COMPANY RESEARCH AND ANALYSIS REPORT

Lacto Japan Co., Ltd.

3139

Tokyo Stock Exchange Prime Market

18-Mar.-2025

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Contents

Summary

Net sales and profits reached record highs in FY11/24. Achieved the profit targets of the Corporate Business Plan ahead of schedule. On track to reach all-time highs in FY11/25

Lacto Japan Co., Ltd. <3139> (hereafter, also “the Company”) is an independent specialist food trading company that imports food ingredients such as dairy ingredients and cheese (hereafter, “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 and manufacturing and selling cheese in Asia. 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. Overview of FY11/24 results

In its consolidated results for FY11/24, the Company posted record high net sales and profits. Net sales rose 7.9% year on year (YoY) to ¥170,907mn, operating profit grew 39.9% to ¥4,455mn, ordinary profit increased 51.7% to ¥4,320mn, and profit attributable to owners of parent grew 53.6% to ¥3,146mn. Sales volumes increased across all divisions, driven by a recovery in demand for food ingredients, particularly for commercial use, including an increase in inbound tourism demand. Net sales exceeded the upwardly revised full-year forecast issued in July 2024, as selling prices remained high owing to rising prices of dairy ingredients and meat products, as well as the weaker yen. On the profit front, the product mix improved in the Dairy Ingredients Sales Division in Japan and Asia. Additionally, in the Cheese Manufacturing and Sales Division in Asia, the cost of sales ratio improved due to steadier cheese ingredient prices and improved production efficiency reflecting increased production volumes. As a result, the gross profit margin rose 0.9 percentage points (pp) YoY to 5.9%, leading to sharp profit growth. Selling, general, and administrative expenses increased 18.9% due to factors such as increases in personnel costs and logistics expenses in Japan. However, these expenses were absorbed by an increase in gross profit, resulting in an increase of 0.7pp in the ordinary profit margin to 2.5%. Ordinary profit and profit attributable to owners of parent exceeded the revised full-year forecasts. In addition, the Company raised its dividend to ¥80.0 per share, up ¥32.0 YoY.

2. FY11/25 forecasts

In its consolidated results for FY11/25, net sales and profits are forecast to reach all-time highs. The Company forecasts net sales of ¥180,000mn (up 5.3% YoY), ordinary profit of ¥4,600mn (up 6.5%), and profit attributable to owners of parent of ¥3,300mn (up 4.9%). It expects net sales and sales volumes to surpass FY11/24 in each division, based on ongoing improvement in the business environment both in Japan and overseas, following on from the previous fiscal year. In Japan, the Company expects a full-scale recovery in imported dairy ingredients and an increase in domestic demand for processed meat, due to steady demand for commercial use, including inbound tourism demand. In the Functional Food Ingredients Division, the Company plans to capture demand for differentiated protein products and initiate exports and sales to Asia. In the Asian Business, the Company expects growing demand for dairy products in various Southeast Asian countries, and a full-scale recovery in demand for powdered milk mixture ingredients for Japan. The Company's policy is to secure profit margins at higher levels than in the previous fiscal year as it fully introduces ROIC* to each division. However, the ordinary profit margin is forecast to remain mostly unchanged from the previous fiscal year at 2.6%, due to factors such as increased personnel costs from the start of the fiscal year following personnel increases in the previous fiscal year, and an increase in the interest expense burden associated with foreign currency-denominated borrowings for the construction of the new Singapore plant. Furthermore, the Company will strengthen shareholder returns. It is forecasting a dividend of ¥100.0 per share, a YoY increase of ¥20.0, bringing the dividend payout ratio to 30.2%, as it aims to achieve a dividend payout ratio of 30%.

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

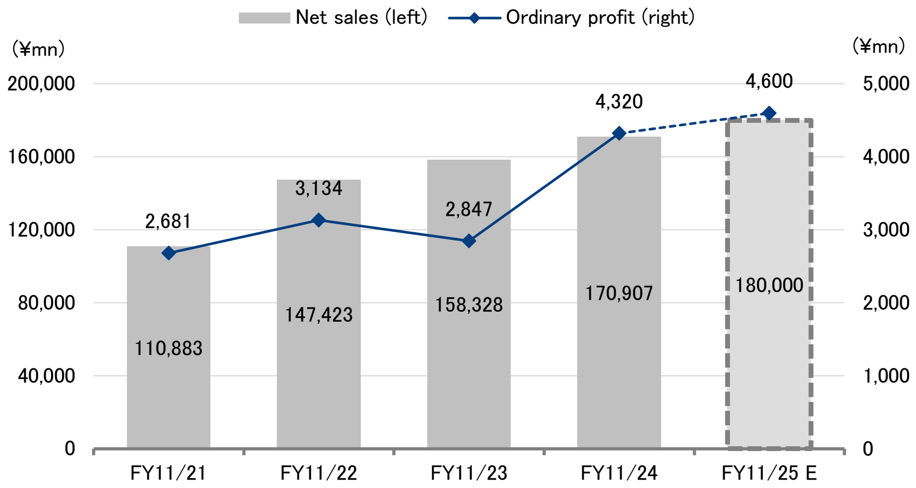
3. Progress on Corporate Business Plan

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 profit 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 profit of ¥4,000mn and profit 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. Although net sales for FY11/24 did not reach the Corporate Business Plan target of ¥180,000mn, the Company achieved its profit targets for FY11/25 a year ahead of schedule. The Company has made efforts to not just expand the top-line, but also to try using ROIC and other ways to raise corporate value and improve profitability as well as transition to a corporate culture that is conscious of capital efficiency. It can be said that these efforts are beginning to bear fruit. The Company has announced guidance with single-year results forecasts for FY11/25, and seeks to achieve those FY11/25 forecasts, while looking ahead to the next Corporate Business Plan, which will mark a new stage.

Key Points

- Net sales and profits reached record highs in FY11/24
- Dividend for FY11/24 raised to ¥80.0 per share, up ¥32.0 YoY
- Achieved the consolidated profit targets of the Corporate Business Plan a year ahead of schedule
- Results are forecast to reach all-time highs again in FY11/25, with plans for dividends of ¥100.0 per share, up ¥20.0 YoY

Results trend



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

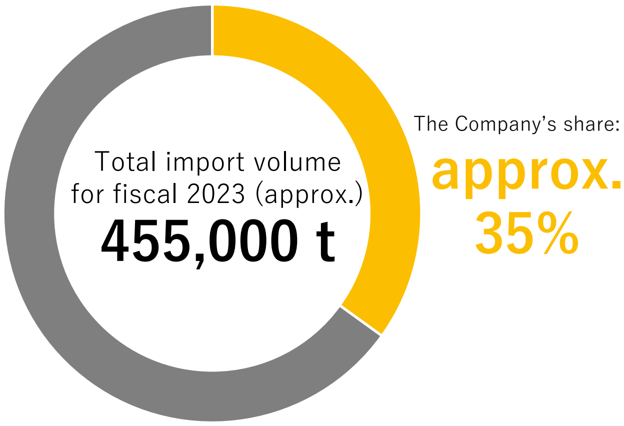
Company profile

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

1. Company profile

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, functional food 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: The Company's briefing materials for individual investors

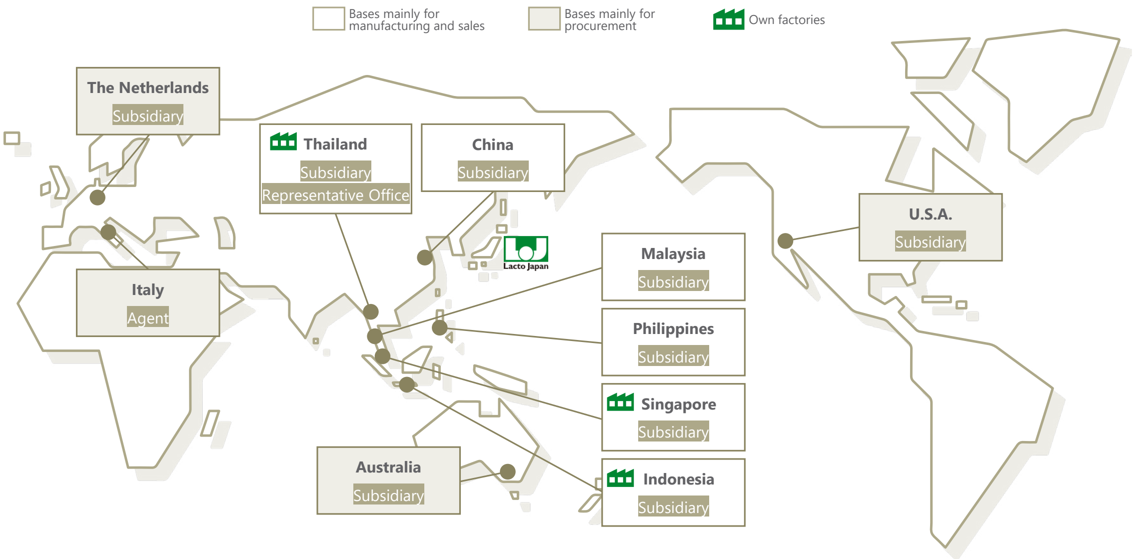
The Company was formed by a split off of the Dairy Division of Toshoku Ltd. (currently, Cargill Japan Limited), which was conducting an import business at the very dawn of dairy product importing as a food specialist trading company. At the time of the Company's foundation, it already had a certain level 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.

Among the Company's overseas subsidiaries, three are dairy product ingredients 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 product ingredients, 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.

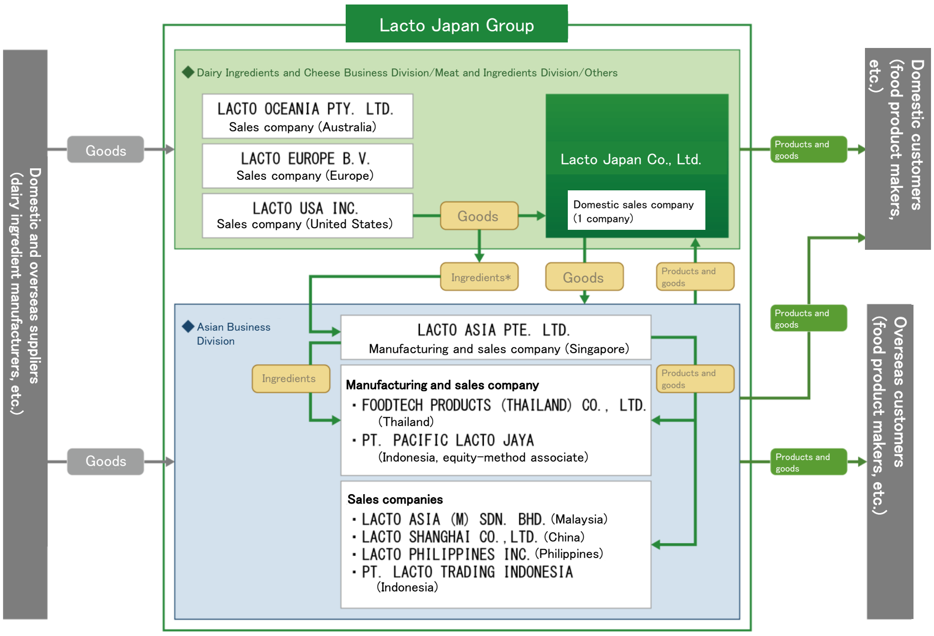
In the Asian markets, the Company's main growth driver is in developing the expanding dairy products market. In Singapore, Lacto Asia Pte. Ltd. (hereinafter "Lacto Asia") conducts wholesaling of dairy ingredients and cheese manufacturing and sales operations. It serves as the core company for the region, 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 product ingredients 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.

Global network



Source: The Company's introduction materials

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

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

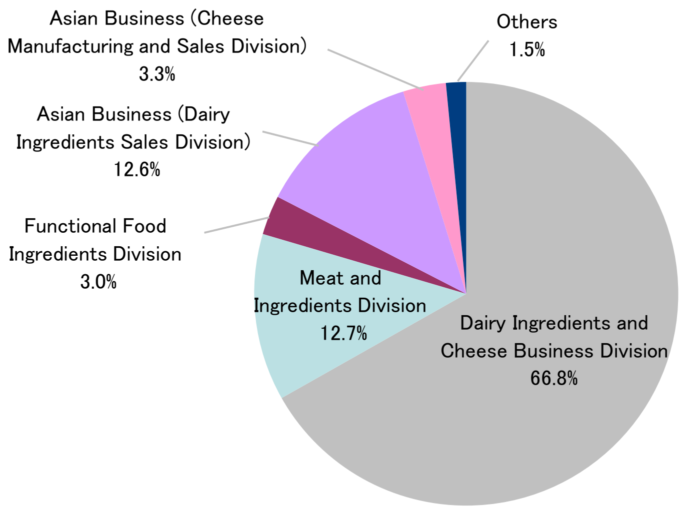
Source: Prepared by FISCO from the Company's annual securities report

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, functional food 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 FY11/24 consolidated net sales, the Dairy Ingredients and Cheese Business Division contributed 66.8%, the Meat and Ingredients Division 12.7%, the Functional Food Ingredients Division 3.0%, the Asian Business (Dairy Ingredients Sales Division) 12.6%, the Asian Business (Cheese Manufacturing and Sales Division) 3.3%, and Others 1.5%.

BREAKDOWN OF NET SALES BY BUSINESS DIVISION (FY11/24)



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

1. Dairy Ingredients and Cheese Business Division

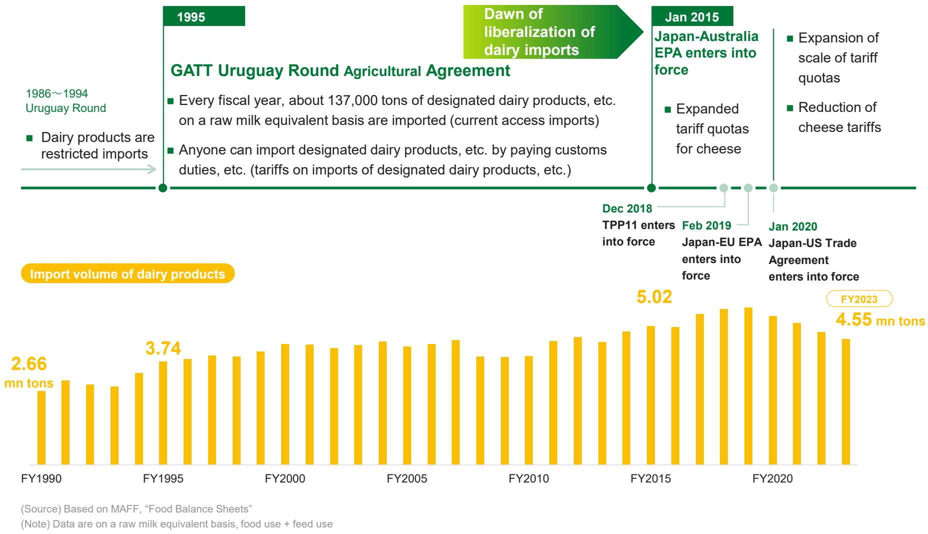
This division imports dairy ingredients and cheese from overseas and sells them to dairy businesses and manufacturers of food, confectionery, oils and fats, beverages, and feed. In dairy ingredients, the division handles items derived from raw milk, such as whole milk powder, skim milk powder, butter, 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 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.

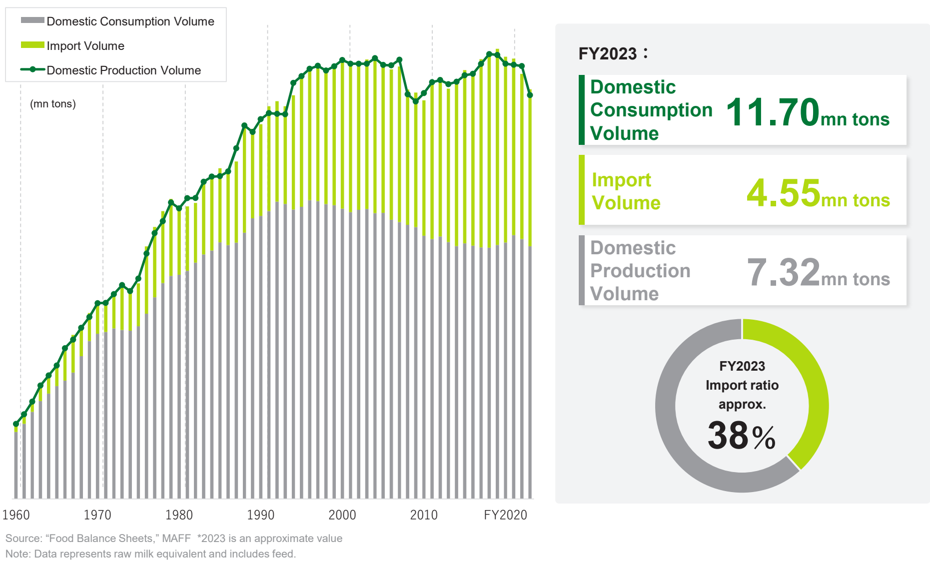
Progress of trade liberalization



Source: 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: The Company's briefing materials for individual investors

2. Meat and Ingredients Division

The Meat and Ingredients Division imports processed meat products such as chicken, processed chicken products, and dry-cured 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 European production areas, 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 food ingredients, 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 food cultures 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 in Singapore 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.

(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. 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 November 2026.

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. Under this policy, the Company strives to differentiate itself from local companies. As a result, 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. Moreover, to sell products in Asia, the Company obtained 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 ingredients that meet its customers’ diverse needs, develop 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 ingredients 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

Net sales and profits reached record highs, with sales volumes increasing YoY across all divisions

1. Overview of FY11/24 results

In its consolidated results for FY11/24, the Company posted net sales of ¥170,907mn (up 7.9% YoY), operating profit of ¥4,455mn (up 39.9%) ordinary profit of ¥4,320mn (up 51.7%), and profit attributable to owners of parent of ¥3,146mn (up 53.6%). Net sales and profits both exceeded the upwardly revised full-year forecast issued in July 2024, reaching record highs. Against a backdrop of a gradual recovery in domestic economic activity, sales volumes exceeded the previous fiscal year's level across all divisions in the Domestic Business, particularly for commercial use, in connection with factors such as rising inbound tourism demand. Furthermore, sales volumes also increased in the Asian Business's Dairy Ingredients Sales Division and Cheese Manufacturing and Sales Division, supported by a recovery in Asian demand and the fruition of stronger sales activities, including efforts to develop new business partners. Inventory levels for domestically produced skim milk powder decreased and remained at appropriate levels, owing to efforts to address excess inventories of skim milk powder and a recovery in domestic demand. This trend also contributed to a recovery in demand for imported dairy ingredients.

In profit and loss, 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 whole milk powder and other 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 due to steadier cheese ingredient prices and improved production efficiency reflecting increased production volumes. As a result of these factors, the gross profit margin rose 0.9pp YoY to 5.9%, and gross profit grew 27.3% YoY. On the other hand, selling, general, and administrative expenses increased ¥892mn (18.9%) YoY, owing to growth in sales-related expenses such as travel costs as sales activities returned to normal, along with higher personnel costs due to an increase in staff and rising wages in line with business expansion 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 profit grew to about 1.5x the level a year ago. Ordinary profit after adjusting for foreign exchange effects, which do not correspond to the cost of sales during the fiscal year, increased 51.1% YoY to ¥4,392mn.

Results for FY11/24

(¥mn)

	FY11/23		FY11/24				
	Results	vs. net sales	Revised forecast*	Results	vs. net sales	YoY	vs. revised forecast
Net sales	158,328	100.0%	164,000	170,907	100.0%	7.9%	4.2%
Gross profit	7,909	5.0%	-	10,071	5.9%	27.3%	-
Operating profit	3,184	2.0%	-	4,455	2.6%	39.9%	-
Ordinary profit	2,847	1.8%	4,100	4,320	2.5%	51.7%	5.4%
(Foreign exchange effects included in ordinary profit)	(-59)			(-71)			
Ordinary profit after adjustment for foreign exchange effects	2,907	1.8%	-	4,392	2.6%	51.1%	-
Profit attributable to owners of parent	2,048	1.3%	3,000	3,146	1.8%	53.6%	4.9%
Foreign exchange rate (USD/JPY)	139.80			150.77			
Foreign exchange rate (EUR/JPY)	150.80			163.63			

* Revised forecast is figures announced on July 12, 2024
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

2. Trends by business division

Trend in net sales and sales volume by business division

	Net sales (¥mn)			Sales volume (t)		
	FY11/23	FY11/24	Change rate	FY11/23	FY11/24	Change rate
Dairy Ingredients and Cheese Business Division	111,845	114,182	2.1%	167,421	176,402	5.4%
Meat and Ingredients Division	18,268	21,788	19.3%	28,125	31,831	13.2%
Functional Food Ingredients Division	3,917	5,141	31.2%	2,806	4,199	49.6%
Asian Business (Dairy Ingredients Sales Division)	18,922	21,584	14.1%	37,251	39,728	6.6%
Asian Business (Cheese Manufacturing and Sales Division)	4,828	5,594	15.9%	4,827	5,422	12.3%
Others	544	2,616	380.2%			

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 increased, reflecting an ongoing recovery in the restaurant and leisure industries. Sales were especially strong for butter, whole milk powder, lactose, and other ingredients used in products such as food gifts, ice cream, and chocolate. Demand for imported fat-based dairy ingredients remained strong because the supply of domestic ingredients was limited as demand for butter and cream increased. A recovery in demand for powdered milk ingredients for non-dairy manufacturers and feed manufacturers was brought about by two key factors. One was that inventories of domestically produced skim milk powder declined and trended around 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 5.4% YoY to 176,402 t. Net sales for the division grew 2.1% YoY to ¥114,182mn amid steadier market prices for raw materials. Net sales appear to have finished the fiscal year largely in line with the revised full-year forecast. On the profit front, the product mix improved since sales were strong for high-margin fat-based dairy ingredients such as butter and whole milk powder containing milk fat, and the profit margin improved.

(2) Meat and Ingredients Division

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 13.2% YoY to 31,831 t, reaching a record high. Also, net sales for the division grew 19.3% YoY to ¥21,788mn 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. Both sales volume and net sales surpassed the revised full-year forecast.

(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, sales volume increased 49.6% YoY to 4,199 t, and net sales rose 31.2% to ¥5,141mn. The division made steady progress in developing new customers by, for example, providing full support to protein manufacturers launching new brands as they enter the market for the first time. At the same time, transaction volume with existing customers increased. In particular, the growth rate in 2H was significant. Growth accelerated, with sales volume and net sales increasing 2.3 times and 2.2 times, respectively, compared to 1H levels. The results finished the fiscal year largely in line with the revised full-year forecast. As a new business area, the division started exporting and selling functional food ingredients from Japan. The quality of functional foods produced in Japan are highly regarded in Asia, offering strong prospects for future growth.

(4) Asian Business (Dairy Ingredients Sales Division)

For this division, sales volume increased 6.6% YoY to 39,728 t, and net sales increased 14.1% to ¥21,584mn, as sales of powdered milk mixture ingredients for Japan showed signs of recovery, while there was a decline in transactions related to exports of Japanese skim milk powder following an expansion in the previous fiscal year, because skim milk powder inventory in Japan declined. The full-year revised forecasts for sales volume and net sales for this division had been downwardly revised from initial forecasts, with both sales volume and net sales expected to decrease YoY. This outlook was based on concerns about declining consumption of dairy products in Japan and reduced demand for imported milk preparation products due to increased domestic raw milk production. However, the results defied these expectations. Furthermore, the division posted steady sales to local companies in the Asian region, including an increase in new transactions with local companies in the Philippines and Malaysia. In addition, sales were also firm to local Japanese companies. Moreover, in Indonesia, sales volume increased substantially as LTI began selling dairy ingredients produced in Oceania as a distributor. Although the weighting of these sales in the division is still small, they hold potential for business expansion. On the profit front, the profit margin improved on a better product mix accompanying a decline in sales of price-conscious products.

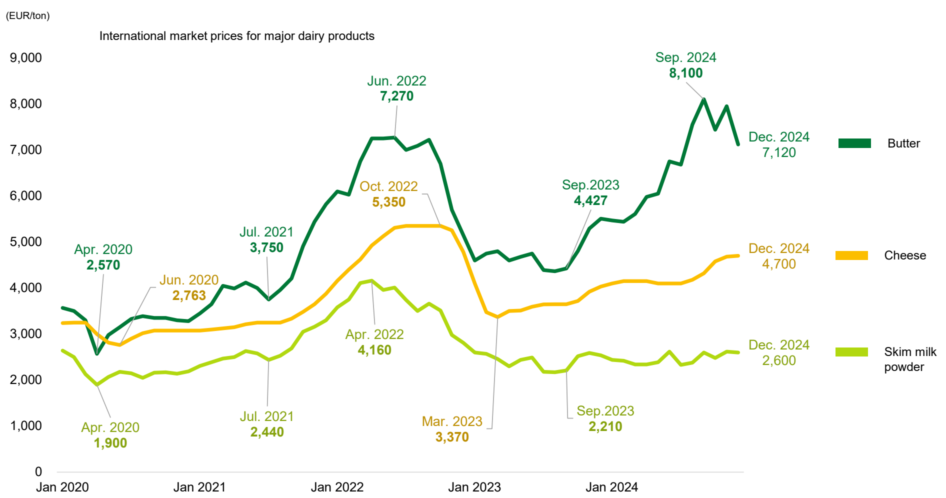
(5) Asian Business (Cheese Manufacturing and Sales Division)

For this division, sales volume rose to 12.3% to 5,422 t and net sales grew 15.9% to ¥5,594mn, reflecting solid sales for both processed cheese and natural cheese that exceeded the revised full-year forecasts. Travel and tourism-related consumption were supported mainly in Singapore and Malaysia, and sales of processed natural cheese products to restaurants and bakeries increased. Sales of processed cheese also showed a recovery trend. Sales volume to Japanese restaurant chains was also strong. The Company's development and proposal of processed cheeses that meet customers' quality requirements for heat resistance and stretchability seem to have contributed to sales expansion. In addition, the profit margin improved due to a lower cost of sales ratio resulting from steadier cheese ingredient prices and an improved capacity utilization rate reflecting increased production volume, as well as the effects of sales price revisions in the previous fiscal year.

(6) Others

For this division, net sales grew 380.2% YoY to ¥2,616mn in FY11/24 because there was a deal at an overseas subsidiary entailing directly selling dairy ingredients to a Japanese user.

International market prices for major dairy products



Source: The Company's financial results briefing materials

3. Financial position

In FY11/24, sales volumes and net sales increased across all divisions. Therefore, notes and accounts receivable-trade increased ¥5,328mn (of which approximately ¥3.0bn was due to holiday factors at the end of the fiscal year) from the previous fiscal year-end, inventories increased ¥2,313mn, and a need arose for working capital of ¥4,463mn excluding the ¥3,178mn increase in accounts payable. This working capital was offset partly by ¥4,320mn in profit before taxes, and net cash provided by operating activities was ¥636mn. In addition, net cash used in investing activities was ¥596mn due to increased upfront investment in a new plant in Singapore and new system development costs, but net cash provided by financing activities was ¥1,101mn due to an increase in short-term borrowings to meet working capital needs, and the remaining funds increased cash and deposits by ¥1,237mn. As a result of increases in cash and deposits, notes and accounts receivable-trade, and inventories, current assets rose ¥8,758mn from the previous fiscal year-end and total assets increased ¥9,397mn to ¥81,435mn. Total liabilities increased ¥6,539mn from the previous fiscal year-end to ¥53,853mn due to increases in accounts payable and short- and long-term borrowings. Net assets increased ¥2,857mn from the previous fiscal year-end to ¥27,581mn, but the equity ratio decreased 0.4pp to 33.8% due to the large increase in assets. However, if the approximately ¥3.0bn in assets inflated by holiday factors at the end of the fiscal year is excluded, the equity ratio would be in the 35% range, substantially higher than that of the previous fiscal year.

Consolidated balance sheets

(¥mn)

	FY11/23	FY11/24	Change
Current assets	67,068	75,826	8,758
Cash and deposits	7,779	9,076	1,297
Notes and accounts receivable	18,700	24,028	5,328
Inventories	39,806	42,119	2,313
Non-current assets	4,969	5,608	638
Property, plant and equipment	2,185	2,502	317
Investments and other assets	2,710	2,785	74
Total assets	72,038	81,435	9,397
Current liabilities	37,033	44,455	7,422
Accounts payable	14,033	17,212	3,178
Commercial paper	3,000	3,000	0
Short-term borrowings	18,782	21,625	2,842
Non-current liabilities	10,281	9,398	-882
Long-term borrowings	9,125	8,293	-832
Total liabilities	47,314	53,853	6,539
Total net assets	24,724	27,581	2,857

Note: Short-term borrowings include long-term borrowings that are due for repayment within one year.
Source: Prepared by FISCO from the Company's financial results

Outlook

The Company forecasts record high net sales and profits for FY11/25

1. FY11/25 forecasts

The Company forecasts record high sales and profits, with net sales of ¥180,000mn (up 5.3% YoY), ordinary profit of ¥4,600mn (up 6.5%), and profit attributable to owners of parent of ¥3,300mn (up 4.9%). It expects sales volumes and net sales to surpass FY11/24 in each division, based on ongoing improvement in the business environment both in Japan and overseas, following on from the previous fiscal year. In the Dairy Ingredients and Cheese Business Division, the Company expects a full-scale recovery in imported dairy ingredients due to steady demand for commercial use, including inbound tourism demand. In the Meat and Ingredients Division, it expects continued demand for U.S. pork and increased demand for processed foods in Japan. In the Functional Food Ingredients Division, the Company plans to capture demand for differentiated protein products and initiate full-scale exports and sales to Asia. In the Asian Business, the Company expects growing demand for dairy products in various Southeast Asian countries, and a full-scale recovery in demand for powdered milk mixture ingredients for Japan. In addition, the Company plans to increase the capacity utilization rate of its manufacturing plants in anticipation of increased demand for processed natural cheese products and processed cheese for local and Japanese restaurant operators. The Company's policy is to secure profit margins at higher levels than in the previous fiscal year as it fully introduces ROIC. However, the ordinary profit margin is forecast to remain mostly unchanged from the previous fiscal year at 2.6%, due to factors such as increased personnel costs from the start of the fiscal year following personnel increases in the previous fiscal year, and an increase in the interest expense burden associated with foreign currency-denominated borrowings for the construction of the new Singapore plant.

FY11/25 forecasts

(¥mn)

	FY11/24		FY11/25		
	Results	vs. net sales	Forecast	vs. net sales	YoY
Net sales	170,907	100.0%	180,000	100.0%	5.3%
Ordinary profit	4,320	2.5%	4,600	2.6%	6.5%
Profit attributable to owners of parent	3,146	1.8%	3,300	1.8%	4.9%

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

2. Results forecast by business division

Net sales and sales volume forecast by business division

	Net sales (¥mn)			Sales volume (t)		
	FY11/24 Results	FY11/25 Forecast	Change rate	FY11/24 Results	FY11/25 Forecast	Change rate
Dairy Ingredients and Cheese Business Division	114,182	119,600	4.7%	176,402	177,400	0.6%
Meat and Ingredients Division	21,788	22,000	1.0%	31,831	32,000	0.5%
Functional Food Ingredients Division	5,141	7,600	47.8%	4,199	5,800	38.1%
Asian Business (Dairy Ingredients Sales Division)	21,584	24,300	12.6%	39,728	48,700	22.6%
Asian Business (Cheese Manufacturing and Sales Division)	5,594	6,800	21.5%	5,422	6,300	16.2%
Others	2,616	2,700	3.2%			

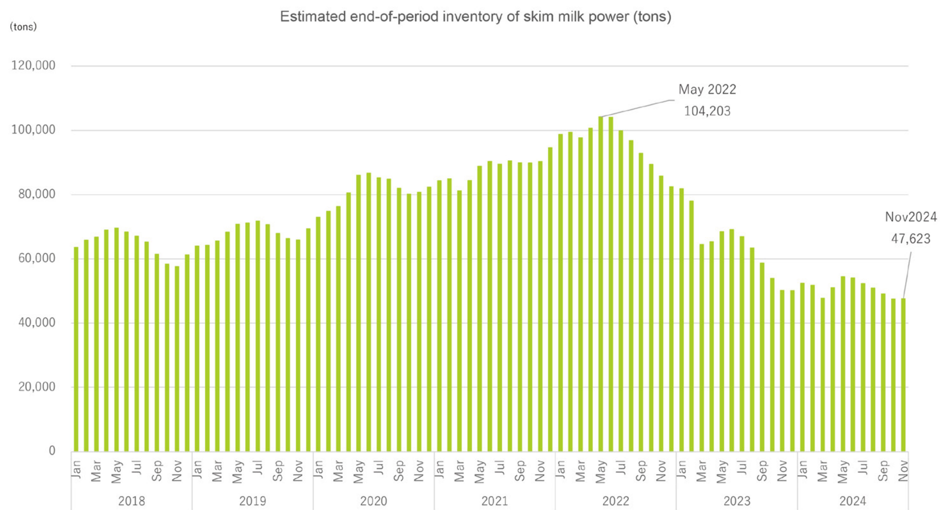
Source: Prepared by FISCO from the Company's financial results briefing materials

(1) Dairy Ingredients and Cheese Business Division

For this division, as inventory levels for skim milk powder have been brought to an appropriate level and a full-scale recovery in domestic demand for imported dairy ingredients is expected, the Company forecasts net sales to increase 4.7% YoY to ¥119,600mn and sales volume to increase 0.6% YoY to 177,400 t. Demand is expected to continue to increase for fat-based dairy ingredients such as butter and whole milk powder which are used to make food gifts, ice cream, and chocolate, as well as high protein ingredients. However, the Company appears to have adopted a somewhat conservative plan, taking into account the impact of price hikes for dairy products in general that will be implemented in 2025. Although the sales volume for imported dairy ingredients is expected to exceed that of the previous fiscal year, the sales volume for cheese is expected to drop slightly from the previous fiscal year due to the significant impact of price hikes on cheese consumption. In addition, by increasing profit margins through an improved product mix and generating cash flows through an improved cash conversion cycle (CCC), the Company aims to improve ROIC, which will be fully introduced into divisional management in FY11/25.

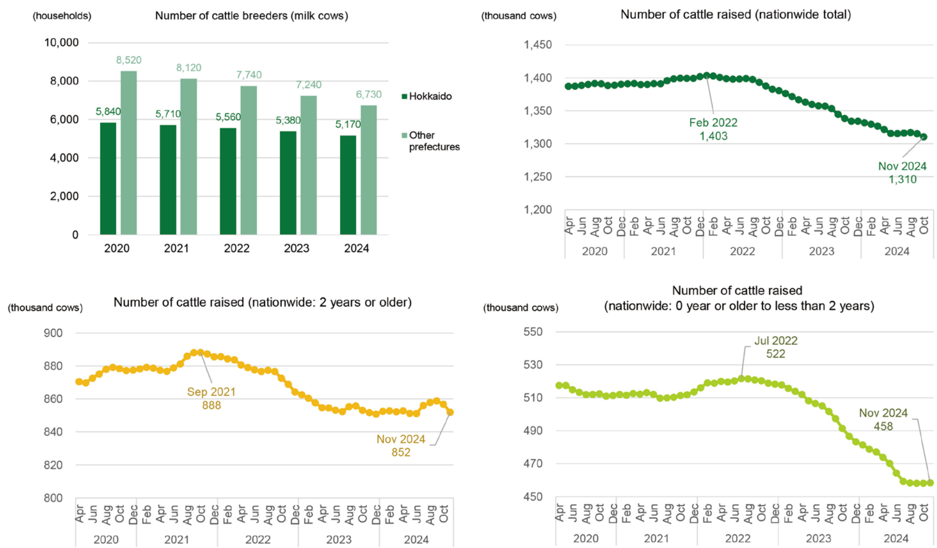
Inventories of domestically produced skim milk powder declined from 98,000 t at the end of March 2022 to 47,749 t at the end of March 2024, reflecting progress with joint public-private sector efforts launched in March 2022 to reduce excess inventory. Raw milk production in Japan in FY2024 (April 2024–March 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. However, the number of dairy farmers and cattle in the industry continue to decline due to rising production costs, driven by increasing feed and energy prices. As a result, the domestic supply of dairy products is reaching its limit. Inventory levels had been in the range of 50,000 t since April 2024 but fell below 50,000 t in September of the same year, partly due to a recovery in domestic demand, and were at 47,623 t at the end of November of the same year.

Trends in estimated domestic skim milk powder inventory at end of period



Source: The Company's financial results briefing materials

Trends in number of cattle breeders and number of cattle raised



Source: The Company's financial results briefing materials

(2) Meat and Ingredients Division

For this division, the Company's North American pork price advantage over European pork remains unchanged, factoring in continued demand. Net sales are expected to increase 1.0% YoY to ¥22,000mn, and sales volume is expected to increase 0.5% to 32,000 t. Despite anticipating continued brisk sales of frozen pork for processed foods as well as chicken and processed chicken products, the Company's plan is somewhat conservative because of concerns about demand cooling for chilled pork for retail distribution due to rising market prices for pork and rising import prices. In order to expand its business domain, the Company plans to launch a sales agency business in FY11/25 representing a time-honored European spice manufacturer. Spices for commercial use will be sold through the Company's meat and ingredients channel.

(3) Functional Food Ingredients Division

For this division, the protein market is expected to continue to expand, and the Company forecasts net sales to increase 47.8% YoY to ¥7,600mn, and sales volume to increase 38.1% YoY to 5,800 t, mainly due to growth in ingredients for protein products. As the market expands, there is a growing need for differentiation among the many protein products, and the Company intends to expand sales by offering raw materials with a wider variety of characteristics, shapes, and specifications. The Company will also expand sales of functional food ingredients other than protein, such as gelatin, collagen, and plant-based food ingredients, through proposals that combine multiple functional food ingredients. In addition, the Company plans to take advantage of the health food boom that is spreading to the Asian region, and to develop the export of functional food ingredients to Asia as a new business domain.

(4) Asian Business (Dairy Ingredients Sales Division)

For this division, the Company expects net sales to increase 12.6% YoY to ¥24,300mn and sales volume to rise 22.6% YoY to 48,700 t, based on anticipated increase in demand for powdered milk mixture ingredients for Japan and demand for dairy products in various Southeast Asian countries. The Company plans to continue strengthening its sales structure for dairy ingredient sales in Thailand and surrounding countries and expanding sales as a distributor of an Oceania dairy manufacturer in Indonesia. The Company will also focus on sales of functional food ingredients in cooperation with its head office.

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

For this division, the Company expects steady demand for cheese in the Asian region, especially for restaurant use. It forecasts net sales growth of 21.5% YoY to ¥6,800mn, and sales volume growth of 16.2% YoY to 6,300 t. There is strong demand for shredded cheese, a processed natural cheese product, in Singapore and Indonesia. To meet this demand, the Company plans to operate the existing plant in Singapore at full capacity until the new plant, currently under construction, takes over production. It also plans to expand sales of its mainstay processed cheese to Thailand and surrounding countries.

(6) Others

The Company expects its overseas subsidiary to continue direct sales of dairy ingredients and projects net sales to increase 3.2% YoY to ¥2,700mn.

Medium- to long-term growth strategies

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

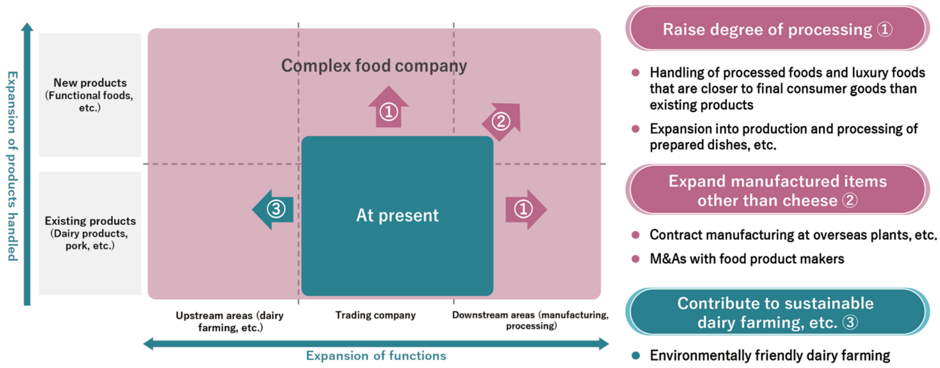
The Company marked its 25th founding anniversary in May 2023, and positioned the next 25 years as a "second founding period" towards the next major anniversary, and announced a new management philosophy, long-term vision, and Corporate Business Plan, NEXT-LJ 2025 (FY11/23 to FY11/25) in January 2023. 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." This management philosophy is represented by "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.

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: The Company’s “Long-Term Vision and Corporate Business Plan”

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

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 (Evolution of existing business), 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 Evolution of existing business	Growth Expansion of Asian business	Challenge Build next-generation businesses
Business growth	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 cater to various faith traditions and food cultures	Participate in dairy farming and other upstream areas
	M&A (Acquisition of overseas trading houses, acquisition of peers, and business alliances)		
Strengthening of management base	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: The Company's financial results briefing materials

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 stable supply based on 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. For dairy ingredients, the Company is making progress in developing new suppliers and strengthening collaboration with existing suppliers. 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 plans to increase sales volume to 6,300 t in FY11/25, so it will be essential to review products and take other steps to improve manufacturing efficiency. 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 customer needs.

Overview of the new Singapore factory

New plant: visual representation

Construction progress (January 2025)

Construction progress (January 2025)

Overview of the plant

Location	Senoko, Sembawang
Production volume	Maximum capacity: 10,000 tons
Floor space	Approximately 6,500㎡
Start of operation	From FY11/2026

Source: The Company's financial results briefing materials

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. In FY11/24, the Company began preparations for the export sales of functional food ingredients, with official sales to begin in FY11/25. 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.

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. It also established four policies in September 2024: the Environmental Policy, the Sustainable Procurement Policy, the Information Security Policy, and the Industrial Safety and Health Policy. In October of the same year, it established a Sustainability Promotion Department and set up a system in which it works together with the Sustainability Promotion Task Team, taking into consideration long-term business risks and responses to opportunities and making proposals at executive management meetings. 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 profit of ¥4,000mn, and profit 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 results for FY11/24 were also lower than planned at ¥170,907mn. Whereas the Company planned on ordinary profit of ¥3,200mn in FY11/23 and ¥3,600mn in FY11/24, the actual result of ¥2,847mn was lower than planned for FY11/23 but the results for FY11/24 were higher than planned at ¥4,320mn and attained the Corporate Business Plan's target of ¥4,000mn one fiscal year early. The Corporate Business Plan's targets were also met for each indicator, with ROE of 12.1%, payout ratio of 25.3%, and consolidated shareholders' equity ratio of 33.8%. For FY11/25, the Company projects net sales of ¥180,000mn, which is ¥20,000mn below the plan, but ordinary profit well above the plan at ¥4,600mn. In addition, the Company is aiming for a dividend payout ratio of 30.2%, up a stage from the 20–25% target of the Corporate Business Plan.

The Corporate Business Plan assumes a business environment where current megatrends remain unchanged, such as solid domestic demand for imported dairy product ingredients and meat, increasing health awareness, economic growth in Asia, and the Westernization of food cultures. 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 mixture 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. In FY11/24, the public-private sector efforts to reduce excess inventories of skim milk powder were successful, and the inventory level of skim milk powder was kept at a stable low level. Demand for commercial use due to inbound tourism has also led to increased demand for imported dairy ingredients, as well as for powdered milk mixture ingredients for Japan in Asia. In addition, despite sluggishness in the Chinese economy, the economies of Southeast Asian countries remain strong, and demand for dairy ingredients for restaurants and bakeries is increasing. The Company aims to achieve its earnings forecast for FY11/25 while looking ahead to the new stage of its next Corporate Business Plan.

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), all of which were achieved in FY11/24. From FY11/25, the Company has introduced ROIC on a full-fledged basis for each of its business divisions. 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.

Performance targets and financial targets of the Corporate Business Plan

(¥mn)

	FY11/22 Results	FY11/23		FY11/24		FY11/25	
		Plan	Results	Plan	Results	Plan	Forecast
[Performance targets]							
Consolidated net sale	147,423	160,000	158,328	180,000	170,907	200,000	180,000
Consolidated ordinary profit	3,134	3,200	2,847	3,600	4,320	4,000	4,600
Profit attributable to owners of parent	2,286	2,300	2,048	2,600	3,146	2,900	3,300
[Financial targets]							
ROE	10.9%		8.7%		12.1%	10% or more	10% or more
Payout ratio	17.3%		23.2%		25.3%	20~25%	30.2%
Consolidated shareholders' equity ratio	30.5%		34.2%		33.8%	30~35%	30~35%

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

Shareholder return policy

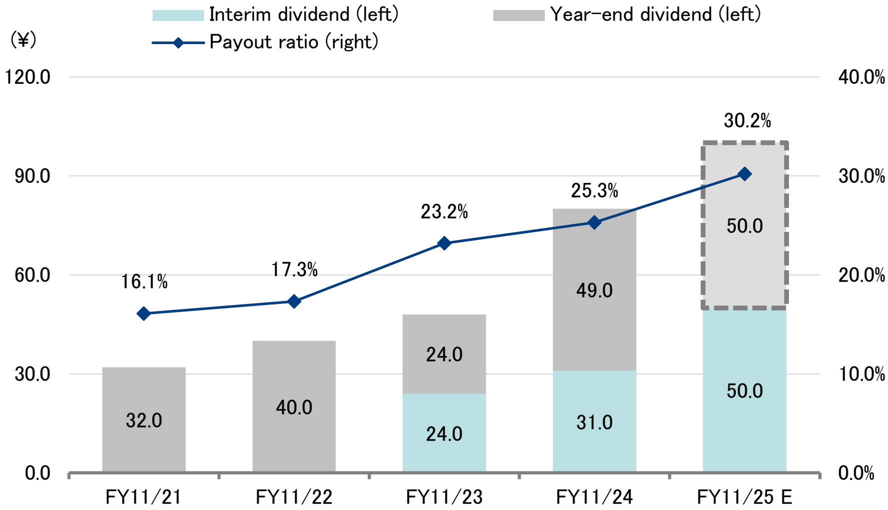
Upwardly revised dividend for FY11/24 to ¥80.0 per share, an increase of ¥32.0 YoY. Plans to further increase dividend by ¥20.0 to ¥100.0 for FY11/25

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 paid an annual dividend of ¥80.0 per share, up by ¥32.0 YoY (interim dividend of ¥31.0 and year-end dividend of ¥49.0). The initial forecast was raised by ¥14.0 to ¥76.0 in July 2024 and raised by an additional ¥4.0 to secure the planned payout ratio of 25.2% as results topped the upwardly revised forecasts. The payout ratio was 25.3%, an increase of 2.1pp YoY. In FY11/25, the Company plans to increase the dividend by an additional ¥20.0 to ¥100.0 per share (interim dividend of ¥50.0 and year-end dividend of ¥50.0), bringing the payout ratio to the 30% range at 30.2%.

In addition, the shareholder benefit program was revised in January 2025. Previously, the Company had been offering QUO cards or catalog gifts once a year based on the duration of shareholding. However, it has now limited the program to shareholders who have held their shares for two years or more, providing a catalog gift worth ¥3,000 once a year for those holding 100 to 299 shares and ¥5,000 for those holding 300 or more shares.

Trends in dividend per share and payout ratio



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

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