

FROZEN FOOD PROVIDER EXPANDS GLOBAL FOOTHOLD

The Worldfolio sits down with Toshio Yoshikawa, Chairman of Yokorei, to discuss factors for success behind one of Asia's leading providers of frozen food products and its global expansion strategy

Critics say that Abenomics has fallen short of expectation. Structural reforms aimed at tackling the aging population and decreasing workforce are meant to transform Japan, and the new corporate governance code is also aimed at revitalizing the economy by 2020. How has Abenomics impacted Japan, and more particularly your sector?

I personally think that Abenomics has fallen short of expectations. When looking at the Japanese economy, it simply hasn't had the effect we hoped for. People often say that Abenomics has been 50 to 60 percent successful. However, considering the failure of the previous Democratic administration, Abenomics only worked as a smokescreen which induced the stock prices. It had a short-term effect, but it did not fix the foundation of Japan's economic structure.

The rise of the stock market can be explained by the greater amount of foreign investment, which momentarily enhanced monetary flow. Many experts welcome the depreciation of the yen, but since Japan is primordial an importing nation, a cheap yen is detrimental for the food sector. Regardless of the monetary or fiscal stimulus, the Bank of Japan's investment policy, coupled with its enactment minus interest rates has led to a superfluous transformation of the market. Although we do enjoy negative interest rates, the economy itself has not been activated and personal consumption hasn't risen, making it difficult for companies to borrow money in order to invest it in their main businesses. The positive effects brought about by Abenomics were only lived in the short term.

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Toshio Yoshikawa, Chairman of Yokorei

The global frozen food market size exceeded \$250 billion in 2015 and is expected to grow at a CAGR rate of over 5 percent. The global refrigerated warehousing market will witness exponential growth and will post a staggering CAGR of more than 14 percent from 2016-2020. What are the main reasons behind this growth and how are you working to capitalize upon it?

In Japan, the failure to maintain a strong family model in relation to urbanization and women's advancement in society has decreased the number of housewives, hence, creating a negative demographic line reducing the demand for frozen food. Therefore, the frozen food market has been evolving thanks to emerging countries, such as China, South Korea, Thailand or Vietnam, where an increasing income rate is coupled with clear demographic growth. In the future, it will be our objective to respond to the demands of these nations for frozen food. Our sector is bound to increase in size and volume. That is why many machine and frozen food manufacturers are moving their bases to places like Vietnam and Thailand. We want to strengthen our importation business.

Yokorei is set to report an all-time-high operating profit of JPY 6.5 billion (\$64.8 million) for the year-end in September 2017. What have been the key drivers behind this record-high operating profit?

We don't have a specific 'secret'. We have been sensitive enough to respond to the trends of the economy and of the food industry's demand from around the world. One of the main milestones for us was the M&A with Alliance Seafood, originally a trading company specialized in the export business. For our company to facilitate its overseas operations, it was crucial to ally with a company that had expertise in exportation. It was also crucial to build a strong foundation in truck transportation, one that could maintain the temperature with hygienic norms, and the same applies for ship transport.

It is impossible for the frozen food market to evolve without warehouses and freezers where frozen food can be stored with quality maintenance. Japanese people are excessively sensitive about the quality and safety of their food, making it crucial for us to meet their high standards. The European standards for food safety, such as the Hazard Analysis Critical Control Point (HACCP) index, are known to be very strict, but we needed to take it a step beyond to meet the demands of Japanese consumers.

You recently purchased Fjordlaks Aqua, a Norwegian trout farmer for the equivalent of \$120 million. What were the reasons behind this purchase?

Fjordlaks's business model sets a positive example. Since there is an issue of depletion in marine resources, it is crucial for companies to shift from fishing to aquaculture. Fjordlaks allows us to have a vertically integrated business model. From the nurturing of the egg to the production of the end product, it allows us to assist the entire biological creation of the fish.

Through Alliance Seafood's international network, Yokorei provides food from around the world (U.S.A., Canada, Norway) to Japan. However, you also deliver your products to the U.S., the EU and Asia. What makes Yokorei's products so attractive to the international market?

Since it is food, there is no specific characteristics proper to Yokorei. One of the most important things for us when entering into the U.S. and the European market is to be able to offer a product that enjoys clear traceability. Our strength lies in having refrigerators that can maintain high quality and low temperature. Furthermore, we aim at creating highly qualitative logistical facilities that are also environmentally friendly.

Besides the various acquisitions you have been undertaking in Norway, Yokorei also increased its cold storage market share in Thailand by acquiring more strategical warehouses. As a company that is currently aggressively expanding around the world, which market has the highest growth potential?

There is more room for growth in Europe and in the U.S. In the U.S. and in European markets, there is a tremendous demand for Japanese culinary products. Although there are areas in Southeast Asia that are growing, there are still many issues to be tackled within the region. While we will be focusing on the Asian regions, I believe that the European and the American markets have the greatest potential.

In an era marked by the end of trading frontiers, your company is growing more and more internationally. How does this globalization process affect your management style?

I believe that this "boarder-less" trend will further disseminate around the world. Although each country must embrace its own culture, we need to come up with a new unprecedented management that can respond to every region's uniqueness.

It is not only about the Japanese logistical system. If the ASEAN region is to be considered a single country, with the North economic and East-Western economic circuit combined together, that creates a significant market. Therefore, it is crucial to be sensitive to the world trend and to look at other countries as if they were my own. This vision will allow us to come up with an innovative management style. While this may take 10 to 70 years, I believe that it is primordial to always have that idea in mind.

Both domestically and internationally, your market is highly competitive, with companies such as Kyokuyo or Tohto Suizan. What are the competitive advantages of Yokorei?

Yokorei's domestic strength is that we have large freezer warehouses in every major port in Japan. Over 40 percent of the refrigerators in Japan have passed the amortization period. Our company facilitates scrap, and builds of these used refrigerators. We also created refrigerators that are environmentally friendly.

At Yokorei we improve our operations without subcontracting it to other companies. Considering the quality of our customer service, the excellent quality of our maintenance system is one of our core competitive advantages. With that regard, our company is simply one of the best in the industry. As for the sales of food products, we aim to become the number one supplier in the sector. Our main strength in terms of sales of food products is linked to the fact that our company can acquire fish from almost all the landing ports in Japan. Yokorei is the only listed company that has operational bases in the three major fishing grounds, which are Hokkaido, the Northern Pacific area and the Kyushu area.

As a company that is aggressively expanding beyond its national borders, are you currently looking to increase your international shareholders?

We started our IR activities five years ago. The trend of IT and globalization has allowed people to access the information of companies from all around the world. However, it is important to raise the status of Yokorei as the number one company in the industry, which will naturally attract foreign investors.

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In recent years, there has been an increase in telephone conferences with foreign and institutional investors. We do it five to six times a year. We actually had a telephone conference with Singapore yesterday. To be honest, since Yokorei was a domestically oriented company, we have only started focusing on foreign operations recently. Before, we didn't really emphasize promoting our company towards foreign stakeholders. However, since we have started facilitating operations in the U.S. and in Europe, we needed to start making more effort to appeal to foreign investors. These efforts naturally involve creating English versions of our company's pamphlets and financial statements.

The Japanese are proud of their food culture. Japanese cuisine is growing more and more popular every year. Why is it that Japanese food is so successful internationally?

Japanese food is made with the heart. French and Italian cuisines have Michelin guidelines, but Japanese cuisine is all about leveraging on the essence of ingredients. It is like respecting the individuality of people. If it's a tuna, it is about enjoying the freshness and essence of a tuna. If it is rice, it becomes about the essence of that rice. Japanese cuisine emphasizes the individual characteristic of each aliment, and I believe that this ideology is spreading throughout the world.