

# Lacto Japan Co., Ltd.

**3139**

Tokyo Stock Exchange Prime Market

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FISCO Ltd.

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## Summary

### 1H FY11/24 results topped the upwardly revised forecasts, with record high net sales and profits for 1H. For the full year, both net sales and profits are forecast to reach all-time highs

Lacto Japan Co., Ltd. <3139> (hereinafter, also “the Company”) is an independent specialist food trading company that imports food ingredients such as dairy ingredients and cheese (hereinafter “dairy ingredients”), meat, and processed meat products from overseas. The Company has one of the largest dairy product transaction volumes in the Japanese market. While positioning importing and selling dairy ingredients as its core business, the Company has expanded its business scope to importing and selling items such as meat and processed meat products and functional food ingredients, as well as importing and selling dairy ingredients in Asia, and manufacturing and selling cheese. In 2023, the Company announced its long-term vision, in which it aims to achieve further growth by changing from a food specialist trading company to a complex food company combining the functions of a global trading company and a manufacturer.

#### 1. Results overview for 1H FY11/24

In its consolidated results for 1H FY11/24, the Company posted record high net sales and profits for 1H. Net sales rose 5.1% year on year (YoY) to ¥84,560mn, operating income grew 42.6% to ¥2,432mn, ordinary income increased 68.1% to ¥2,260mn, and net income attributable to owners of parent grew 79.3% to ¥1,654mn. While the Company raised its initial forecasts for 1H in April 2024, both net sales and profits topped the revised forecasts. Domestic business recovered, driven by commercial-use demand alongside growth in inbound consumption and the normalization of economic activities in Japan following the transition of COVID-19 to a Class 5 infectious disease. Also, the Asian Business/Cheese Manufacturing and Sales Division delivered solid growth. A decline and steadying of inventory levels of domestically produced skim milk powder also led to recovery in demand for imported powdered milk mixtures. In addition, profit margins improved in the Dairy Ingredients and Cheese Business Division of domestic business and in the Asian Business, and the gross profit margin rose 1.0 percentage points (pp) YoY to 6.0%, leading to sharp profit growth.

#### 2. Results forecast for FY11/24

On July 12, 2024, the Company revised up its initial consolidated results forecast for FY11/24. It forecasts record high results, with net sales of ¥164,000mn (up 3.6% YoY), ordinary income of ¥4,100mn (up 44.0%), and net income attributable to owners of parent of ¥3,000mn (up 46.4%). For 2H, the Company envisions slightly lower net sales than in 1H, given concerns such as impact on consumption from dairy manufacturers and others’ price hikes and impact on domestic skim milk powder inventories from the uptrend in raw milk production since February 2024. However, it forecasts net sales and profits will reach all-time highs for the full fiscal year. Also, the extremely hot summer could bring about growth in the consumption of ice cream and other dairy products and a decline in raw milk production in Japan leading to growth in demand for imported powder milk mixtures, but those scenarios are not factored into the plan. The Company also raised its dividend forecast to ¥76.0 per share, doubling its initial forecast for an increase of ¥14.0 YoY to an increase of ¥28.0 YoY per share.

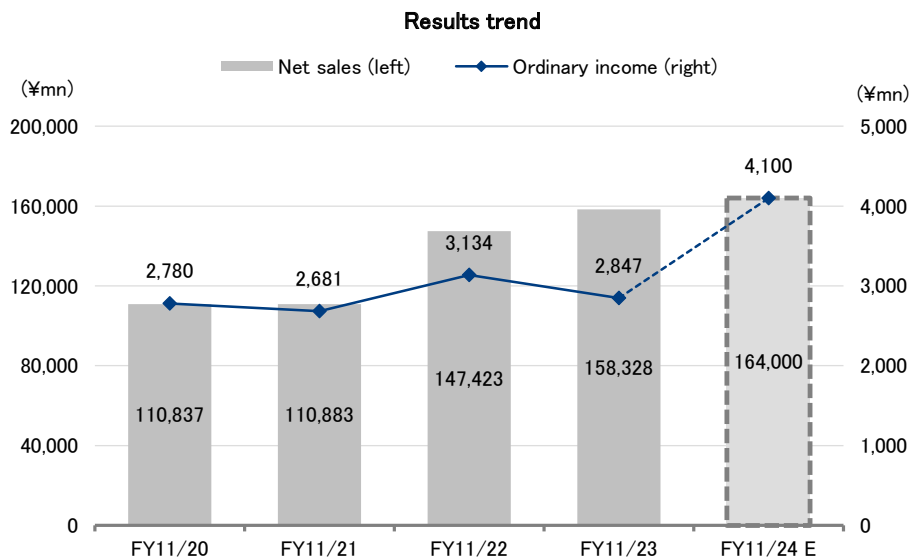
Summary

3. Progress on Corporate Business Plan

In January 2023, the Company announced its new corporate philosophy along with its long-term vision, LACTO VISION 2032, and Corporate Business Plan, NEXT-LJ 2025 (FY11/23 to FY11/25). Under the long-term vision, the Company aims to evolve into a complex food company by increasing the complexity of products, business, and trading business, and targets FY11/32 consolidated ordinary income of ¥6,000mn with 40% of that generated overseas. The first step towards this target is the Corporate Business Plan NEXT-LJ 2025, under which the Company aims to achieve FY11/25 net sales of ¥200,000mn, with consolidated ordinary income of ¥4,000mn and net income attributable to owners of parent of ¥2,900mn. Recovery in the business environment is about one year behind the Corporate Business Plan and FY11/23 results trailed the plan. However, the Company’s revised FY11/24 forecast for ordinary income of ¥4,100mn calls for attaining the Corporate Business Plan’s target one fiscal year early. Although the revised forecast for net sales is below the Corporate Business Plan’s target of ¥180,000mn, the Company has clearly made progress not just expanding the top-line, but also trying to use ROIC and other ways to raise corporate value and improve profitability as well as transitioning to a corporate culture that is conscious of capital efficiency. The Company has left the Corporate Business Plan unchanged at this time, and intends to formulate a business strategy for FY11/25 while looking ahead to the next Corporate Business Plan, which will mark a new stage.

Key Points

- Domestic business recovered, and 1H FY11/24 results marked a record high for 1H
- Record high results also forecast for the full FY11/24
- Corporate Business Plan’s consolidated ordinary income target expected to be achieved one fiscal year early
- Dividend forecast for FY11/24 raised to ¥76.0 per share, up ¥28.0 YoY



Source: Prepared by FISCO from the Company’s financial results

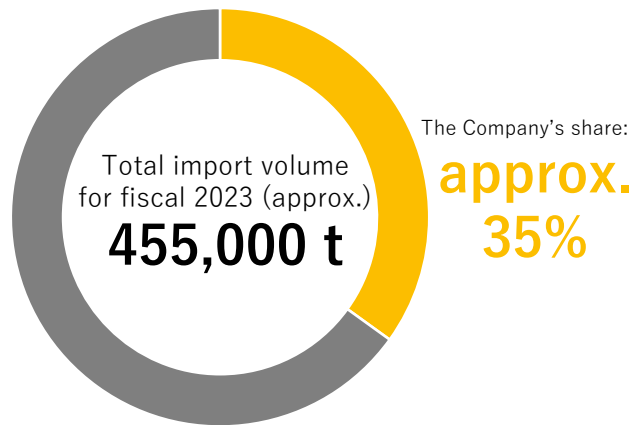
## Company overview

### A global procurement network and leading position in Japan as a trader of imported dairy products

#### 1. Company overview

The Company is headquartered in Nihonbashi, Chuo Ward, Tokyo. It is an independent food specialist trading company that imports food ingredients such as dairy ingredients, meat, and processed meat products. The Group includes the Company, one domestic consolidated subsidiary, nine overseas consolidated subsidiaries, and one equity-method affiliate. The Company name Lacto is from the Latin word for “milk.” As its name suggests, the Company has grown its business in the food domain, mainly in the business of importing dairy ingredients. Its share of the transaction volume of Japan’s imported dairy products is one of the highest in Japan at around 35%.

Share of transaction volume in imported dairy products (including products for feed)



Source: Prepared by Latco Japan with reference to the Food Demand and Supply Table of the Ministry of Agriculture, Forestry and Fisheries  
Total import volume estimated by shape conversion (coefficient 0.1) to calculate share

Source: Reprinted from the Company's briefing materials for individual investors

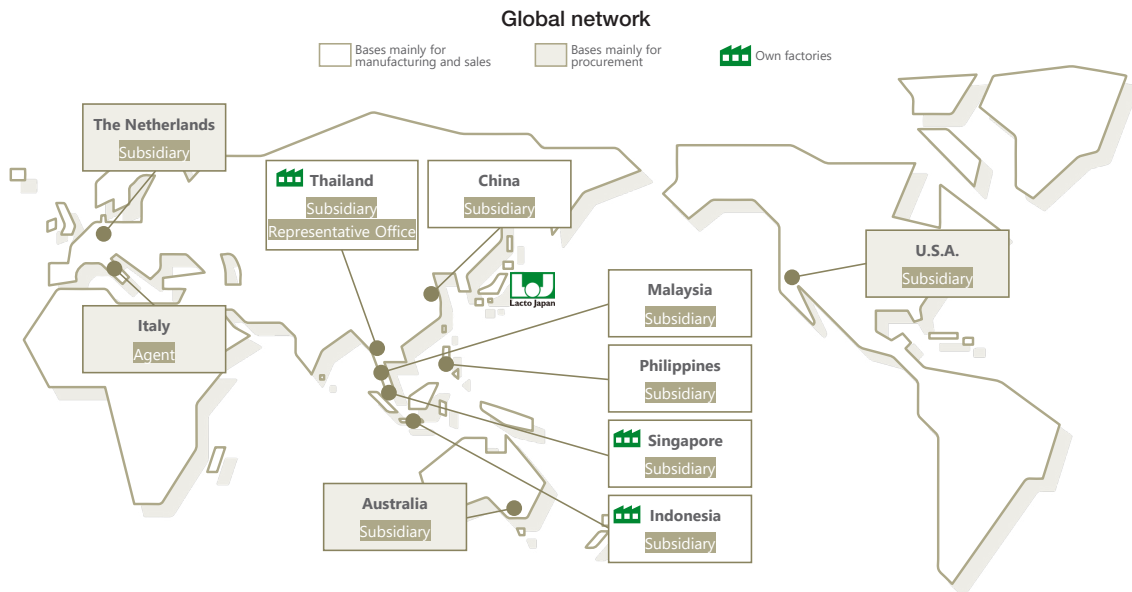
The Company was formed by a split off of the Dairy Division of Toshoku Ltd. (currently, Cargill Japan Limited), which was conducting an import business at the very dawn of dairy product importing as a food specialist trading company. At the time of the Company's foundation, it already had a certain level of trading base in Japan and overseas. Since its foundation, the Company has established local subsidiaries in key dairy production areas around the world, such as North America, Europe, and Oceania, and has built close relationships with suppliers.

The Company also imports and sells meat and processed meat products in Japan, and is working to diversify its suppliers and the items that it procures, while working in step with the rising demand for health foods to expand its handling of functional food ingredients such as milk-derived protein ingredients. In addition, the Company is expanding beyond the import and sales business in Japan by establishing subsidiaries and affiliates in the rapidly growing markets of Asia, where it is conducting import and sale of dairy products as well as manufacturing and sales of processed cheese and processed natural cheese products with the aim of achieving sustainable growth.

Company overview

Among the Company's overseas subsidiaries, three are dairy ingredients and cheese procurement bases in raw milk production areas, namely Lacto USA Inc. (hereinafter "Lacto USA") in the United States, Lacto Oceania Pty. Ltd. in Australia (hereinafter "Lacto Oceania") and Lacto Europe B.V. (hereinafter "Lacto Europe") in the Netherlands. Lacto USA conducts exports of dairy ingredients, cheese, meat, and functional food ingredients, to Japan and the Asia region. Lacto Oceania and Lacto Europe are mainly involved in support operations for the Group's Dairy Ingredients and Cheese Business Division, gathering beneficial information for the dairy ingredients and cheese business through the exchange of information with suppliers in Oceania and Europe, conducting price negotiations, and developing new suppliers.

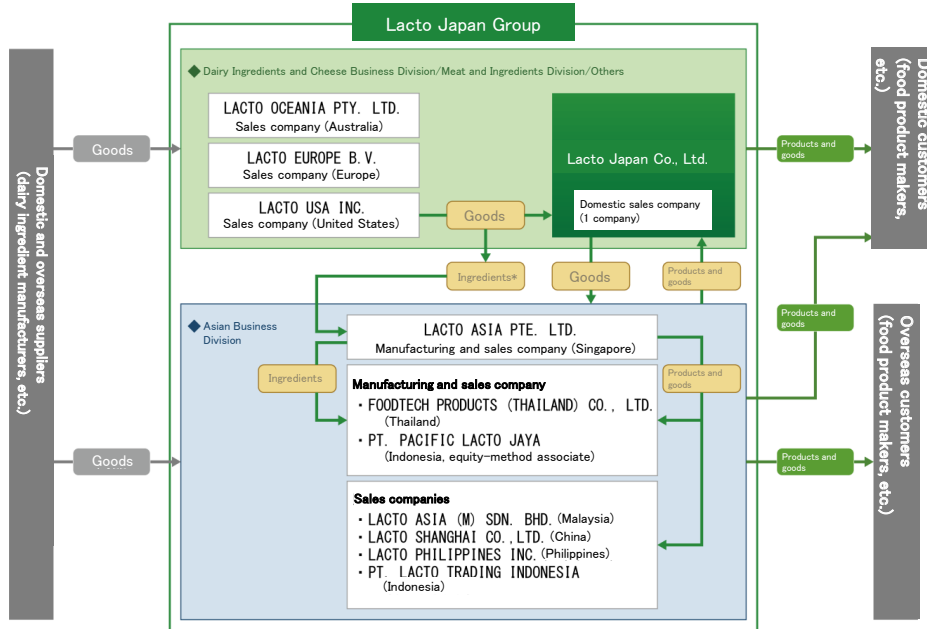
In the Asian markets, the Company's main growth driver is in developing the expanding dairy products market. In Singapore, Lacto Asia Pte. Ltd. (hereinafter "Lacto Asia") conducts wholesaling of dairy ingredients and cheese manufacturing and sales operations. It serves as the core company for the region, where the Company has established five subsidiaries: in Malaysia, Lacto Asia (M) Sdn. Bhd. (hereinafter "Lacto Malaysia"); in Thailand, Foodtech Products (Thailand) Co., Ltd. (hereinafter "FTT"); in China, Lacto Shanghai Co., Ltd. (hereinafter "Lacto Shanghai"); in Indonesia, PT. Lacto Trading Indonesia (hereinafter "LTI"); and in the Philippines, Lacto Philippines Inc. (hereinafter "Lacto Philippines"); as well as one 50% jointly invested affiliate: PT. Pacific Lacto JAYA (hereinafter "PLJ"). Each of the subsidiaries and the affiliate sell dairy ingredients and cheese purchased overseas to Japanese companies, local food product makers, and others in their home countries and the surrounding countries. Lacto Asia, FTT, and PLJ are also engaged in the development, manufacture, and sale of cheese products at their own plants.



Source: Reprinted from the Company's introduction materials

Company overview

Business schematic diagram



**Note:** \* indicates cheese for use as ingredients purchased from Lacto USA Inc. by Lacto Asia Pte. Ltd. to manufacture cheese products

Source: Prepared by FISCO from the Company's annual securities report

Company overview

2. History

Company history

Month and year	History
May 1998	Lacto Japan Co., Ltd. established in Asakusa-bashi, Taito Ward, Tokyo. Started import and sales of agricultural products and agricultural processed products
October 1998	Representative office opened in Los Angeles, U.S.A.
November 1998	Representative office opened in Singapore
June 1999	Representative office opened in Melbourne, Australia Subsidiary Lacto Japan (Asia) Pte. Ltd. established in Singapore to conduct wholesaling of dairy ingredients (representative office closed)
February 2000	Representative office opened in Amsterdam, the Netherlands
April 2000	Appointed import agent for the former Agriculture & Livestock Industries Corporation (currently Agriculture & Livestock Industries Corporation (ALIC), an incorporated administrative agency)
December 2003	Local subsidiary Foodtech Products Pte. Ltd. established in Singapore to manufacture and sell cheese
June 2004	Head office moved to Nihonbashi-honcho, Chuo Ward, Tokyo
March 2005	Began sourcing and selling processed meat products
July 2008	Lacto Asia Pte. Ltd. established through the merger of two local subsidiaries in Singapore
November 2008	Invested in U.S. company Kawaguchi Trading & Consulting Inc., making it a subsidiary
September 2009	Local subsidiary Lacto Oceania Pty. Ltd. established in Melbourne, Australia (representative office closed)
October 2009	Changed the name of Kawaguchi Trading & Consulting Inc. to Lacto USA Inc. (Los Angeles representative office closed)
September 2010	Local subsidiary Lacto Asia (M) Sdn. Bhd. established in Malaysia
February 2012	Joint venture PT. Pacific Lacto JAYA established with local capital in Jakarta, Indonesia to manufacture and sell cheese
August 2013	Local subsidiary Foodtech Products (Thailand) Co., Ltd. established in Ayutthaya, Thailand to manufacture and sell cheese
November 2013	Local subsidiary Lacto Shanghai Co., Ltd. established in Shanghai, China to sell processed food products, etc.
August 2015	Listed on the Second Section of the Tokyo Stock Exchange
December 2015	Local subsidiary Lacto Europe B.V. established in Amsterdam, the Netherlands (representative office closed)
September 2017	Designated for the First Section of the Tokyo Stock Exchange
May 2018	Head office moved to Nihonbashi, Chuo Ward, Tokyo
January 2019	Representative office opened in Bangkok, Thailand
September 2019	Local subsidiary Lacto Philippines Inc. established in Manila, the Philippines to purchase and sell dairy ingredients and cheese, etc.
February 2021	Transitioned to a Company with an Audit and Supervisory Committee
March 2021	Consolidated subsidiary LJ Foods Co., Ltd. established in Japan
November 2021	Local subsidiary PT. Lacto Trading Indonesia established in Indonesia to sell dairy ingredients, etc.
April 2022	Transitioned to the Tokyo Stock Exchange Prime Market

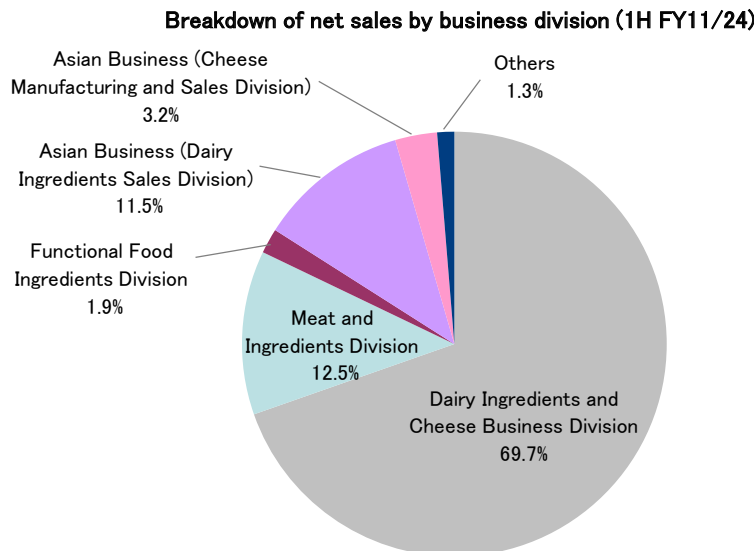
Source: Prepared by FISCO from the Company's annual securities report



## Business overview

**Expanding business domains with hybrid management combining trading company functions and manufacturing functions. Rapid growth in sales of functional food ingredients with handling of milk-derived protein, etc.**

The Company is an independent food specialist trading company that imports food ingredients such as dairy ingredients, meat, and processed meat products. It has expanded its business domains based on the import and sales operations of dairy ingredients and has continued to grow steadily. The Company has only one reportable segment, comprising the following business divisions: Dairy Ingredients and Cheese Business Division, Meat and Ingredients Division, Functional Food Ingredients Division, Asian Business/Dairy Ingredients Sales Division, Asian Business/Cheese Manufacturing and Sales Division, and Others. Functional food ingredients business, which is expected to grow in the future, was included in the Asian Business/Others through FY11/23, but the Company started disclosing net sales and sales volumes as the independent Functional Food Ingredients Division from FY11/24 accompanying growth in the scale of the business. In a breakdown of 1H FY11/24 consolidated net sales, the Dairy Ingredients and Cheese Business Division contributed 69.7%, the Meat and Ingredients Division 12.5%, the Functional Food Ingredients Division 1.9%, the Asian Business/Dairy Ingredients Sales Division 11.5%, the Asian Business/Cheese Manufacturing and Sales Division 3.2%, and Others 1.3%.



Source: Prepared by FISCO from the Company's financial results briefing materials

## Business overview

## 1. Dairy Ingredients and Cheese Business Division

This division imports dairy ingredients and cheese from overseas and sells them to dairy businesses and manufacturers of food, confectionery, oils and fats, beverages, and feed. In dairy ingredients, the division handles items derived from raw milk, such as whole milk powder, skim milk powder, butter, cream, and whey, as well as primary processed milk preparations made by adding sugar, oils and fats, etc. to these. They are used as ingredients in dairy products such as ice cream, yogurt, and milk beverages, as well as in a wide range of foods, such as raw materials in processed foods, including ingredients for bread and confectionery. The division handles over 500 products, including powdered milk mixtures, prepared butter mixtures, and cocoa preparations. In cheeses, the division primarily imports natural cheeses (mainly gouda, cheddar, mozzarella, and cream cheese), and sells these to dairy manufacturers in Japan and others, mainly as ingredients for processed cheese\* and shredded cheese.

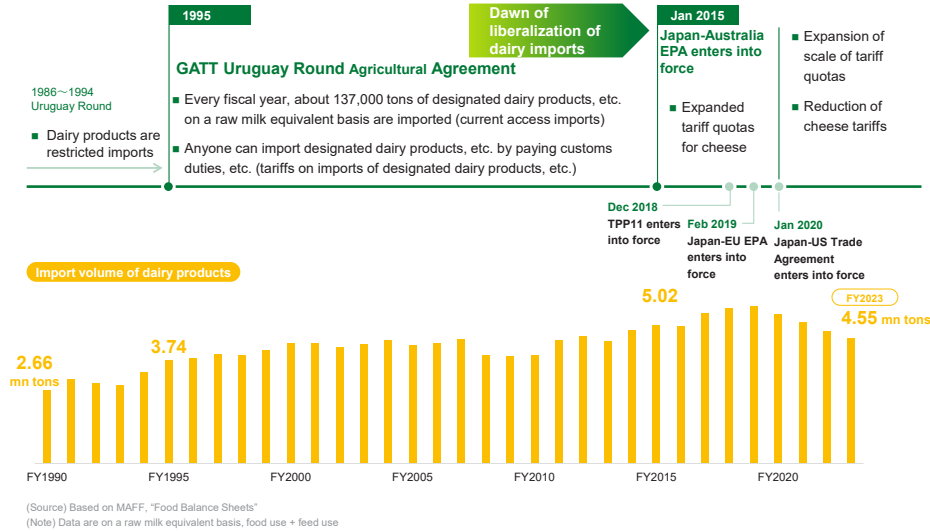
\* Processed cheese is made by adding an emulsifier to several types of natural cheese and heating them to melting point, then remaking them. The heat treatment destroys lactic acid bacteria and enzymes, making the cheese mold resistant to achieve excellent preservation characteristics. It is also possible to blend several types of natural cheese to create flavors suited to consumer tastes.

There is a significant domestic and foreign price difference for dairy ingredients compared with overseas. With a view to protecting domestic producers, imports have been restricted by non-tariff measures, but in 1988 import volume restrictions were abolished on certain dairy products such as processed cheese and ice cream as a result of negotiations between Japan and the United States. Subsequently, multilateral trade negotiations concluded in 1993 (the GATT Uruguay Round) resulted in an agreement to apply tariffs and reduce the tariff rate to specified dairy products, etc.\*, from 1995 onward. Based on this agreement, three modes of import were established: 1) current access import by the Agriculture & Livestock Industries Corporation of the minimum import volume of butter and skim milk powder, etc. promised by Japan to the WTO (137,000 t/year raw milk equivalent), 2) tariff allocation imports, under which a low tariff rate is allocated to a set quota for private sector consumers, etc., and 3) general imports that allow anyone to import specified dairy products, etc., by paying the set tariff. Subsequently, the tariff allocation volume has been expanded and tariffs reduced by the coming into effect of a Japan-Australia EPA (Economic Partnership Agreement), the CPTPP (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, also known as TPP11), and the Trade Agreement between Japan and the United States.

\* Specified dairy products, etc.: dairy products including skim milk powder, butter, whey, whey preparations, and condensed milk that comply with the standards stipulated in the Act Concerning the Stabilization of Price of Livestock Products, and whose import has now been allowed by the application of tariffs.

Business overview

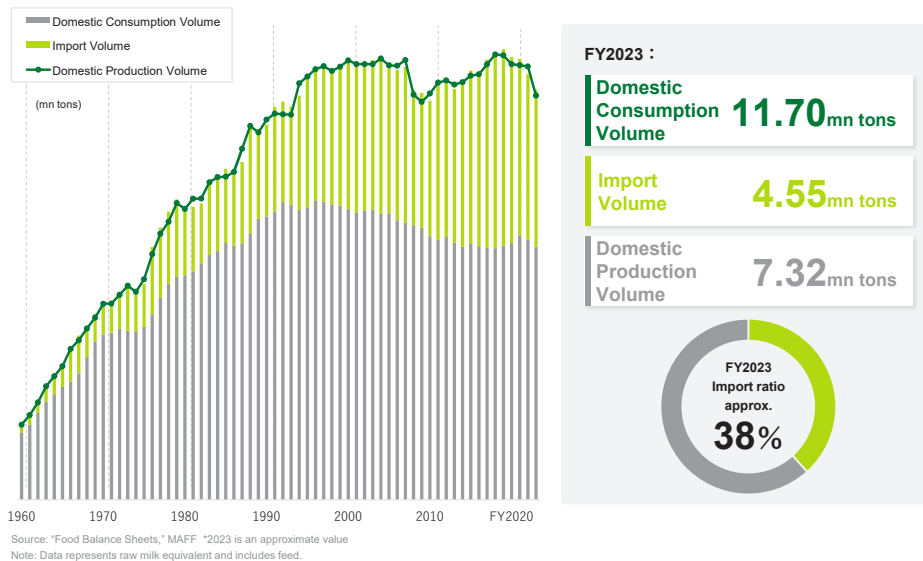
Progress of trade liberalization



Source: Reprinted from the Company's briefing materials for individual investors

Domestic raw milk production in Japan is declining over the medium to long term due to dairy farmers withdrawing from the business and so forth. On the other hand, domestic dairy product demand is trending steadily, mainly due to the routine consumption of functional yogurts for health and changes in dietary habits. In FY2023, domestic consumption of 11.70mn t (raw milk equivalent) comprised 7.32mn t from domestic production and 4.55mn t of imports, for an import ratio of approximately 38%. The Company has demonstrated its value as an organizer supporting the smooth procurement of ingredients to fill the demand and supply gap for ingredients as imports of dairy products were liberalized. In addition, by responding to increasingly diverse development needs and the product characteristics of dairy ingredients for customers in Japan, and proposing development and manufacture of high quality, high-added value ingredients to suppliers, the Company has established a unique position as a business partner.

Status of raw milk and dairy product consumption and domestic production and imports



Source: Reprinted from the Company's briefing materials for individual investors

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## Business overview

## 2. Meat and Ingredients Division

The Meat and Ingredients Division imports processed meat products such as fresh ham and salami, primarily pork (chilled and frozen), from around the world and supplies them to food product makers, such as ham and sausage manufacturers, as well as wholesalers and retailers in Japan. For pork, the Company's main supplier is leading U.S. major meat producer Seaboard Foods LLC (hereinafter "Seaboard Foods"), which conducts integrated production from pig raising through to processing with traceability. At the same time, it has also secured supply sources in Canada, Spain, and other countries, in order to diversify its suppliers. In processed meat products such as dry-cured ham and salami, the Company imports high quality products with brand capability from major production areas; namely, Fratelli Galloni S.P.A. for Parma ham, Villani S.P.A for Milano salami (Italy), and Estaban España S.A. for Jamón Serrano (Spain), which it sells to repacking manufacturers with sales channels through major supermarkets, etc. (repacking manufacturers process the dry-cured ham ingredients into shapes and sizes suitable for selling and packaging them). Moreover, to meet the needs of increasingly diverse customers, the Company is diversifying its business by expanding the lines of items handled to include beef and chicken, etc.

## 3. Functional Food Ingredients Division

The Company is focusing on sales of functional food ingredients as a new growth pillar. Since the start of the Foods with Functional Claims system in 2015, food and health and the functionality of food have been in focus, with many food products appearing with functionality claims, such as yogurt, gum, and chocolate, and a general increase in interest in health among consumers. The Company established a new business development headquarters in April 2020, and started importing and selling functional food ingredients such as whey protein. Demand has been growing, mainly for sports protein ingredients, from the sports nutrition industry, the health and beauty industry, the nursing care industry, and the food industry. The Company is expanding the range of items it handles, including high protein ingredients derived from milk, and food ingredients with various functions, proposing them in combination with whey protein to differentiate them. Moreover, the Company is developing higher-value added businesses, such as collaborations with OEM partner companies, to make planning and development proposals for end products that incorporate the unique qualities of dairy products to brand owners and sports gyms that sell protein products on e-commerce websites and do not have their own plants. Looking ahead, the Company plans to expand its business by widening the range of products that it handles, concentrating on ingredients that can be promoted for their health-contributing functions, such as plant-based foods, gelatin, and collagen, in addition to ingredients derived from milk.

## 4. Asian Business, Others

### (1) Dairy Ingredients Sales Division

Targeting the markets of Asia, where the adoption of Western foods is expected to drive expansion of the dairy products market, the Company has established subsidiaries and an affiliate in Malaysia, Thailand, China, Indonesia, and the Philippines with subsidiary Lacto Asia serving as the core company, to promote its business. As with the Dairy Ingredients and Cheese Business Division, the Company sells dairy ingredients imported from overseas to Japanese and local food product makers in countries where it has subsidiaries and neighboring countries. Lacto Asia sells dairy ingredients to companies in Singapore and South Korea, which export milk preparations to Japan, and it also exports powdered milk mixtures to Japan.

## Business overview

**(2) Cheese Manufacturing and Sales Division**

Lacto Asia in Singapore, FTT in Thailand, and PLJ in Indonesia have their own factories and mainly manufacture and sell commercial-use cheese, for which there is little competition. In Singapore and Thailand, in addition to processed cheese, the Company also manufactures and sells shredded cheese made by processing natural cheese, which is seeing growing demand recently for use on pizzas and so forth. In Indonesia, the Company manufactures and sells only shredded cheese. Commercial-use cheese is being developed as a product under a policy of carefully picking up the needs and issues of customers such as food product makers and restaurant operators, and solving issues together with a market-in approach. These issues include wanting to use cheese as a processed food product but not being successful in processing cheese sold in the market, or wanting to use cheese as a processed food but not knowing the best way to use it. Currently, the Company supplies two original brand products, “FOODTECH” and “CHOOSY.” In addition, the Company is moving forward with plans in Singapore to relocate from its current plant to a new plant, and aims to expand its production system with the start of operations at the new plant in 2025, but apparently expects the start of operations to be a bit behind schedule due to a delay obtaining local approval.

With regard to quality, the Company manufacturers under the rigorous quality standards it has developed in the Japanese market and follows a policy of supplying high quality products. In the mainstay Singapore market, it has continuously received the highest “A” grade evaluation from the Singapore Food Agency (SFA), which supervises food factories in the country, since it was founded, which distinguishes it from local companies. Moreover, one of the conditions for the Company to sell products in Asia is that it must have Halal certification to guarantee that Muslims in countries such as Singapore, Malaysia, and Indonesia can eat its products with confidence. The Company obtained Halal certification in FY2004 when it started its manufacturing business, and supplies products that align with local trade practices. In June 2021, the Company obtained the FSSC 22000 international standard for food safety management systems, and its policy is to continue making further quality improvements and manufacturing and supplying products that offer greater security and safety.

**(3) Others**

This includes food ingredients exporting business conducted by local subsidiaries overseas outside of Asia.

## 5. Business strengths

The Company's strengths lie first and foremost in its human and intellectual capital. To provide customers with high value in the import of dairy and livestock-related ingredients, it is necessary to have expert knowledge of all factors, including trends in production areas, the international market conditions, product characteristics, complex internal and external agricultural policies and import systems, trade operations, and tariffs. The Company has accumulated knowledge and expertise regarding dairy products and import operations since the early days of dairy product imports, and has highly expert employees who are constantly ascertaining the latest local information and needs while keeping up direct contact with global suppliers and major food product makers. With this human and intellectual capital as a foundation, the Company has established local subsidiaries in Europe, Oceania, and North America, and has considerable strengths in the relationships of trading and trust that it has built up over many years with major dairy manufacturers, who are overseas suppliers. The Company has direct access to its suppliers' advanced technologies and the latest information about ingredients development, enabling it to purchase and supply the optimal ingredients to meet its customers' diverse needs, develop optimal raw materials and products, and provide the latest information. Moreover, the Company is able to combine advanced overseas technologies with domestic dairy ingredients to create new products and stimulate new demand. In addition, the Company has built business relationships with diverse customers, including not only domestic dairy manufacturers, but also food, beverage, and feed manufacturers. This enables it to discover new needs and feed these back to its suppliers to develop new products.

Even amid the supply chain disruption that occurred due to the spread of COVID-19, the Company utilized its global procurement network to continue a stable supply of ingredients. To counter the risk of production volume fluctuations due to the impacts of climate change or natural disasters, the Company has another major strength in its ability to procure stably from diverse suppliers in distributed areas. Moreover, having entered the Asian business at an early stage, the Company also has a network of suppliers and is well versed in the Asian markets. Furthermore, in addition to trading company functions, the Company also has manufacturing functions, having its own local cheese factories, and has accumulated successes in realizing the development of products that are carefully tailored to customers' needs and creating markets for them. In the future, the Company could also expand the sale of Japanese dairy products to meet needs in Asia. In fact, the Company has built networks with a wide range of stakeholders, including the dairy and livestock industry and the government of Japan, and has addressed surplus inventories of skim milk powder in Japan by selling domestically produced skim milk powder instead of its imported counterpart as well as through export sales of domestically produced skim milk powder to Asia. Having manufacturing functions in Asia is also a strength in that it offers higher profit margins than wholesaling.

## Results trends

### Domestic business recovered, and net sales and profits reached a record high for 1H

#### 1. Results overview for 1H FY11/24

In its consolidated results for 1H FY11/24, the Company posted net sales of ¥84,560mn (up 5.1% YoY), operating income of ¥2,432mn (up 42.6%), ordinary income of ¥2,260mn (up 68.1%), and net income attributable to owners of parent of ¥1,654mn (up 79.3%). Net sales and profits reached all-time highs for 1H. While the Company raised its initial forecasts for 1H in April 2024, both net sales and profits topped the revised forecasts. Sales volumes rose for all of the domestic business divisions, driven by commercial-use demand amid a boom in the restaurant and leisure industries accompanying growth in inbound consumption, along with the normalization of economic activities in Japan following the transition of COVID-19 to a Class 5 infectious disease. In addition, sales volume rose in the Asian Business/Cheese Manufacturing and Sales Division. Steps to address surplus inventories and curbed raw milk production volumes brought down inventory levels of domestically produced skim milk powder, and the steadying of these inventory levels in 1H also led to recovery in demand for imported powdered milk mixtures.

In profit and loss, profits at all levels rose sharply YoY. In the Dairy Ingredients and Cheese Business Division, demand rose for products such as food gifts, ice cream and chocolate, and sales grew for high-margin butter and processed products containing milk fat. In the Asian Business, the product mix improved in the Dairy Ingredient Sales Division as the ratio of price-conscious products decreased, and the cost of sales ratio improved in the Cheese Manufacturing and Sales Division as raw cheese prices declined. As a result of these factors, the gross profit margin rose 1.0pp YoY to 6.0%, and gross profit grew 26.8% YoY. On the other hand, selling, general, and administrative expenses increased 15.0% YoY, owing to growth in sales-related expenses such as travel costs as sales activities returned to normal, growth in personnel costs due partly to wage increases, and growth in logistics expenses in Japan reflecting impact from increased volumes and higher energy prices. That was offset by higher gross profit, and ordinary income grew to about 1.7x the level a year ago. Ordinary income after adjusting for foreign exchange effects, which do not correspond to the cost of sales during the fiscal year, increased 61.3% YoY to ¥2,285mn.

#### Results for 1H FY11/24

	1H FY11/23			1H FY11/24			
	Results	Vs. net sales	Revised forecast*	Results	Vs. net sales	YoY	Vs. revised forecast
Net sales	80,450	100.0%	80,000	84,560	100.0%	5.1%	5.7%
Gross profit	4,002	5.0%	–	5,073	6.0%	26.8%	–
Operating income	1,705	2.1%	–	2,432	2.9%	42.6%	–
Ordinary income	1,344	1.7%	1,800	2,260	2.7%	68.1%	25.6%
(Foreign exchange effects included in ordinary income)	(-72)			(-24)			
Ordinary income after adjustment for foreign exchange effects	1,417	1.8%	–	2,285	2.7%	61.3%	–
Net income attributable to owners of parent	922	1.1%	1,300	1,654	2.0%	79.3%	27.2%
Foreign exchange rate (USD/JPY)	133.82			149.95			
Foreign exchange rate (EUR/JPY)	144.09			162.47			

\* Revised forecast announced April 12, 2024

Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

Results trends

2. Trends by business division

Trend in net sales and sales volume by business division

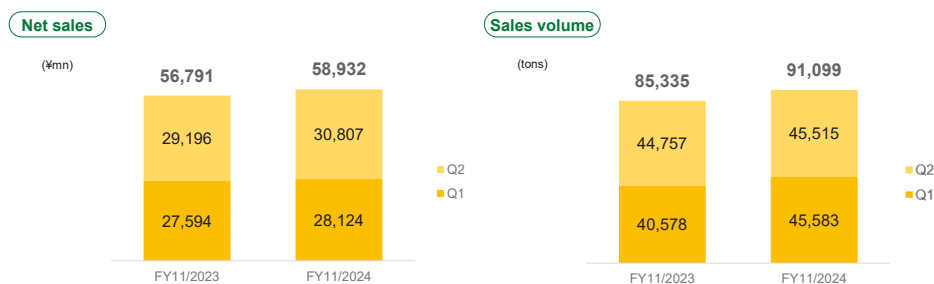
	Net sales (¥mn)			Sales volume (t)		
	1H FY11/23	1H FY11/24	Change rate	1H FY11/23	1H FY11/24	Change rate
Dairy Ingredients and Cheese Business Division	56,791	58,932	3.8%	85,335	91,099	6.8%
Meat and Ingredients Division	8,996	10,538	17.1%	13,878	15,843	14.2%
Functional Food Ingredients Division	1,587	1,608	1.4%	1,131	1,267	12.0%
Asian Business (Dairy Ingredients Sales Division)	10,564	9,731	-7.9%	21,088	18,518	-12.2%
Asian Business (Cheese Manufacturing and Sales Division)	2,246	2,679	19.3%	2,369	2,536	7.1%
Others	264	1,068	304.8%			

Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

(1) Dairy Ingredients and Cheese Business Division

Demand for commercial-use dairy ingredients recovered since the restaurant and leisure industries thrived amid growth in inbound demand. Sales were especially strong for butter, whole milk powder, lactose and other ingredients used in products such as food gifts, ice cream, and chocolate. A recovery in demand for imported processed products was brought about by two key factors. One was that inventories of domestically produced skim milk powder declined and trended at the 50,000 t level, owing mainly to joint public-private sector efforts to reduce excess inventory as well as curbed raw milk production volume. Another was that the Company was able to maintain its price competitiveness as global market prices for dairy products were steady despite the weakening yen. Sales of commercial-use cheese were also brisk, and the business division's overall sales volume rose 6.8% YoY to 91,099 t. Net sales for the division grew 3.8% YoY to ¥58,932mn amid steadier market prices for raw materials. In terms of profit, the product mix improved since sales were strong for high-margin dairy ingredients such as butter and powdered milk containing milk fat, and the profit margin improved.

Trend in net sales and sales volume in the Dairy Ingredients and Cheese Business Division



Note: Figures for both net sales and sales volume are rounded down to the nearest whole number  
 Source: Reprinted from the Company's financial results briefing materials

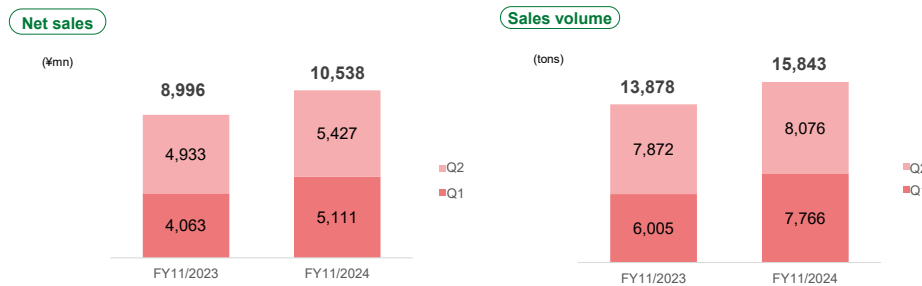


Results trends

**(2) Meat and Ingredients Division**

Commercial-use demand recovered due to prosperity in the restaurant and leisure industries. Sales volume grew for the Company’s mainstay North American pork as it maintained its price advantage amid rising market prices for European pork due partly to impact from African swine fever. Sales volume also grew for processed foods, mainly chicken and processed chicken products. Sales volume for the entire division increased 14.2% YoY to 15,843 t. Also, net sales for the division grew 17.1% YoY to ¥10,538mn as units sales prices trended on the high side due to impact from yen depreciation and high market prices for pork, but the profit margin only improved slightly.

**Trend in net sales and sales volume in the Meat and Ingredients Division**

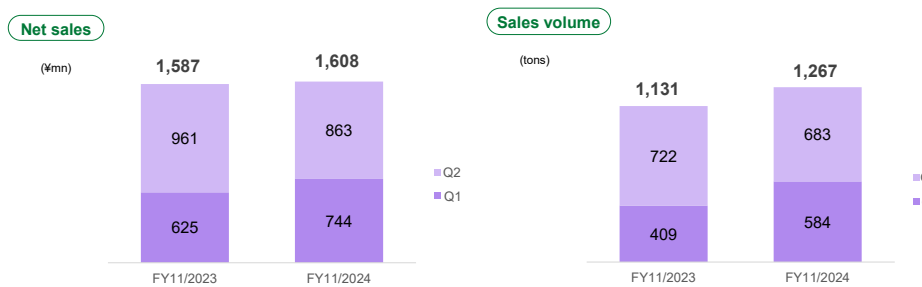


Note: Figures for both net sales and sales volume are rounded down to the nearest whole number  
 Source: Reprinted from the Company’s financial results briefing materials

**(3) Functional Food Ingredients Division**

Sales remained strong for functional food ingredients, a business the Company aims to expand as a new growth pillar. Sales were especially brisk for whey protein, which is an ingredient for protein products. In Japan, “high protein” is becoming a development theme not just for sports nutrition but for food in general, and the market is expanding to general consumers including health-conscious women and seniors. For this business division, net sales rose 1.4% YoY to ¥1,608mn and sales volume increased 12.0% to 1,267 t. While net sales and sales volume grew steadily from 1Q to 2Q, net sales and sales volume both declined YoY in 2Q as a rise in prices alongside yen depreciation and higher raw material costs led to temporary restrained purchasing.

**Trend in net sales and sales volume in the Functional Food Ingredients Division**



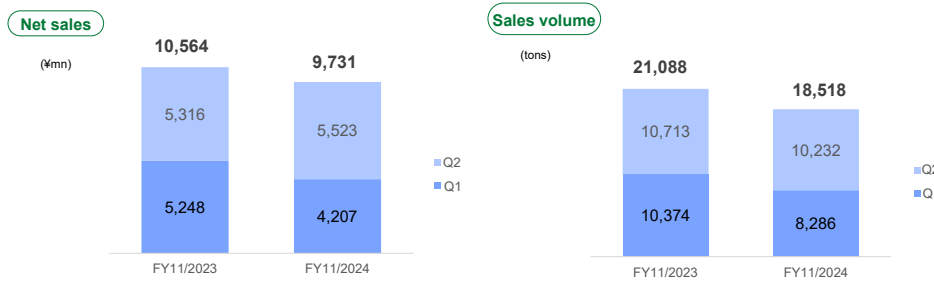
Note: Figures for both net sales and sales volume are rounded down to the nearest whole number  
 Source: Reprinted from the Company’s financial results briefing materials

Results trends

**(4) Asian Business (Dairy Ingredients Sales Division)**

For this division, sales volume decreased 12.2% YoY to 18,518 t, owing to a sharp decline in transactions related to exports of Japanese skim milk powder following an expansion in the same period of the previous fiscal year, because skim milk powder inventory in Japan declined, as well as fierce price competition in bidding for price-conscious products for some local companies. In the Southeast Asia region, sales of dairy ingredients to Japanese companies were brisk, and sales of ingredients for milk preparations for Japanese companies showed signs of recovery. Also, the Company strengthened sales activities in Thailand where there is significant potential for market development, including by transferring dairy ingredient sales staff from Singapore to Thailand and exhibiting for the first time at the THAIFEX food trade show held in Thailand. Additionally, sales grew sharply in Indonesia as LTI newly started handling dairy ingredients made in Oceania. As a result of the above, net sales decreased 7.9% YoY to ¥9,731mn in 1H, but turned to 3.9% YoY growth in 2Q. As for profit and loss, the profit margin improved on a better product mix accompanying a decline in sales of price-conscious products, contributing to growth in ordinary income.

**Trend in net sales and sales volume in the Asian Business (Dairy Ingredients Sales Division)**

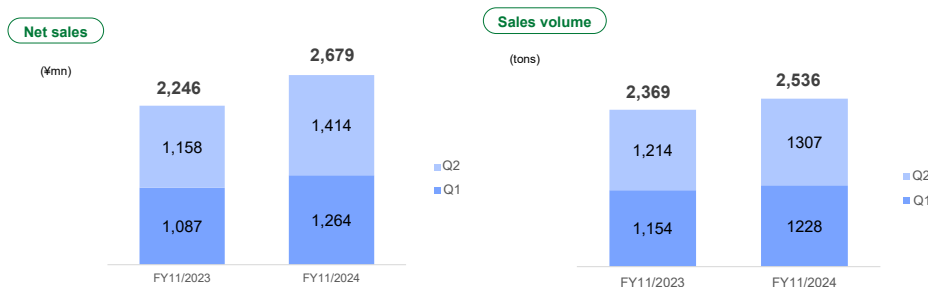


Note: Figures for both net sales and sales volume are rounded down to the nearest whole number  
 Source: Reprinted from the Company's financial results briefing materials

**(5) Asian Business (Cheese Manufacturing and Sales Division)**

For this division, sales volume rose 7.1% YoY to 2,536 t and net sales grew 19.3% to ¥2,679mn, reflecting solid sales for both processed cheese and natural cheese. The economy is gradually picking up in Thailand where sales had slumped, with sales volume for Thailand on a recovery track. In addition, sales of products for bakeries and restaurants, mainly in Singapore and Malaysia, are solid. However, sales of processed cheese related to China demand remain weak, and sales to processed food manufacturers were lackluster due to impact from the US dollar's appreciation against Asian currencies. However, the cost of sales ratio fell due to a decline in raw cheese prices, and the profit margin improved due to the effects of sales price revisions in the previous fiscal year, contributing to growth in ordinary income.

**Trend in net sales and sales volume in the Asian Business (Cheese Manufacturing and Sales Division)**

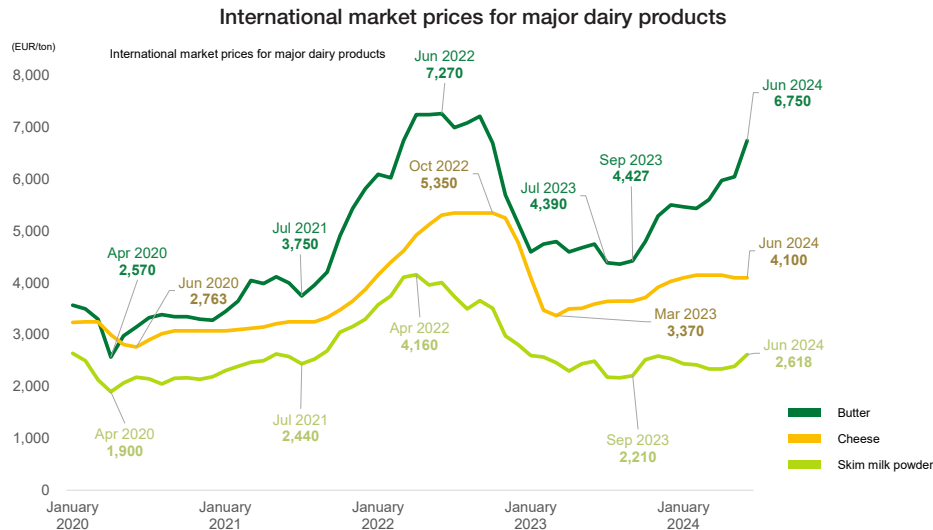


Note: Figures for both net sales and sales volume are rounded down to the nearest whole number  
 Source: Reprinted from the Company's financial results briefing materials

Results trends

(6) Others

For this division, net sales grew 304.8% YoY to ¥1,068mn in 1H because there was a deal at an overseas subsidiary entailing directly selling dairy ingredients to a Japanese user.



Source: Reprinted from the Company's financial results briefing materials

3. Financial position

In 1H FY11/24, net sales and sales volume in domestic businesses increased. Therefore, accounts receivable increased ¥2,944mn from the previous fiscal year-end, inventories increased ¥1,921mn, and a need arose for working capital of ¥3,532mn excluding the ¥886mn increase in accounts payable. While this working capital deficiency was offset partly by ¥2,260mn in income before income taxes, cash flows from operating activities decreased ¥1,590mn. Therefore, the Company secured ¥295mn in cash flows from investing activities and ¥2,195mn in cash flows from financing activities such as short- and long-term borrowing, and the remaining funds increased cash and deposits by ¥1,125mn. As a result of increases in cash and deposits, accounts payable, and inventories, current assets rose ¥6,304mn from the previous fiscal year-end and total assets increased ¥6,215mn to ¥78,253mn. Total liabilities increased ¥3,969mn from the previous fiscal year-end to ¥51,284mn due to an increase in short- and long-term borrowings. Net assets increased ¥2,245mn from the previous fiscal year-end to ¥26,969, and the equity ratio rose 0.2pp to 34.4%.

## Results trends

## Consolidated balance sheets

	(¥mn)		
	FY11/23	1H FY11/24	Change
<b>Current assets</b>	67,068	73,373	6,304
Cash and deposits	7,779	8,905	1,125
Notes and accounts receivable	18,700	21,644	2,944
Inventories	39,806	41,728	1,921
<b>Non-current assets</b>	4,969	4,880	-89
Property, plant and equipment	2,185	2,442	257
Intangible assets	73	144	70
Investments and other assets	2,710	2,293	-417
<b>Total assets</b>	72,038	78,253	6,215
<b>Current liabilities</b>	37,033	39,843	2,810
Accounts payable	14,033	15,116	1,082
Interest-bearing debt	31,518	34,163	2,644
Short-term borrowings	18,782	20,279	1,497
<b>Non-current liabilities</b>	10,281	11,440	1,159
Long-term borrowings	9,125	10,324	1,199
<b>Total liabilities</b>	47,314	51,284	3,969
<b>Total net assets</b>	24,724	26,969	2,245

Note: Short-term borrowings include current portion of long-term borrowings  
 Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

## ■ Outlook

### The Company forecasts record high net sales and profits for FY11/24, and attainment of the Corporate Business Plan's profit targets one fiscal year early

#### 1. Results forecast for FY11/24

On July 12, 2024, the Company revised up its initial consolidated results forecast for FY11/24. It forecasts record high sales and profits, with net sales of ¥164,000mn (up 3.6% YoY), ordinary income of ¥4,100mn (up 44.0%), and net income attributable to owners of parent of ¥3,000mn (up 46.4%). Its plan for 2H is slightly conservative compared with 1H, owing to concerns about things like the effects of dairy manufacturers and others' price hikes on consumption and the effects of the uptrend in raw milk production since February 2024 on domestic skim milk powder inventories. However, it forecasts record high net sales and profits for the full fiscal year. Notably, it envisions net sales and sales volume in the Functional Food Ingredients Division more than doubling from 1H amid market expansion. Also, the extremely hot summer could result in increased consumption of dairy products like ice cream and a decline in raw milk production from cows sensitive to heat could lead to growth in demand for imported ingredients, but those scenarios are not factored into the plan. The Company also raised its dividend forecast to ¥76.0 per share, doubling its initial forecast for an increase of ¥14.0 YoY to an increase of ¥28.0 YoY per share.

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 3139 Tokyo Stock Exchange Prime Market | <https://www.lactojapan.com/en/ir.html>

## Outlook

## Results forecast for FY11/24

	FY11/23		FY11/24			
	Results	Vs. net sales	Initial forecast	Revised forecast*	Vs. net sales	YoY
Net sales	158,328	100.0%	160,000	164,000	100.0%	3.6%
Ordinary income	2,847	1.8%	3,400	4,100	2.5%	44.0%
Net income attributable to owners of parent	2,048	1.3%	2,400	3,000	1.8%	46.4%

\* Revised forecast is figures announced on July 12, 2024

Source: Prepared by FISCO from the Company's financial results briefing materials

## 2. Results forecast by business division

## Net sales and sales volume forecast by business division

	Net sales (¥mn)				Sales volume (t)			
	FY11/23 Results	FY11/24		YoY	FY11/23 Results	FY11/24		YoY
		Initial forecast	Revised forecast			Initial forecast	Revised forecast	
Dairy Ingredients and Cheese Business Division	111,845	105,200	113,000	1.0%	167,421	172,900	180,000	7.5%
Meat and Ingredients Division	18,268	16,600	20,000	9.5%	28,125	30,000	30,000	6.7%
Functional Food Ingredients Division	3,917	7,400*	5,000	27.6%	2,806	-	4,300	53.2%
Asian Business (Dairy Ingredients Sales Division)	18,922	25,000	18,500	-2.2%	37,251	54,300	35,500	-4.7%
Asian Business (Cheese Manufacturing and Sales Division)	4,828	5,800	5,500	13.9%	4,827	6,200	5,200	7.7%
Others	544	-	2,000	267.1%	-	-	-	-

\* Forecast of combined net sales for Functional Food Ingredients Division and others

Source: Prepared by FISCO from the Company's financial results briefing materials

## Net sales and sales volume forecast by business division (2H FY11/24)

	Change			
	1H FY11/24 Results	2H FY11/24 Forecast	Change	
			Amount	%
<b>Dairy Ingredients and Cheese Business Division</b>				
Net sales	58,932	54,068	-4,864	-8.3%
Sales volume (t)	91,099	88,901	-2,198	-2.4%
<b>Meat and Ingredients Division</b>				
Net sales	10,538	9,462	-1,076	-10.2%
Sales volume (t)	15,843	14,157	-1,686	-10.6%
<b>Functional Food Ingredients Division</b>				
Net sales	1,608	3,392	1,784	110.9%
Sales volume (t)	1,267	3,033	1,766	139.4%
<b>Asian Business (Dairy Ingredients Sales Division)</b>				
Net sales	9,731	8,769	-962	-9.9%
Sales volume (t)	18,518	16,982	-1,536	-8.3%
<b>Asian Business (Cheese Manufacturing and Sales Division)</b>				
Net sales	2,679	2,821	142	5.3%
Sales volume (t)	2,536	2,664	128	5.0%

Source: Prepared by FISCO from the Company's financial results briefing materials

Outlook

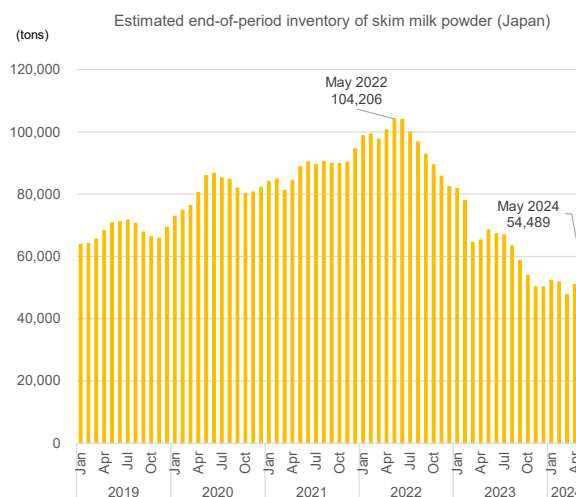
**(1) Dairy Ingredients and Cheese Business Division**

For this division, the Company expects lower net sales and sales volume in 2H than 1H, but forecasts net sales growth of 1.0% YoY to ¥113,000mn and sales volume growth of 7.5% to 180,000 t for the full fiscal year. It revised up its initial forecast for net sales by 7.4% and for sales volume by 4.1%. The Company is receiving lots of inquiries regarding imported raw materials for both dairy ingredients and cheese, but many buyers of dairy ingredients including large dairy manufacturers plan to revise prices for final products such as ice cream and cheese in the fall, so is concerned about consumers holding back on purchases. Also, the Company is conservatively forecasting results in line with 1H for mainstay powdered milk mixtures because they are recovering but not as strongly as it initially expected, and given concerns such as impact on skim powdered milk inventories in Japan from the uptrend in raw milk production and rising prices for imported raw materials leading to restrained purchasing. For fat-based ingredients such as butter, demand is strong and brisk sales are expected. In June 2024, the Ministry of Agriculture, Forestry and Fisheries announced a 4,000 t addition to Japan’s initial FY2024 import quota for butter for which demand is strong, bringing the total import quota to 14,000 t, which has expanded possibilities for the Company’s business by increasing its bidding opportunities.

Inventories of domestically produced skim milk powder declined from 98,000 t at the end of March 2022 to 50,000 t at the end of November 2023 and have been trending around 50,000 t since then, reflecting progress with joint public-private sector efforts launched in March 2022 to reduce excess inventory. However, raw milk production in Japan in FY2024 (April 2024-March 2025) is expected to turn up for the first time in three years after having been curbed to adjust the supply/demand balance during the COVID-19 pandemic, and raw milk production volume has continued to rise YoY since February 2024. The Company maintains its price competitiveness and inquiries for its imported raw materials are strong, but there is uncertainty with regard to growth in imported raw material prices and its plan for 2H is conservative.

In addition, unexpectedly intense summer heat could bring about growth in the consumption of ice cream and other dairy products and a decline in raw milk production volume could lead to growth in demand for imported raw materials.

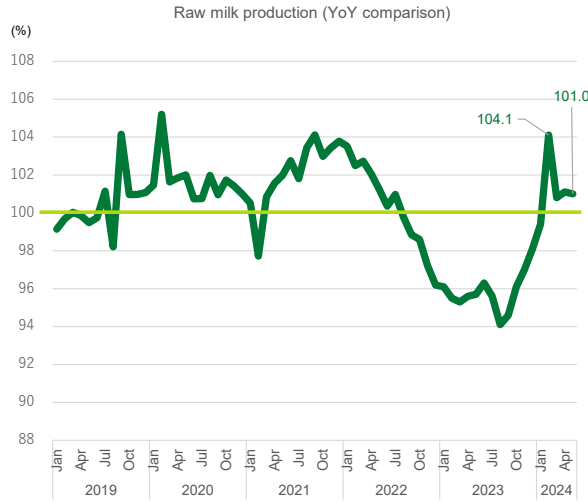
**Trends in estimated domestic skim milk powder inventory at end of fiscal year**



Source: Reprinted from the Company’s financial results briefing materials

Outlook

Trends in domestic raw milk production (YoY comparison)



Source: Reprinted from the Company's financial results briefing materials

**(2) Meat and Ingredients Division**

For this division, the Company expects lower net sales and sales volume in 2H than 1H, but forecasts net sales growth of 9.5% YoY to ¥20,000mn and sales volume growth of 6.7% to 30,000 t for the full fiscal year. It maintained its initial forecast for sales volume, but raised its initial forecast for net sales by 20.5% in connection with rising market prices for pork. Despite anticipating continued brisk sales of frozen pork for processed foods as well as chicken and processed chicken products in 2H, the Company's plan is apparently conservative because of concerns about demand cooling for chilled pork for retail distribution due to rising market prices for pork and rising import prices.

**(3) Functional Food Ingredients Division**

In this division, the Company is concentrating its sales efforts mainly on high protein raw materials amid brisk protein market expansion, and forecasts net sales growth of 27.6% YoY to ¥5,000mn and sales volume growth of 53.2% to 4,300 t for the full fiscal year.

**(4) Asian Business (Dairy Ingredients Sales Division)**

For this division, the Company had expected growth in sales of dairy ingredients to local companies and sales of powdered milk mixture ingredients for Japan in 2H. However, it envisions lower net sales and sales volume in 2H than 1H, owing to concerns about reduced demand for imported powdered milk mixtures accompanying the uptrend in raw milk production and stalled consumption alongside rising dairy product prices in Japan. For the full fiscal year, it forecasts net sales of ¥18,500mn (down 2.2% YoY) and sales volume of 35,500 t (down 4.7%). It sharply revised down its initial forecast for YoY growth in both net sales and sales volume (revised downward by 26.0% for net sales and by 34.6% for sales volume from the initial forecast). In the previous fiscal year, there was a significant drag from lower exports of skim milk powder from Japan and lower sales of price-conscious products to some local companies. However, the Company expects sales of ingredients to local Japanese manufacturers to remain strong in 2H. In addition, strengthening of the sales structure for dairy ingredient sales in Thailand and surrounding countries via revisions of personnel allocation, and sales growth as a distributor of an Oceania dairy manufacturer in Indonesia look promising. Further, a better product mix is likely to improve the profit margin.

#### Outlook

##### (5) Asian Business (Cheese Manufacturing and Sales Division)

For this division, the Company expects higher net sales and sales volume in 2H than 1H. It also forecasts net sales growth of 13.9% YoY to ¥5,500mn and sales volume growth of 7.7% to 5,200 t for the full fiscal year. However, it revised down its initial forecast by 5.2% for net sales and by 16.1% for sales volume. In Singapore and Indonesia, sales for restaurants are brisk, and the Company expects solid sales of natural cheese. Processed cheese is picking up, but the Company expects reduced demand due to China's economic downturn to be prolonged. In addition, sales to processed food manufacturers in Thailand had been expected to recover but are struggling due to local currency depreciation against the US dollar, so the Company revised down its outlook.

##### (6) Others

The Company expects Lacto USA's direct sales of dairy ingredients to decline 12.7% from 1H to ¥932mn in 2H, but net sales for other businesses to rise 267.1% YoY to ¥2,000mn for the full fiscal year.

## ■ Medium- to long-term growth strategies

### Aiming to change from a trading company specializing in dairy products to a complex food company

The Company marked its 25th founding anniversary in May 2023, and positioned the next 25 years as a "second founding period" towards the next major anniversary, and announced a new management philosophy, long-term vision, and Corporate Business Plan, NEXT-LJ 2025 (FY11/23 to FY11/25) in January 2023. The Company's Corporate Business Plan up to now has been a rolling plan that was revised every year. However, from NEXT-LJ 2025, the Company has changed to a fixed approach, disclosing earnings targets for each fiscal year and revising the plan every three years. By clarifying the targets for each fiscal year, the validity of the plan is enhanced, making it a driving force for steady growth while also facilitating dialogue with shareholders and other investors.

#### 1. Management philosophy and long-term vision

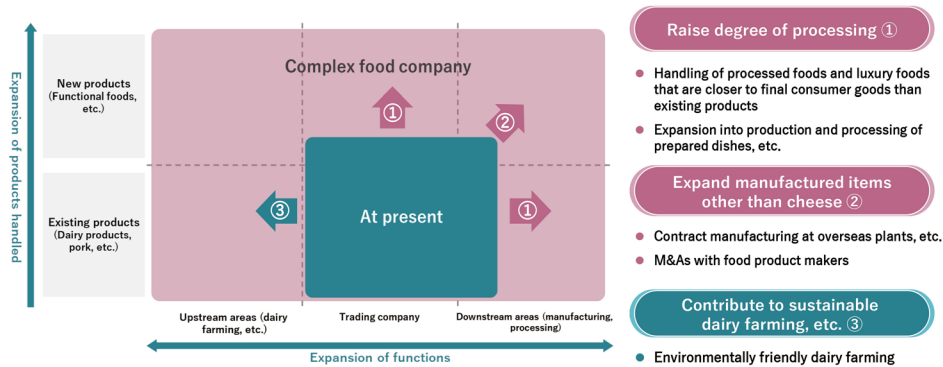
Under the new management philosophy, the Company has identified its Purpose as "bring health and happiness to people by connecting the world through food." Its Mission for realizing this is stated as "Contribute to the future of the primary food industries, create new demand for dairy products, enrich the lives of all stakeholders." And the Company's foundation, its Value, has been stated as "Fairness." The collective name for this management philosophy is "Nurture the future," which has been adopted as a corporate brand. It encapsulates the Company's aspirations to contribute to the healthy future of people through food, to contribute to the future of the primary industry, which is the foundation of that, and to work together to nurture a prosperous future for all stakeholders, including employees, shareholders, and business partners.



Medium- to long-term growth strategies

The Company has established its long-term vision, LACTO VISION 2032, and adopted the slogans: “Change from a trading company specializing in dairy products to a complex food company,” “Become No. 1 in Japan and the world in dairy product transaction volume,” and “Create demand through best matching and contribute to the development of the dairy and livestock farming industries.” To change to a complex food company, the Company aims to expand its business domains by further expanding its trading company functions. Initiatives will include expanding the range of new handled products from existing products such as dairy products and pork to items that are close to goods for final consumption, such as processed food, ready-made side dishes, and functional foods, providing technology and expertise to the frontlines of production upstream, including improvement of feed ingredients and personnel exchanges with dairy farmers in Asia, and entering downstream domains such as manufacturing and processing of products other than cheese. The word “complex” incorporates three meanings, “increase complexity of products,” “increase complexity of business,” and “increase complexity of trading business.” The Company aims to increase the complexity of products by proposing new solutions combining dairy products as a base with other materials such as meat and functional food ingredients. It intends to increase the complexity of business by promoting product development and business development leveraging both its trading company functions and its manufacturing functions. Finally, it will increase the complexity of the trading business by not only importing but also exporting from Japan to adjust the demand and supply balance of dairy products in Japan.

Correspondence with business domains



Source: Reprinted from the Company's "Long-Term Vision and Corporate Business Plan"

The Company's numerical targets for FY11/32 are consolidated ordinary income of ¥6,000mn (FY11/22 ¥3,134mn), an overseas ratio for ordinary income of 40% (27%), and total Group dairy product trading volume of 450,000 t (240,000 t). Furthermore, it has set the following six materialities, individual strategies, and certain quantitative targets as its ESG targets.

Medium- to long-term growth strategies

**ESG targets and materialities**

- 1) Supplying safe and reliable food (thorough quality control, selection of suppliers, reinforcement of processed cheese manufacturing system)
- 2) Contributing to a healthy and enriched life (sourcing dairy products that contribute to nutrition and health from around the world, expansion of plant-based food ingredients: transaction volume in three years: 1,900 t (FY11/22: 131 t), proposal of foods and raw materials that match diverse lifestyles)
- 3) Stable supply through sustainable dairy and livestock farming (diversification of supply sources, best matching, dairy farmer development, improving efficiency and labor saving in procurement and supply through promotion of digitalization)
- 4) Adaptation to climate change and reduction of environmental impact (diversification of supply sources, contributing to reduction of greenhouse gases, reduction of food loss, waste reduction, optimization of logistics, reduction of environmental impact at own offices and factories)
- 5) Creating workplaces where diverse human resources can work with pride (promotion of diversity: ratio of female managers at least 20% in 3 years, at least 30% in 10 years (FY11/22: 19.7%), development of good working environment: male childcare leave (parental leave) acquisition rate of 100% in 3 years (FY11/22: 66.7%), strengthening of human resource development: education costs per person to triple in three years)
- 6) Enhance governance (responsible supply chain management, full compliance in corporate governance, risk management)

**2. Progress on Corporate Business Plan NEXT-LJ 2025**

**(1) Basic policies and major measures**

During the three-year period from FY11/23 to FY11/25, the Company plans to focus on solidifying its foundation for growth as the first step toward achieving its long-term vision. The three basic policies for business growth are: Base (Existing business “evolution”), Growth (Expansion of Asian Business), and Challenges (Build next-generation businesses). For each basic policy, the Company has established measures to achieve business growth and strengthen the management base that supports it.

**Basic policies of the Corporate Business Plan**

	Base Existing business “evolution”	Growth Expansion of Asian business	Challenges Build next-generation businesses
<b>Business growth</b>	Stable supply based on diversification of supply sources	Expand cheese manufacturing and sales business	Develop new products, starting with functional foods
	Consulting sales that create best matching	Reinforce local sales system Expand sales areas	Expand downstream areas of manufacturing and processing
	Export Japanese foodstuffs	Develop high value-added products that meet needs of religions and diverse food cultures	Participate in dairy farming and other upstream areas
	M&A (acquisition of overseas trading houses, acquisition of peers, business alliances)		
<b>Strengthening of management base</b>	Contribute to sustainable dairy and livestock farming industries Adapt to climate change and build business structure to reduce environmental impact		
	Strengthen human resource development / Enhance governance / Develop information systems		

Source: Reprinted from the Company’s “Long-term Vision and Corporate Business Plan”

#### Medium- to long-term growth strategies

For existing business “evolution,” the Company’s policy is to achieve business growth through stable supply based on diversification of supply sources, consulting sales that create best matching, and export of Japanese foodstuffs. The most important priority measure is the diversification of supply sources. To avoid regional fluctuations in production of dairy and livestock products due to climate change, viruses, and geopolitical supply risks, the Company will further expand its global procurement network to ensure stable supply, not only in the Dairy Ingredients and Cheese Business Division but also in the Meat and Ingredients Division. Regarding the export of Japanese foodstuffs, the Company is considering the export of dairy products, health foods, and other products based on its track record of exporting domestically produced skim milk powder.

For the expansion of Asian Business, the Company’s policy is to achieve business growth by expanding the cheese manufacturing and sales business, reinforcing the local sales system and expanding sales areas, and developing high value-added products that meet the needs of religions and diverse food cultures. The most important priority measure is the expansion of the cheese manufacturing and sales business. The new plant in Singapore, which is slated to enter operation in FY2026, will leave room for the expansion of plants and facilities, and with this new plant as a starting point, the Company aims to raise the manufacturing and sales volume of its three Asian plants to a total of 15,000 t, or nearly triple the current amount. Currently, the new plant’s start of operation has been pushed back slightly due to a delay obtaining local approval. Until the new plant is completed, the Company faces the challenge of maintaining its supply structure in Asia, where demand is growing, by strengthening the functions and improving the productivity of the Thai plant so that it can coordinate with the current Singapore plant and alleviate its burden. The Company will also expand sales of processed natural cheese products such as shredded cheese, which is seeing increased demand. Processed cheese is processed and manufactured by heating the natural cheese used as a raw material, so the Company can leverage its strength of combining processed cheese production and natural cheese processing lines in the same plant. The Company also plans to develop and manufacture high-value-added products such as vegan cheese and other new products for the retail market in order to meet religious dietary restrictions and cater to diverse user needs.

For building next-generation businesses, the Company’s policy is to achieve business growth by developing new products, starting with functional foods, expanding downstream areas of manufacturing and processing, and participating in dairy farming and other upstream areas. The most important priority measure is the development of new products, starting with functional foods. In the Functional Food Ingredients Business, the Company plans to further expand sales of whey protein used as a raw material in the protein food market which is seeing growing consumption for sports nutrition and health-oriented functional foods. The Company’s strategy for developing products is to differentiate itself by proposing combinations of whey protein and food ingredients with various functions. In developing this business, the Company has already established a business model in which it plans, develops, and proposes products through alliances and collaboration with OEM partner companies to target brand owners primarily selling through e-commerce websites and sports gyms. In the future, it plans to expand its business domains through alliances and collaboration with general food product makers that are entering the market. As Japanese functional foods are also attracting attention in Asia, the Company is looking into trilateral trade including exports to Asia in the future. With regard to expanding downstream areas of manufacturing and processing, the Company intends to contribute to sustainable dairy and livestock farming industries by developing and producing feed ingredients in collaboration with overseas suppliers and through human resource exchanges between Japanese and Asian dairy farmers.

Medium- to long-term growth strategies

Under these three basic policies, the Company is considering a wide range of measures to achieve business growth, such as M&A and other business alliances. It is also enhancing its sustainability efforts to strengthen its management base. The Sustainability Promotion Task Team, which is responsible for sustainability activities, has been reorganized into a cross-divisional team to promote and manage progress in promoting the Company's six materialities. In addition, as part of its efforts for adaptation to climate change and reduction of environmental impact, the Company will continue to disclose climate change-related information, calculate Scope 1, 2, and 3 emissions, and set reduction targets based on the TCFD (Task Force on Climate-related Financial Disclosures) Recommendations. Furthermore, the Company also intends to strengthen human resource development, enhance governance, and develop information systems, and it has already made progress in preparing for the full-fledged operation of a new human resource system and updating core systems at its head office.

**(2) Numerical targets**

The Corporate Business Plan aims for consolidated net sales of ¥200,000mn, consolidated ordinary income of ¥4,000mn, and net income attributable to owners of parent of ¥2,900mn in FY11/25, while simultaneously targeting ROE of 10% or more, a payout ratio of 20-25%, and a consolidated shareholders' equity ratio of 30-35%. The Company had planned for net sales of ¥160,000mn in FY11/23 and ¥180,000mn in FY11/24, but the actual results in FY11/23 were ¥158,328mn, slightly lower than planned, and forecasts for FY11/24 were also lower than planned at ¥164,000mn. Whereas the Company planned on ordinary income of ¥3,200mn in FY11/23 and ¥3,600mn in FY11/24, the actual result was lower than planned for FY11/23 but the forecast for FY11/24 is higher than planned at ¥4,100mn and calls for the Corporate Business Plan's target of ¥4,000mn to be attained one fiscal year early.

The Corporate Business Plan assumes a business environment where current megatrends remain unchanged, such as solid domestic demand for imported dairy ingredients, cheese, and meat, further aging of the population, increasing health awareness, economic growth in Asia, and the Westernization of food. However, the Company believes certain negative factors in the business environment are unavoidable, such as higher milk prices due to soaring prices for items like feed, lower consumption of dairy products in general due to price hikes, decreased sales of imported powdered milk mixtures due to the extension of measures to reduce surplus inventory of domestically produced skim milk powder, lower sales of powdered milk product ingredients for Japan in Asia, and less demand for dairy ingredients in Asia due to impact from China's economic slowdown. While the Company's perception of the business environment is unchanged at present, domestic business has been recovering since 1H, which is earlier than its prior expectation for 2H FY11/24. However, the Company currently has no plans to revise the Corporate Business Plan as there are also many uncertainties including forex, domestic raw milk production, and Chinese and Asian economic trends. It intends to formulate a business strategy for FY11/25 while looking ahead to the next Corporate Business Plan, which will mark a new stage.

From a management perspective, the Company is aiming not only for top-line growth but also to strengthen efficient management with an awareness of capital efficiency while also improving profitability to increase corporate value. To this end, the Company has set three financial targets for profitability (ROE), shareholder return (payout ratio), and financial security (consolidated shareholders' equity ratio). In FY11/25, it aims to achieve ROE of 10% or more, payout ratio of 20-25%, and consolidated shareholders' equity ratio of 30-35%. Currently, the Company has introduced ROIC\* on a trial basis for each of its business divisions and plans on full-fledged introduction from FY11/25. Along with that, it plans to revamp its personnel system, add ROIC to criteria for evaluating employees, and work to reform employee awareness regarding capital efficiency.

\* ROIC: An abbreviation for Return On Invested Capital, it represents the profit margin on invested capital and is calculated as follows:  $\text{Net Operating Profit After Tax} \div (\text{Shareholders' Equity} + \text{Interest-bearing Debt}) = \text{Operating Profit Margin} \times \text{Invested Capital Turnover Ratio}$

Medium- to long-term growth strategies

**Performance targets and financial targets of the Corporate Business Plan**

(¥mn)

	FY11/22 Results	FY11/23		FY11/24		FY11/25 Plan
		Plan	Results	Plan	Revised forecast	
<b>[Performance targets]</b>						
Consolidated net sale	147,423	160,000	158,328	180,000	164,000	200,000
Consolidated ordinary income	3,134	3,200	2,847	3,600	4,100	4,000
Net income attributable to owners of parent	2,286	2,330	2,048	2,600	3,000	2,900
<b>[Financial targets]</b>						
ROE	10.9%		8.7%			10% or more
Payout ratio	17.3%		23.2%			20-25%
Consolidated shareholders' equity ratio	30.5%		34.2%			30-35%

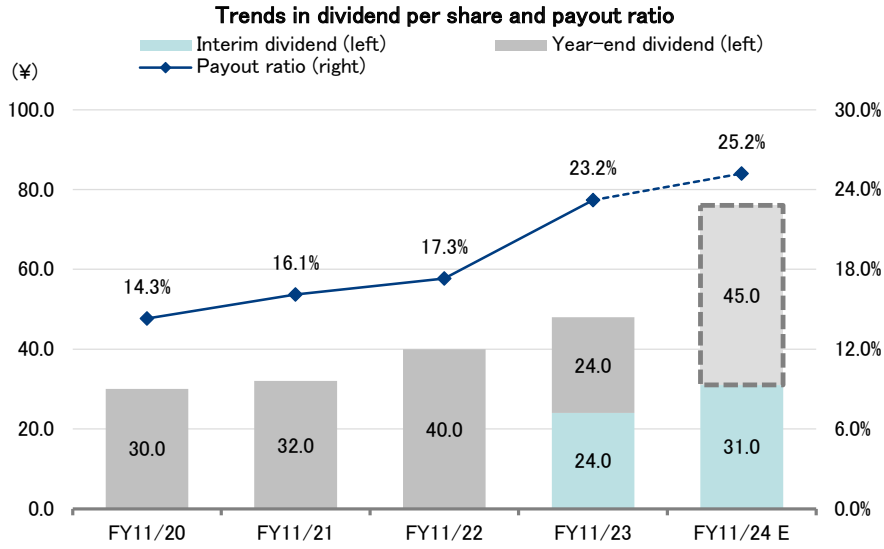
Source: Prepared by FISCO from the Company's financial results briefing materials

## Shareholder return policy

### Raised initial forecast for dividends in FY11/24, plans on ¥28.0 increase YoY to ¥76.0 per share

Positioning returning profits to shareholders as a key management issue, the Company aims to increase dividends and improve the payout ratio based on stable dividends, while balancing investments in growth starting with the Asian/cheese manufacturing business with the reinforcement of its financial position to achieve medium- to long-term growth. The Company's basic policy up to FY11/22 was to pay dividends once a year at the end of the term, but it decided to pay dividends twice a year from FY11/23 to expand opportunities to return profits to shareholders in line with its business performance. In FY11/24, the Company plans to pay an annual dividend of ¥76.0 per share (interim dividend of ¥31.0 and year-end dividend of ¥45.0). Alongside upward revision of its results forecast for net income attributable to owners of parent, the Company raised its initial forecast for a dividend increase of ¥14.0 YoY to a dividend increase of ¥28.0 YoY. The payout ratio is also planned to be 25.2%, an increase of 2.0pp YoY. In addition to dividends, the Company has a shareholder benefits program in which QUO cards or catalog gifts are given once a year based on the number of years of continuous stock ownership.

Shareholder return policy



Source: Prepared by FISCO from the Company's financial results

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