

Corporate Governance

Outside Directors × President Round-table Discussion

Future Developments in the Marine Business

As the business environment surrounding the marine products industry undergoes major changes, Nichimo's Marine Business is also required to undergo major transformation. President Shinya Aoki spoke with Outside Directors Tatsuya Kikuchi, Sunao Hirata, and Ninjo Akashi about the future developments in the Marine Business.



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Outside Director, Audit & Supervisory Committee Member

Sunao Hirata
Outside Director, Audit & Supervisory Committee Member

Ninjo Akashi
Outside Director, Audit & Supervisory Committee Member

Shinya Aoki
President, Representative Director

Current state of the Marine Business

Taking on the paradigm shift occurring in the marine products industry

■ **Aoki** First, regarding the current state of Nichimo's Marine Business, environmental issues such as climate change and environmental pollution are becoming more serious on a global scale. The Marine Business is being affected the most by this. Although the Food, Machinery and Materials Businesses have also been affected, our

Marine Business, which is deeply involved in the marine products industry, is keenly aware of the seriousness of environmental issues and the impact they have on the business. In recent years, the marine products industry has been undergoing a paradigm shift towards sustainable business, and the conventional industry is undergoing major changes. Sustainable management is also a major theme in the Fiscal 2023 Medium-Term Management Plan, which is currently in progress. In the Marine Business, the promotion of aquaculture is becoming increasingly important as fishing from fishing boats has reached a plateau, and the use of environmentally friendly materials in fishing gear such as fishing nets is also becoming an important issue in light of the movement toward a decarbonized society and efforts to curb marine pollution. These two issues are likely to become increasingly important in the long term, but we are currently still in a

state of trial and error.

What makes steering the Marine Business difficult is that it needs to respond to these new trends in the marine products industry while also focusing on operations that are already established as businesses. It is not easy to tackle two issues at the same time, and it places a heavy burden on those in charge, but looking at the business over a long span of five or ten years, we see this as a hurdle that we must find a way to overcome.

■ **Kikuchi** As we discussed in last year's Sustainability Report, Japan is a world-renowned maritime nation that is surrounded by sea. The effective utilization of marine resources has been and will continue to be the key for Japan to survive in the world. Nichimo is a company that creates corporate value by supporting the people who utilize marine resources.

This overlaps with what Mr. Aoki said, but I believe there are three challenges facing marine resources. They are global warming, the depletion of fishery resources, and marine pollution. Regarding our efforts to combat global warming, Nichimo supports the TCFD initiative and is working on the disclosure of information. Additionally, we contribute to addressing the depletion of fishery resources by providing fish fry and feed for aquaculture, and in response to marine pollution, we are working to collect and recycle fishing nets and develop marine materials using biodegradable plastics.

Increasing expectations for the land-based aquaculture business

Expand the land-based aquaculture business with a sense of speed

■ **Hirata** The aquaculture that you both mentioned is an important business for Nichimo. As a measure to support the aquaculture industry, the Ministry of Agriculture, Forestry and Fisheries launched the Comprehensive Strategy for the Growth of Aquaculture as an Industry in 2021, which is being promoted as national policy. In land-based aquaculture, too, companies from a variety of industries are continuing to enter the market, intensifying competition. As a company with experience and

knowledge gained from developing the Marine Business over many years, I believe that Nichimo should continue to be a front-runner in the field of land-based aquaculture. I would like to ask Mr. Aoki, what kind of business do you plan to develop, given that the business environment surrounding land-based aquaculture is undergoing intensifying competition and other major changes?

■ **Aoki** As Mr. Hirata pointed out, many companies are beginning to enter the land-based aquaculture business. The important thing is to act with a sense of speed and to steadily scale up the scale of the business. In 2021, Nichimo partnered with three other companies including Kyushu Electric Power to establish Fish Farm Mirai LLC. The company is currently operating Kyushu's largest land-based salmon aquaculture business, and is expanding its land-based aquaculture business through so-called open innovation. As the market is expected to expand, it is relatively easy to raise capital, but the companies with knowledge and know-how about the practical aspects of aquaculture, such as how to grow fish and to whom and how to sell the farmed fish are limited. Nichimo's aquaculture business has a 40-year history and we have learned a lot through trial and error. Nichimo's knowledge and know-how are also of great use in Fish Farm Mirai's open innovation efforts, including the distribution and processing of farmed fish. As this success story has spread, we are receiving inquiries about collaboration from various companies across the country. As social expectations and demands grow, the role that Nichimo must fulfill is becoming more important every day.

Making the Marine Business sustainable

The Marine Business' sustainable initiatives should be promoted more

■ **Akashi** I often travel all over Japan as the representative of a measuring equipment trading company, and I feel that Nichimo's name recognition is growing rapidly. However, I feel that some more effort is required in that, although familiarity with the company's name is growing, people are not yet aware of what the company does. If a company's business is unknown, people will not be interested in picking up

and trying the new products the company develops, no matter how useful they are to society. Nichimo's Marine Business, in consideration of curbing marine pollution and global warming, is accelerating its efforts to replace marine materials such as fishing nets that are made from petroleum-based plastics with materials made from biomass and biodegradable materials. Fishing nets and ropes made from biomass and biodegradable materials are also used as materials in the foundations of wind turbines used in offshore wind power generation. In fact, Nichimo's products are contributing to the realization of a sustainable society in many ways. It is important that more people know that Nichimo is blessed with marine-based business opportunities and that it can take advantage of these opportunities.

■ **Kikuchi** That's correct. I believe that the biomass and biodegradable materials developed by Nichimo are extremely suitable for the future society, where sustainability will be a fundamental prerequisite. However, at present, there are cases that, while the development of such materials is progressing, sales teams to publicize their value and expand sales are not yet in place. Biodegradable polystyrene foam is one example. I hope the Company proactively pursues business opportunities using such excellent material. If so, Nichimo will be able to become an even more lively and well-known company.

■ **Aoki** I am grateful for your valuable comments. In recent years, there has been increasing calls from offshore wind power generation operators to use Nichimo's products. One of the reasons behind this is that Nichimo supports local economies not only through marine materials, but also through the distribution and processing of marine products. The reason for this is that the perspective of regional development is one of the evaluation criteria when bidding for offshore wind power generation facilities. Biodegradable polystyrene foam is certainly an excellent material, but the difficulty in reducing costs is an issue, which makes the sales department hesitant to use it. We recognize that this is an important issue that must be resolved in order to contribute to the environment and society.

In addition, there is the issue that, as workers in the fishing industry are aging and catches are shrinking, the amount of unused marine products that do not go through the fishing industry's distribution or processing lines is increasing. Unused marine products often end up being discarded, and I believe that solving this social issue is also part of Nichimo's job. We are working with staff in the Food Business to find a solution. Currently, Nichimo Foods

operates small izakaya restaurants. My dream is to open sustainable antenna shops that are unique to Nichimo, where we could serve customers seafood caught using sustainable marine materials, or unused fish that are not distributed or processed.

■ **Hirata** I think the idea of antenna shops is very interesting. A university that has successfully cultivated bluefin tuna has also set up a restaurant to serve the tuna as food. I hear that they have put a lot of effort into running their restaurant, and have outsourced its operation to a major beverage manufacturer. I think it is worth Nichimo putting in the effort and taking on the challenge.

Expectations for Nichimo's young human resources
I want young employees to proactively embrace change

■ **Aoki** It is not only myself and the employees of my generation who are concerned about the aging of those involved in the fishing industry and the decline of local marine product industries. There are many young employees who want to find a way to overcome this situation. Many of these young employees have also provided various ideas to solve these issues. Some of these ideas appear difficult to realize, but rather than simply rejecting them, we are trying to persevere with them and find a way to make them a reality. As I mentioned at the beginning, a paradigm shift is occurring in the fishing industry. I believe that continuing to listen to the voices and needs from the field, even if they are minor, will lead to results. I think we can begin to see the path we should take by listening to the voices of employees in their 20s and 30s, learning what they want to do now and what kind of company they want Nichimo to be. I hope that our generation will take the lead in drawing a vision for the future of Nichimo that these young employees will carry, and then, once that vision is realized, we can pass the baton on to the next generation.

■ **Akashi** That is a wonderful idea. Nichimo has many young employees who are very capable and full

of potential. The Company needs to also invest more proactively in human capital in order to further increase the value of such human resources. Even some of those who are highly capable and have potential may lack sufficient motivation or a strong attitude toward their work. If the Company can inspire these employees, their abilities and passions will multiply and Nichimo will be able to become a company that can perform even better than it is now.

■ **Aoki** I am always impressed with the vigorous energy that our young employees have. They are also good at maintaining relationships and building trust with people in local fishing industries. However, on the other hand, I feel that many employees are hesitant to adapt to change. As the market environment changes rapidly, I would like to see efforts made to change, even if only gradually, how they use their abundant horsepower. Of course, we managers will also work to encourage such efforts.

Overcoming current issues and further enhancing our businesses
Strengthen horizontal collaboration between businesses to deliver valuable products to our many customers

■ **Aoki** There are many issues that need to be resolved before handing over the reins to younger employees. Nichimo currently has four businesses, including the Marine Business. Each business has its own history and strengths, but it must be said that horizontal collaboration between the businesses is still weak. There are some projects where the Marine Business and the Food Business are working well together, such as the coho salmon aquaculture business that I have been involved in for a long time, but looking at the overall picture, there is still a long way to go. There are issues at the level of those in charge in the field, but I think another future issue is to set out clear policies at the management level.

■ **Kikuchi** I can agree with what Mr. Aoki has identified.

If the mentality of vertical divisions is strong, it is easy to miss out on cross-business opportunities or turn a blind eye to them. This would be a huge loss for the company. I believe that if Nichimo always seizes on marine-related business opportunities and each employee has the determination to contribute to the prosperity of the maritime nation of Japan, then both the organization and its people will become even stronger. I hope that Nichimo will become that kind of company in the future.

■ **Hirata** Speaking from the perspective of an Outside Director, I would like more institutional investors to become aware of Nichimo's appeal. For example, as part of our IR activities for overseas institutional investors, why not create an opportunity for them to pick up Nichimo's products and try our marine products? Plant tours would also be a good idea. I'm sure overseas investors will also be interested in Japanese marine products and fish cuisine.

■ **Aoki** I would like to express my deep gratitude to each of you Outside Directors for your kind advice. I once again feel that as the paradigm shift in the marine products industry progresses, Nichimo's Marine Business also needs to change. Our customers are no longer just fishermen. From now on, we need to let more people know about the greatness of our company and our products. To achieve this, it is essential that we first contribute to our customers and society by providing valuable products that meet their needs. Doing so will increase Nichimo's name recognition and brand value, and more people will turn their attention to our products. I will continue to work hard to create this kind of virtuous cycle. Thank you all for your time today.

