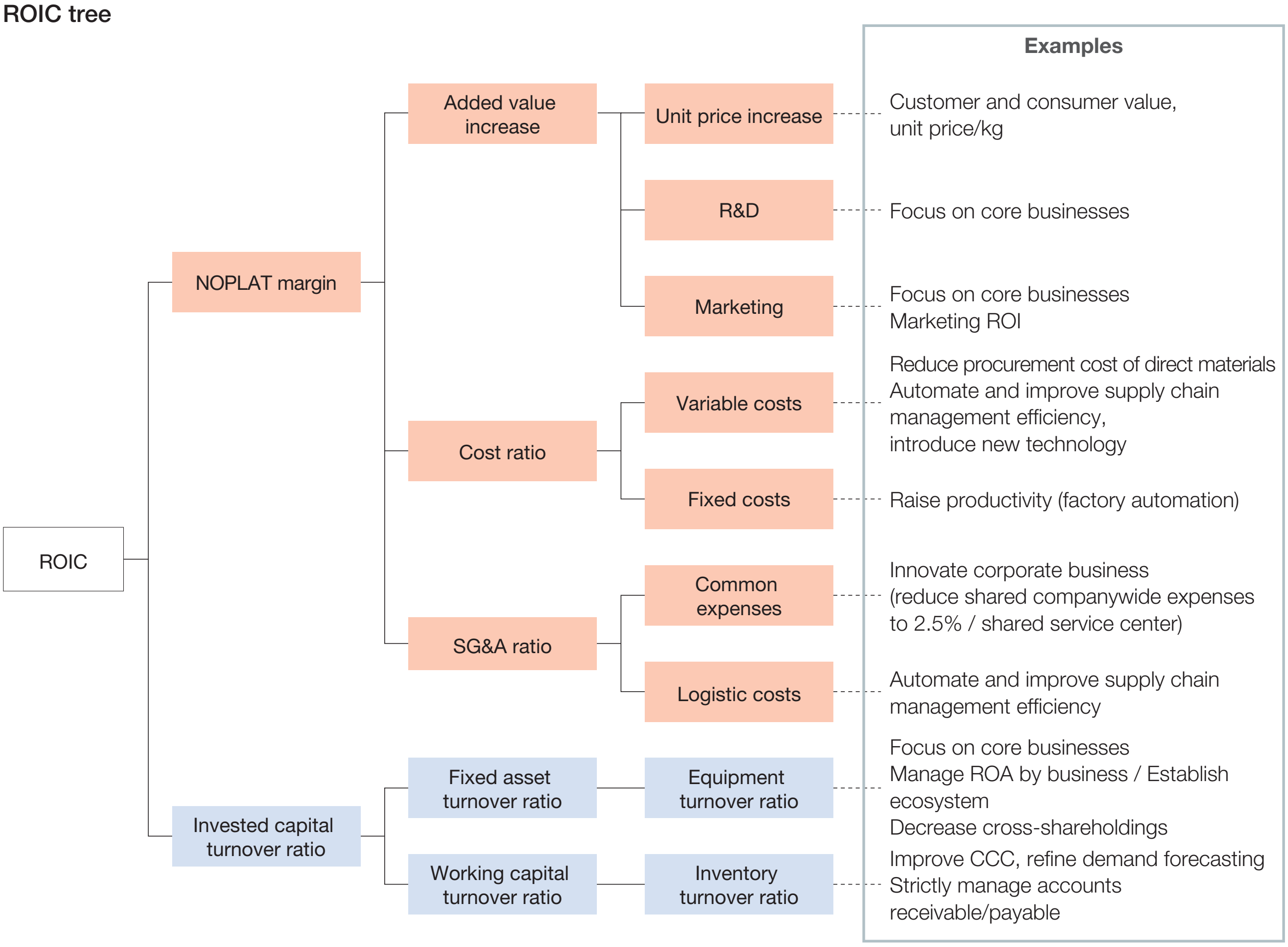
Backcasting from our vision for 2030, we mapped MTP targets for ROIC of 10-11% in fiscal 2025, and set fiscal 2020-2022 as a period to carry out the structural reform needed to ensure we attain those targets, starting with raising ROIC to 8%. The structural reform will have three key elements: restructuring to build a business portfolio centered on efficiency and growth, concentrating investments in the core businesses, and streamlining shared companywide expenses. In addition, we will comprehensively reduce assets by either withdrawing or selling non-core business by fiscal 2022.

### ROIC targets by business

| | ROIC | | | | WACC |
|---|---|---|---|---|---|
| | FY19 (Result) | FY20 (Forecast) | FY22 | FY25 | |
| Seasonings & Foods | 8.7% | 9.3% | 12%+ | 17%+ | 6% |
| Frozen Foods | –0.3% | –1.1% | 1%+ | 5% | 5% |
| Healthcare and Others | 0.8% | 3.8% | 10%+ | 12%+ | 8% |

We aim to have each business generating profit exceeding its WACC by fiscal 2025, and will realize this by determining the appropriate asset scale and capital structure for each business based on their specific characteristics and strategies. We will initially set internal KPIs for each business' ROA, cash conversion cycle (CCC), and business profit margin. The Companywide Operational Transformation Task Force will assist each business in improving ROIC in all of their operations using the ROIC tree.

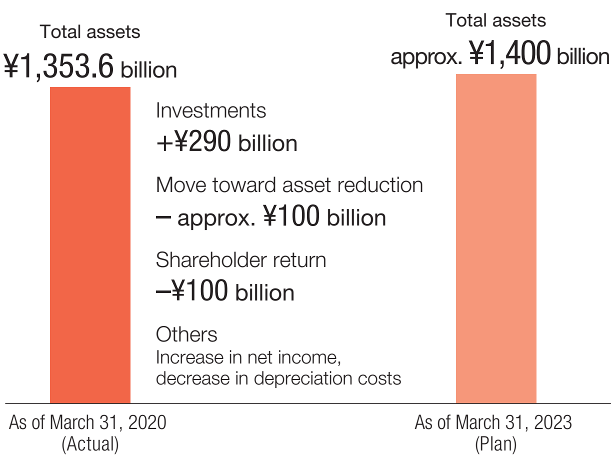
**ROIC tree**




## Balance sheet objectives

During the MTP's structural reform phase in fiscal 2020-2022, asset management will focus on controlling the growth in our total asset holdings by reducing assets mainly in non-core businesses, improving CCC, incrementally decreasing cross-shareholdings, and improving the Group's internal asset efficiency. Debt and equity management will focus on maintaining a net debt-equity ratio of 50% in the medium term, while allowing for the possibility of a higher ratio while the Company increases its holdings of subsidiary shares.

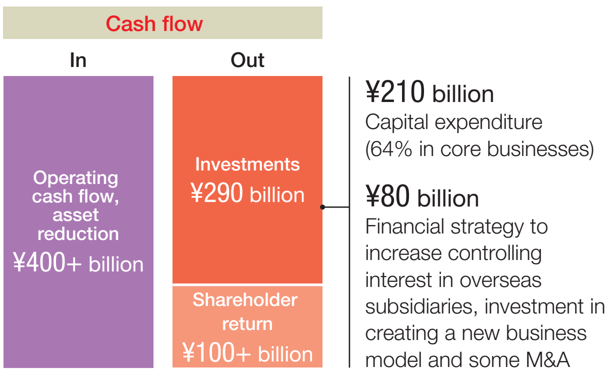
**Balance sheet adjustment plan for fiscal 2022**



## Cash flow strategy

During the MTP's structural reform phase in fiscal 2020-2022, we plan to generate cash inflow of over ¥400 billion through operating cash flow and by structurally reforming of the businesses to reduce our asset holdings. We plan to allocate ¥290 billion to investments for growth, with ¥210 billion in capital expenditure and 64% of that amount focused on our core businesses. We are additionally budgeting over ¥100 billion for shareholder return.

### Cash flow strategy for fiscal 2020-2022




### FY2020 Plan

**Operating cash flow**

Projected to be near ¥130 billion

**Capital expenditure**

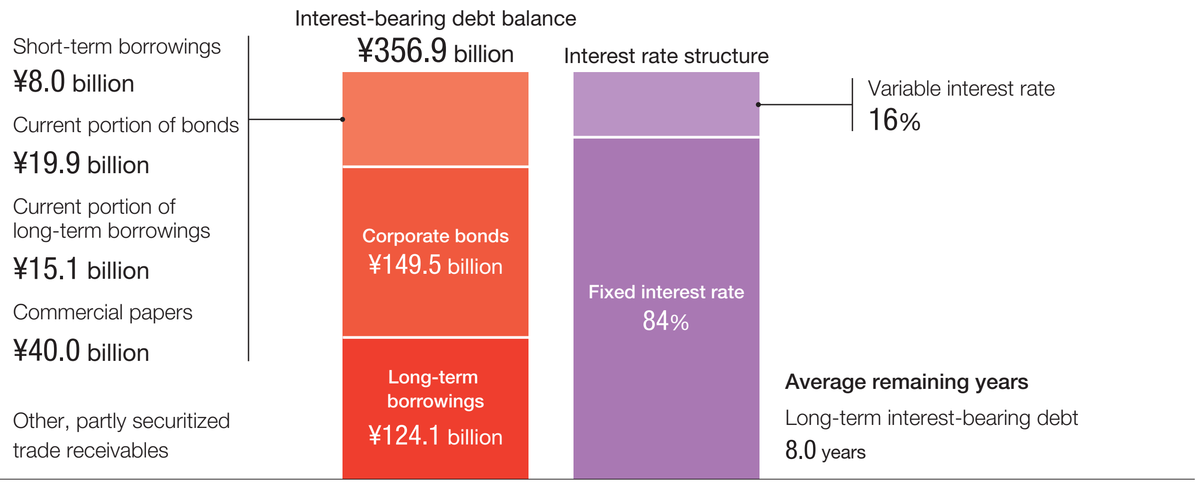
¥86 billion
(63% in core businesses)

## Responding to fund procurement and foreign exchange risk

During the current COVID-19 pandemic, we are doing all we can to maintain food and health lifelines and to continue our production activities around the world. In an emergency situation, we immediately set up an emergency loan line to support the business continuity of the Group companies. Aware of the risk to our companies from the rapid changes in the financial markets, we enhanced our financial security for a crisis by always securing funds ensuring sufficient liquidity for the Group and established a regional cash management structure for effective use of surplus funds across the Group. We are also diversifying our fund procurement methods across corporate bonds, commercial papers, borrowing from financial institutions, and increasing the liquidity of accounts receivable while also staggering the debt repayment schedules. For further security, we have also set up committed credit lines with financial institutions.

To avoid risk from sudden fluctuations in the foreign exchange markets, we maintain trade receivables and payables and take out interest-bearing debt in local currencies and, in principle, enter into currency forward contracts.

### Interest-bearing debt balance by type of procurement (excluding lease liabilities) (As of March 31, 2020)



## Shareholder return policy

Management aims to steadily and continuously increase shareholder return while seeking to maximize corporate value over the long term. Although the structural reform that will be carried out under the MTP for fiscal 2020-2022 is expected to lead to lower sales and increased expenses, management has increased the consolidated payout ratio target from 30% to 40%. In addition, based on the status of the Group’s free cash flow and the market environment, management plans to conduct share buyback programs with the aim of further raising the consolidated total return ratio above 50%.

### Dividend and payout ratio