

Investment in Shrimp Farming Business in Ecuador
Online Briefing: Q&A Session

1. Date: Tuesday, August 8, 2023, 17:00-18:00 (JST)
2. Panelist:
Yoichiro Endo, Executive Managing Officer, Chief Operating Officer, Food Business Unit
Hideaki Konishi, General Manager, Investor Relations Division
3. Q&A:

<Questioner 1>

Q1: Am I correct in saying that, in Japanese yen, IPSP's net profit was approximately 20 billion in FY22? Please tell us about the future profit forecast and the reasons behind expected profit growth. Also, will you be able to recover invested capital through dividends?

A1: Net profit for FY22 was approximately 20 billion yen. Specific figures for future profit forecasts are not disclosed, but we expect growth to come from sales growth multiplied by an increase in the net profit margin. Growth in sales is expected to come from expanding the area of farming ponds, as well as increasing the unit price of shrimp by increasing the size of shrimp and increased level of processing. Growth in net profit margin will come from improvements in feed efficiency, which accounts for a large portion of costs. It will be achieved by optimizing the usage of industry-leading technology such as auto-feeders. Invested capital is expected to be recovered relatively quickly through dividends.

Q2: You explained about IPSP's disease-resistant shrimp, but what is your perception of risk, including past natural disasters? Also, please tell us about the risks from an ESG perspective.

A2: IPSP does not use any antibiotics whatsoever. Their shrimp have acquired high disease resistance through generations of continuous selection and breeding of disease-resistant shrimp. In addition, shrimp are raised in a low-stress environment at a very low density compared to those in other regions. Ecuador is also the home of the vannamei shrimp, making it a highly compatible environment. Overall, the risk of disease is not zero, but there have been no recent cases of major impacts due to disease.

In addition, there are no definite concerns regarding labor or the environment as far as we have investigated. Labor risk, for example, has been reduced through the installation of auto-

feeders, and this has mitigated labor-intensive elements. Forced labor and child labor also have not been identified to be a concern. In terms of mangrove forest protection, Ecuador has already signed a WWF agreement to stop the conversion of mangrove forests into farming ponds. IPSP's expansion of farming ponds is primarily through the acquisition of existing ponds from other companies in the industry, and we see IPSP as being a highly environmentally conscious company.

Q3: What do you expect profit contribution to look like after considering the amortization of intangible assets? Will there also be profit from trading as well?

A3: The level of profit contribution in FY March 25, when we plan to start revenue recognition, is expected to be in the low to mid single-digit billion yen range. Purchase price allocation will be implemented in the future, but the allocation to intangibles is not expected to be substantial. We haven't taken profit from Mitsui's trading business into account in these figures.

Q4: Please tell us about the risk of cyclones and other natural disasters.

A4: We do not hear much about cyclones, but we are paying more attention to changes in sea water temperatures due to the El Niño phenomenon and other factors. In general, higher sea water temperatures are more suitable for shrimp farming.

<Questioner 2>

Q5: Regarding synergies – IPSP already appears to be able to operate as a single entity, but what expectations do IPSP have for Mitsui?

A5: IPSP is a family-run company, and its sales are mainly to distributors and wholesalers in various countries. We see a lot of room for growth through sales channel expansion and product development. The purpose of this initiative is not to increase our trading business, but to enhance the corporate value of IPSP.

The types of processing being done at IPSP is different from that at our shrimp processing investment, Minh Phu, in Vietnam. In Ecuador the processing includes the primary processing of removing the heads and shells, and in Vietnam and other Southeast Asian countries, it goes even further to secondary processing such as for sushi shrimp and fried shrimp. We believe that there will be considerable synergy, as the IPSP side can benefit from Minh Phu's processing technology, and Minh Phu can learn from IPSP's farming technology,

so I think there are many opportunities for synergies to be made.

In addition, three factors are important to produce high-quality protein with traceability: genetics, feed, and aquaculture technology. We believe that we can provide functions in terms of genetics and feed improvement.

Furthermore, an expectation of IPSP for Mitsui is for IPSP to move away from family-run management. For further growth in the future, they recognize the need for reform to organizational management, and we will support them in their reform of management.

Q6: What is the scale of Mitsui's fisheries business? Will you be focusing on the fisheries business in the future?

A6: The majority of our current 240 billion yen invested capital is in the feed grains and livestock business. In the fisheries business, we have Multi-X – a South American salmon company, Minh Phu in Vietnam, and FRD – a land-based salmon farming company in Chiba, Japan, and now we are adding our investment in IPSP. In addition, we will also expand the livestock business, centering on chickens, which is a key area of focus.

Q7: I've heard that there are only a limited number of suitable areas for salmon farming, but where are the suitable areas for shrimp farming? In the medium to long term, is there a possibility that the areas suitable for shrimp farming will shift from Ecuador to other parts, for example, Africa?

A7: There has been no major change in the top ranking countries for shrimp farming over the past decade. However, it cannot be said that there will never be a change in the rankings in the future. Locations suitable for shrimp farming are between 15 degrees either side of the equator, therefore Africa is a possible location, but it requires a considerable initial investment thus has certain entry barriers. If there is a prospect that suitable aquaculture areas will change in the future, this is where our company's functions can be demonstrated. For example, if there are prospects for aquaculture in Africa, we can take the initiative and offer to work with IPSP.

<Questioner 3>

Q8: Regarding ROI, the profit for FY22 was approximately 20 billion yen when using a USD/JPY rate of 140 yen. Assuming an investment of USD360 million and a 25% share, the ROI would be approximately 10%. A 10% ROI is a not bad for an investment by a Japanese trading company's standards, but did the profit in FY22 have and one-time items or was it all

what you may call steady profit? I'd like to hear more about the volatility of profit.

A8: The ROI we are aiming for is close to your estimates. In the current Medium-term Management Plan, we are aiming for 8% ROIC for the animal protein business cluster, and we believe that this project will be a driving force behind this. We were able to invest on good terms because we have been negotiating since 2018 and were able to come to a fixed valuation for a certain period. Profit in FY22 was not a one-time event and is expected to continue to grow in the future.

Q9: Regarding the shrimp farming industry, IPSP appears to be growing steadily, but what are the challenges? Also, does future growth require upfront investment, which may cause a restriction on dividends?

A9: IPSP recognizes generational succession as a major challenge as the founder is aging and have high expectations for our support on the challenge. Since IPSP is a cash-rich company, we do not expect that the dividend payout ratio will fall due to future investments, and a certain level of payout ratio is guaranteed by contract.

Q10: Given IPSP has improved its performance so much since 2018, what are the factors behind the relationship between the two companies being so close to the extent that you were able to fix the valuation?

A10: As is typical of Mitsui, "people" is always a major factor. The people in charge of this investment had good chemistry with those at IPSP and were able to build a close relationship with them.

<Questioner 5>

Q11: How resilient are you against the volatility of shrimp prices? What about break-even and supply-demand adjustments? In general, soft commodities, including salmon, have high profit volatility, but what about shrimp?

A11: IPSP is highly cost competitive among shrimp farming companies in the world, and when the situation is severe for IPSP, other companies will face even more difficulties. It is like Saudi Arabia in oil, they have a certain level of pricing initiatives. To reduce price volatility, it is important to increase the degree of processing and the ratio of value-added products, so we will strengthen cooperation with Minh Phu.

Q12: What is the price forecast for vannamei shrimp?

A12: It is difficult to predict future prices, but looking at past trends, we understand that they are moving within a certain band. We do not expect the price to continuously rise.

Q13: Referring to prices on Bloomberg, Thai white shrimp is USD3.5-5.5 per kg, but what is the price of vannamei shrimp?

A13: The price you mentioned could be farm gate price of Thailand. Vannamei shrimp prices in the consumption market would be different, for example, the import price in the US is in a slightly higher price band and is currently hovering around USD7-9 per kg.