



Lacto Japan

FY11/2023 Financial Results Briefing

Lacto Japan Co., Ltd.

January 18, 2024

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01 Consolidated Financial Results for FY11/2023 and Forecasts for FY11/2024

Overview of Consolidated Financial Results for FY11/2023

- Sales volume fell in the Dairy Ingredients and Cheese Business Division and the Asian Dairy Ingredients Sales Division due to sluggish demand caused by escalating inflation.
- The previous year's rise in international market prices for dairy products and the yen's depreciation led to higher purchase prices, which worsened profit margins in the domestic business and the Cheese Manufacturing & Sales Division in Asia. Consolidated ordinary income decreased YoY.

	FY11/2022	Initial forecast Released on 2023/1/13	Revised forecast Released on 2023/12/14	FY11/2023			
				Results	YoY Change (%)	Initial (Forecast) (%)	Vs. Initial (Forecast) (%)
(Unit: ¥mn)							
Net sales	147,423	160,000	158,000	158,328	+7.4	-1.0	+0.2
Ordinary income	3,134	3,200	2,800	2,847	-9.1	-11.0	+1.7
Ordinary profit rate (%)	2.1	2.0	1.8	1.8	-	-	-
Foreign exchange impact on ordinary income*	(117)		-	(-59)	-	-	-
Ordinary income after adjusting for foreign exchange effects	(3,016)		-	(2,907)	(-3.6)	-	-
Net income attributable to owners of parent	2,286	2,330	2,000	2,048	-10.4	-12.1	+2.4
Net income margin (%)	1.6	1.5	1.3	1.3	-	-	-
Earnings per share (yen)	231.64	235.52	201.56	206.46			
Exchange rate (Yen/USD)	129.67	-	-	139.80			
Exchange rate (Yen/EUR)	136.86	-	-	150.80			

Note: Amounts have been rounded down to the nearest million yen. Percentage changes have been rounded to the first decimal place.

*Foreign exchange impact on ordinary income: As Lacto Japan applies "Separate accounting treatments," the impact of foreign exchange hedging is recorded in both cost of goods sold and non-operating income/loss. Therefore, the amount of impact of foreign exchange hedging on both cost of goods sold and non-operating income/loss is shown.

Main points regarding YoY changes

① Net sales: Record high

Sales volume was sluggish, missing the initial target.

However, net sales rose YoY because unit sales prices remained high. Net sales reached a record high for two consecutive periods.

② Ordinary income: Declined YoY

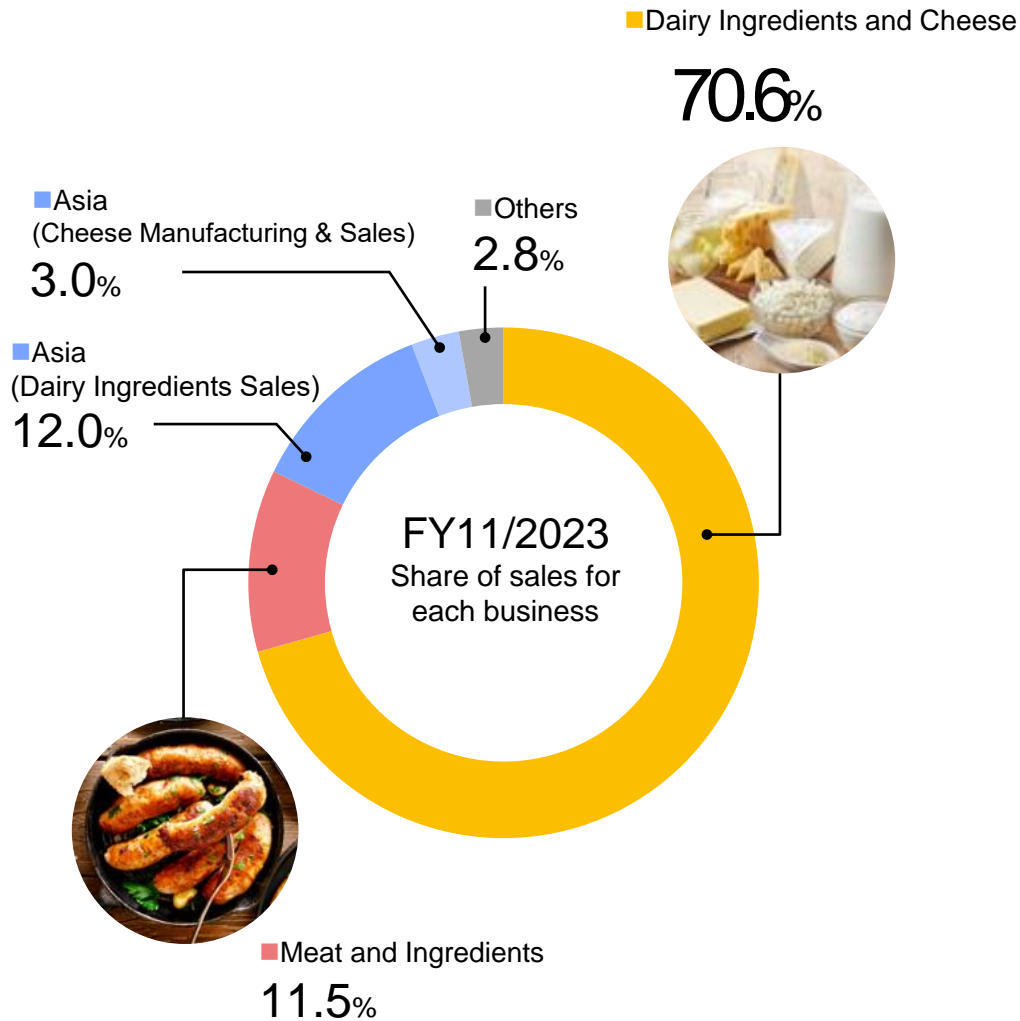
Ordinary income fell short of the initial target due to deteriorating profit margins in the domestic business and the Cheese Manufacturing & Sales Division in Asia. Ordinary income also fell YoY.

POINT
①

POINT
②

FY11/2023 Net Sales and Sales Volume by Business Division (YoY changes)

- Sales volume did not increase in the Dairy Ingredients Sales Division in Japan or overseas.
- Functional food ingredient sales, which are included in “Others,” grew in both net sales and sales volume.



Dairy Ingredients and Cheese Business Div.

Net sales	111,845 million yen	YoY Change	+13.2%
Sales volume	167,421 tons	YoY Change	-8.5%

Meat and Ingredients Div.

Net sales	18,268 million yen	YoY Change	+20.7%
Sales volume	28,125 tons	YoY Change	+13.5%

Asian Business (Dairy Ingredients Sales Division)

Net sales	18,922 million yen	YoY Change	-29.1%
Sales volume	37,251 tons	YoY Change	-26.1%

Asian Business (Cheese Manufacturing & Sales Division)

Net sales	4,828 million yen	YoY Change	+21.2%
Sales volume	4,827 tons	YoY Change	+0.8%

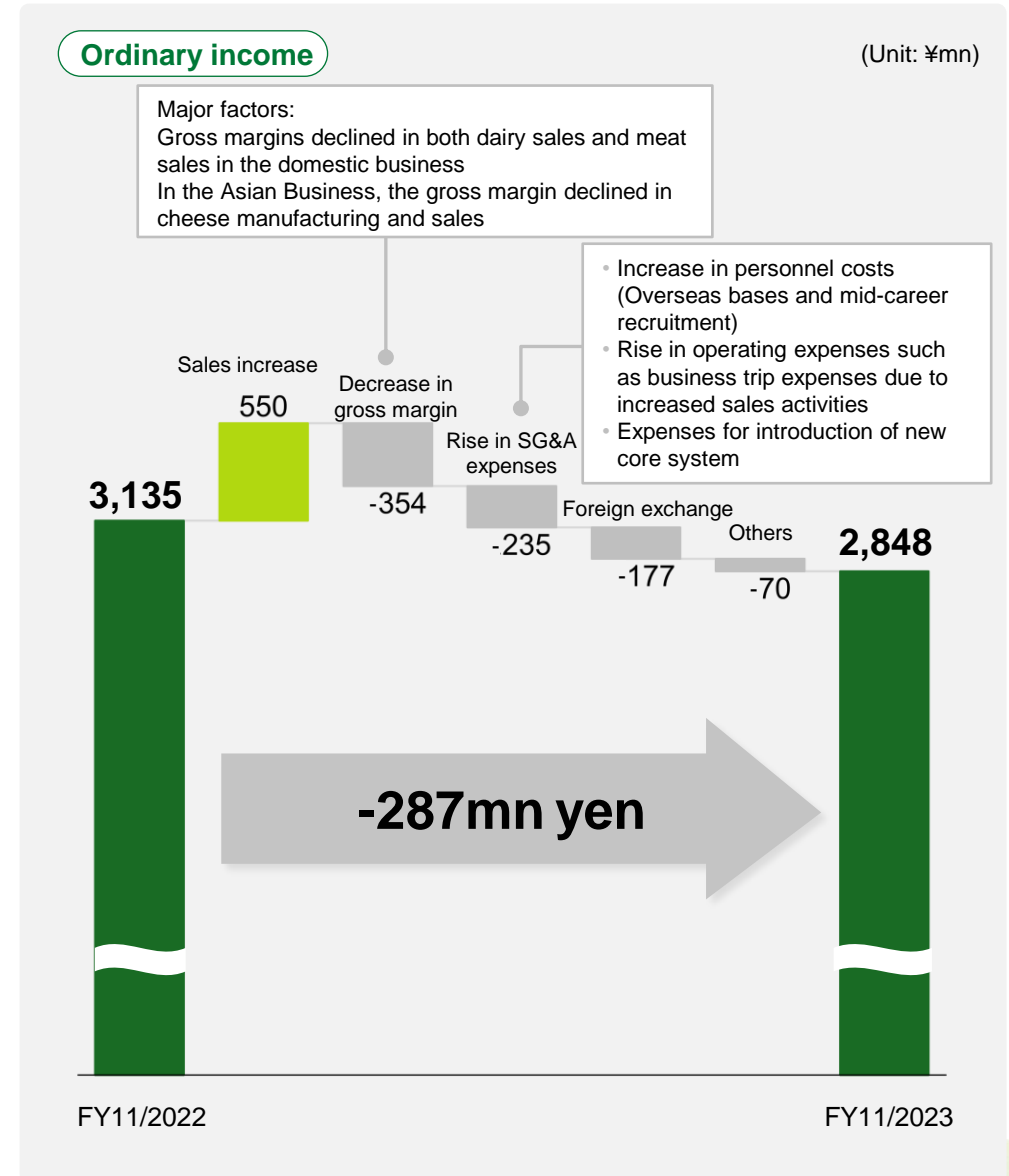
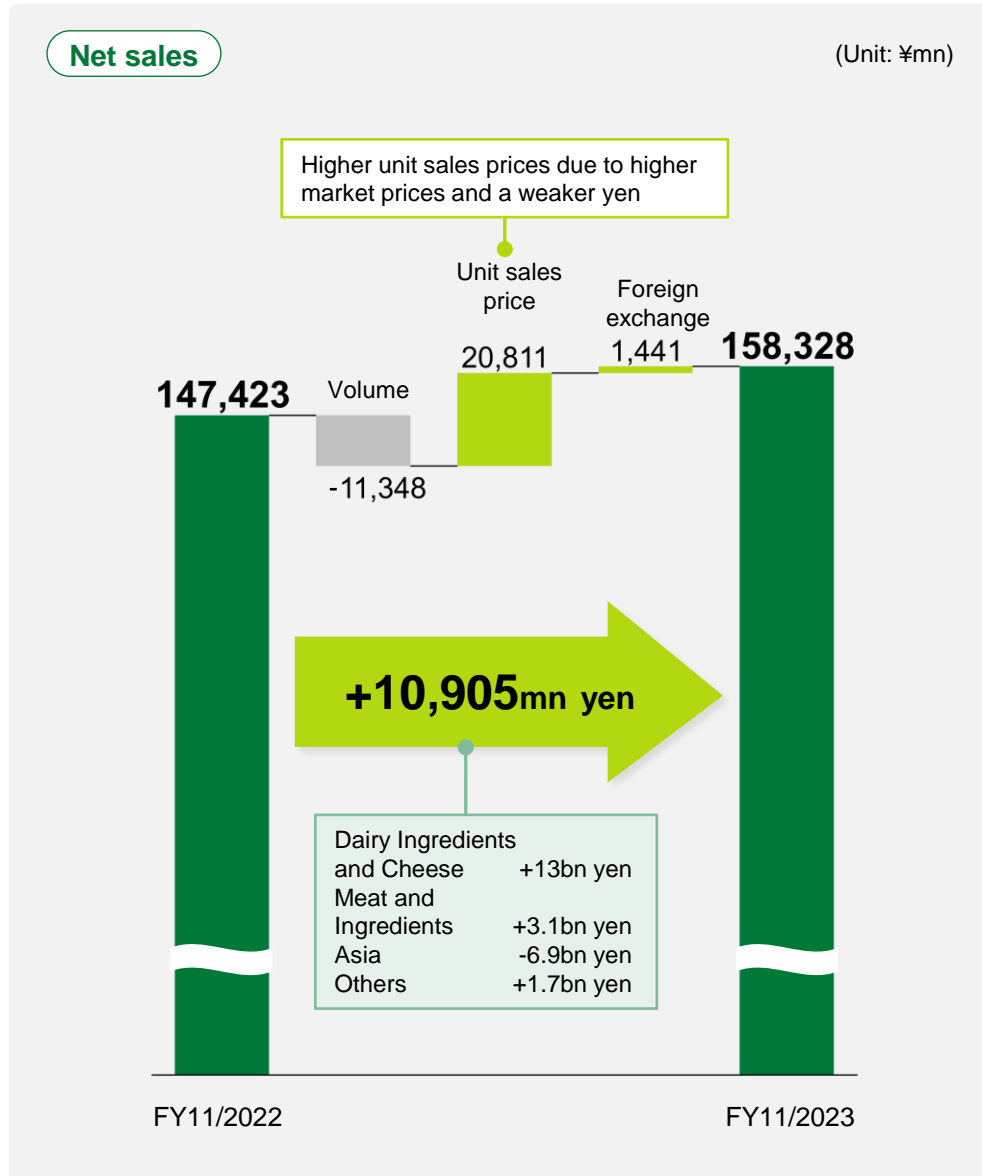
Others (Overseas bases/sales of functional food ingredients)

Net sales	4,462 million yen	YoY Change	+58.9%
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Note: Amounts have been rounded down to the nearest million yen. As fractions are rounded to the first decimal place, total percentages may not add up to 100%.

Factors Contributing to YoY Changes in Net Sales and Ordinary Income

- Net sales increased due to higher unit sales prices reflecting higher market prices of ingredients and a weaker yen, which offset a decline in sales volume
- The decrease in ordinary income was due to a decline in gross margins caused by soaring purchase prices



Note: Breakdown of changes in net sales and ordinary income: rounded to the nearest whole number

(Unit: ¥mn)	End-November 2022	End-November 2023	Change
Total current assets	70,067	67,068	-2,998
Cash and deposits	6,379	7,779	1,399
Notes and accounts receivable	21,065	18,700	-2,365
Inventories	41,382	39,806	-1,576
Current assets, other	1,238	782	-456
Total non-current assets	3,389	4,969	1,580
Property, plant and equipment	942	2,185	1,243
Intangible assets	39	73	34
Investments and other assets	2,408	2,710	302
Total assets	73,456	72,038	-1,418
Accounts payable	17,349	14,033	-3,315
Interest-bearing liabilities	31,262	31,518	256
Liabilities, other	2,364	1,763	-601
Total liabilities	50,975	47,314	-3,661
Total net assets	22,481	24,724	2,242
Total liabilities and net assets	73,456	72,038	-1,418

POINT

- ①
- ②
- ③

Main points regarding YoY changes

Decrease in notes and accounts receivable/inventories

- ① Progress in receipt of inventories by users
- ② Accelerated collection of receivables through securitization of accounts receivable
- ③ Progress in adjustments to market prices yielded lower purchase prices, mainly for dairy products

Note: Amounts have been rounded down to the nearest million yen. Breakdowns show only major items.

* Our business model is one in which we take no inventory risk. As a rule, all of our inventory is destined for sale.

Consolidated Statements of Cash Flow

- Operating cash flow, which had been negative for two consecutive periods, turned positive

	FY11/2023	
(Unit: ¥mn)		
Cash flows from operating activities	3,222	POINT ①
Cash flows from investing activities	-1,362	POINT ②
Cash flows from financing activities	-772	POINT ③
Effect of exchange rate change on cash and cash equivalents	311	
Net increase in cash and cash equivalents	1,399	
Cash and cash equivalents at beginning of period	5,883	
Cash and cash equivalents at end of period	7,282	

Main points regarding YoY changes

Operating CF

- ① Increase in cash flow due to a decrease in working capital (accounts receivables and inventories)

Investing CF

- ② Investment related to a new factory in Singapore

Financing CF

- ③ Increase in dividends (Distributed interim dividend)

Note: Amounts have been rounded down to the nearest million yen. Breakdowns show only major items.

FY11/2024 Consolidated Earnings Forecasts

- It is estimated that growth in domestic food consumption may be sluggish and that business may be impacted by the slowdown in the Chinese economy for 1H, but the business environment may fully recover in imports and sales of dairy ingredients and cheese in 2H and beyond

	FY11/2023 results	FY11/2024 forecasts			
			YoY increase		YoY (%)
(Unit: ¥mn)					
Net sales	158,328	160,000	+1,671	+1.1	POINT ①
Ordinary income	2,847	3,400	+552	+19.4	POINT ②
Ordinary profit rate (%)	1.8	2.1	-	-	
Net income attributable to owners of parent	2,048	2,400	+351	+17.2	
Net income margin (%)	1.3	1.5	-	-	
<hr/>					
Earnings per share (yen)	206.46	241.06	+34.60		
Dividend per share (yen)	Per year	48.00	62.00	+14.00	
	Interim	24.00	31.00	+7.00	POINT ③
	FY-end	24.00	31.00	+7.00	

Earnings forecast assumptions

① In the domestic business, the problem of skim milk powder inventory may enter its final phase, and demand for powdered milk mixtures may improve in 2H and beyond. It is estimated that the unit sales prices of products may slightly decline as the market prices of ingredients stabilize, limiting sales growth.

In the Asian business, it is estimated that both the Dairy Ingredients Sales Division and the Cheese Manufacturing & Sales Division may see an increase in net sales due to a recovery in sales volume.

② It is estimated that consolidated ordinary income may increase YoY mainly due to a profit recovery in the Cheese Manufacturing & Sales Division in Asia.

③ We plan to raise dividends to strengthen shareholder returns.

Note: Amounts have been rounded down to the nearest million yen. Percentages have been rounded to the first decimal place.

Net Sales by Division

(Unit: ¥mn)	FY11/2022					FY11/2023					FY11/2024
	1Q	2Q	3Q	4Q	FY-end	1Q	2Q	3Q	4Q	FY-end	Full-year forecast
Dairy Ingredients and Cheese	22,024	25,178	25,153	26,465	98,821	27,594	29,196	26,367	28,687	111,845	105,200
YoY	28.9%	26.8%	39.4%	23.2%	29.2%	25.3%	16.0%	4.8%	8.4%	13.2%	-5.9%
Meat and Ingredients	3,530	3,690	3,706	4,207	15,135	4,063	4,933	4,416	4,854	18,268	16,600
YoY	13.3%	1.0%	2.6%	8.0%	6.0%	15.1%	33.7%	19.2%	15.4%	20.7%	-9.1%
Asian Business (Dairy Ingredients Div.)	4,783	7,495	7,126	7,267	26,672	5,248	5,316	3,534	4,823	18,922	25,000
YoY	69.1%	88.3%	65.6%	56.5%	69.3%	9.7%	-29.1%	-50.4%	-33.6%	-29.1%	32.1%
Asian Business (Cheese Manufacturing & Sales Division)	935	892	1,064	1,092	3,984	1,087	1,158	1,226	1,355	4,828	5,800
YoY	16.6%	0.5%	44.1%	22.0%	19.9%	16.3%	29.9%	15.2%	24.1%	21.2%	20.1%
Others	481	775	645	905	2,808	751	1,099	1,334	1,276	4,462	7,400
YoY	207.8%	186.6%	127.1%	171.7%	168.9%	55.9%	41.8%	106.7%	41.0%	58.9%	65.8%
Total net sales	31,755	38,032	37,697	39,937	147,423	38,745	41,704	36,880	40,997	158,328	160,000
YoY	32.3%	32.7%	39.7%	27.8%	33.0%	22.0%	9.7%	-2.2%	2.7%	7.4%	1.1%

Note: Amounts have been rounded down to the nearest million yen.

Sales Volume by Division

(Unit: tons)	FY11/2022					FY11/2023					FY11/2024
	1Q	2Q	3Q	4Q	FY-end	1Q	2Q	3Q	4Q	FY-end	Full-year forecast
Dairy Ingredients and Cheese	46,731	49,722	44,625	41,877	182,957	40,578	44,757	39,464	42,622	167,421	172,900
YoY	8.3%	1.8%	3.7%	-15.1%	-0.8%	-13.2%	-10.0%	-11.6%	1.8%	-8.5%	3.3%
Meat and Ingredients	6,004	6,092	6,127	6,551	24,775	6,005	7,872	6,957	7,289	28,125	30,000
YoY	4.7%	-10.8%	-4.9%	-2.0%	-3.6%	0.0%	29.2%	13.5%	11.3%	13.5%	6.7%
Asian Business (Dairy Ingredients Div.)	11,397	15,151	12,356	11,517	50,423	10,374	10,713	6,390	9,772	37,251	54,300
YoY	14.9%	18.6%	4.2%	-13.2%	5.5%	-9.0%	-29.3%	-48.3%	-15.2%	-26.1%	45.8%
Asian Business (Cheese Manufacturing & Sales Division)	1,253	1,083	1,243	1,206	4,786	1,154	1,214	1,172	1,286	4,827	6,200
YoY	11.8%	-10.7%	21.7%	-5.7%	3.3%	-7.9%	12.1%	-5.7%	6.6%	0.8%	28.4%

Note: Quantities of less than one ton have been rounded down.

02 Aiming for Operations That Consider the Cost of Capital and Share Price

Stance on Share Price

- We target a P/B ratio of 1x or more by improving the profitability of our business divisions and strengthening shareholder returns to bring ROE back to the 10% level, focusing on growth businesses and strengthening IR initiatives

	FY11/2019	FY11/2020	FY11/2021	FY11/2022	FY11/2023	Targets
ROE (%)	13.0	12.3	10.6	10.9	8.7	10% or more
P/E (x)	17.57	14.05	11.75	9.16	9.45	10 x or more
P/B (x)	2.17	1.66	1.18	0.94	0.79	1 x or more
Share price at end of period (yen)	3,515	2,943	2,336	2,121	1,951	-

Analysis of factors behind the decline in stock price

- **Deterioration of the business environment since the start of the COVID-19 pandemic**
(The lingering inventory problem of skim milk powder in Japan, the yen's significant depreciation, and sluggish demand in Japan and Asia)
- **Slowdown in overall growth of the Lacto Japan Group**
- **Inadequate dissemination of growth strategy**
- **Concerns about the two consecutive periods of negative operating cash flow**

● Steadily implement measures to improve ROE and P/E ratio

Factors

Measures

Improvement in ROE
(Target: 10% or more)

- Sales strategy emphasizing an expansion of market share (volume) (all divisions)
- Decline in profit margins due to the deteriorating business environment
- Priority given to enhancing retained earnings to strengthen financial condition



- Implementation of sales strategy with an emphasis on profit margins
Introduction of ROIC as a management indicator for business divisions
- Expansion of value-added products
- Establishment of a system that involves the Company deeply in key areas of the supply chain
- Strengthening investments in growth areas and shareholder returns



Improvement of our P/E ratio
(Target: 10 x or more)

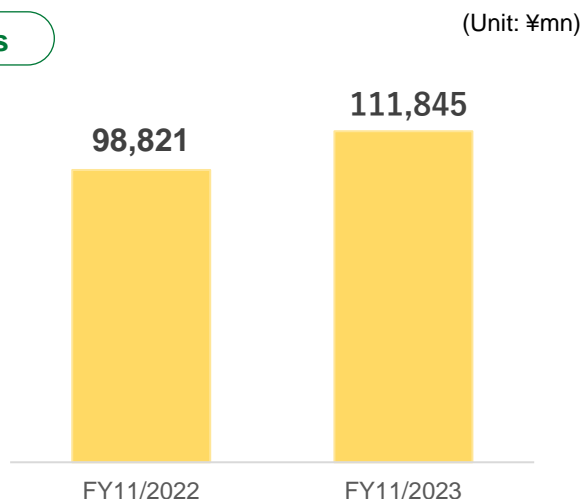
- Slowdown in growth rate due to the deteriorating business environment
- Decline in profitability
- Deterioration in operating cash flow



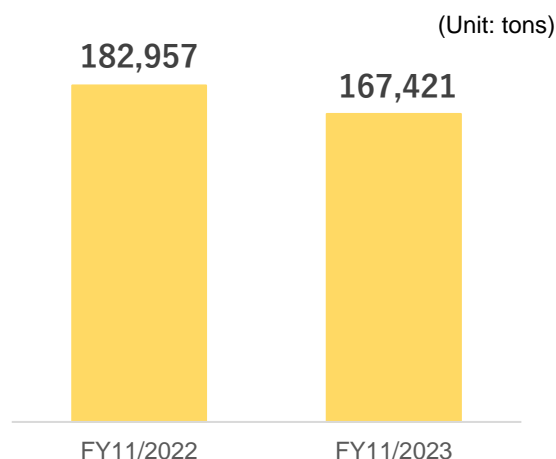
- Strengthening IR (increased opportunities for dialogue and enhanced information disclosure)
- Strengthening our business portfolio
- Operations with an emphasis on the balance sheet

03 Overview of Operations for FY11/2023

Net sales



Sales volume

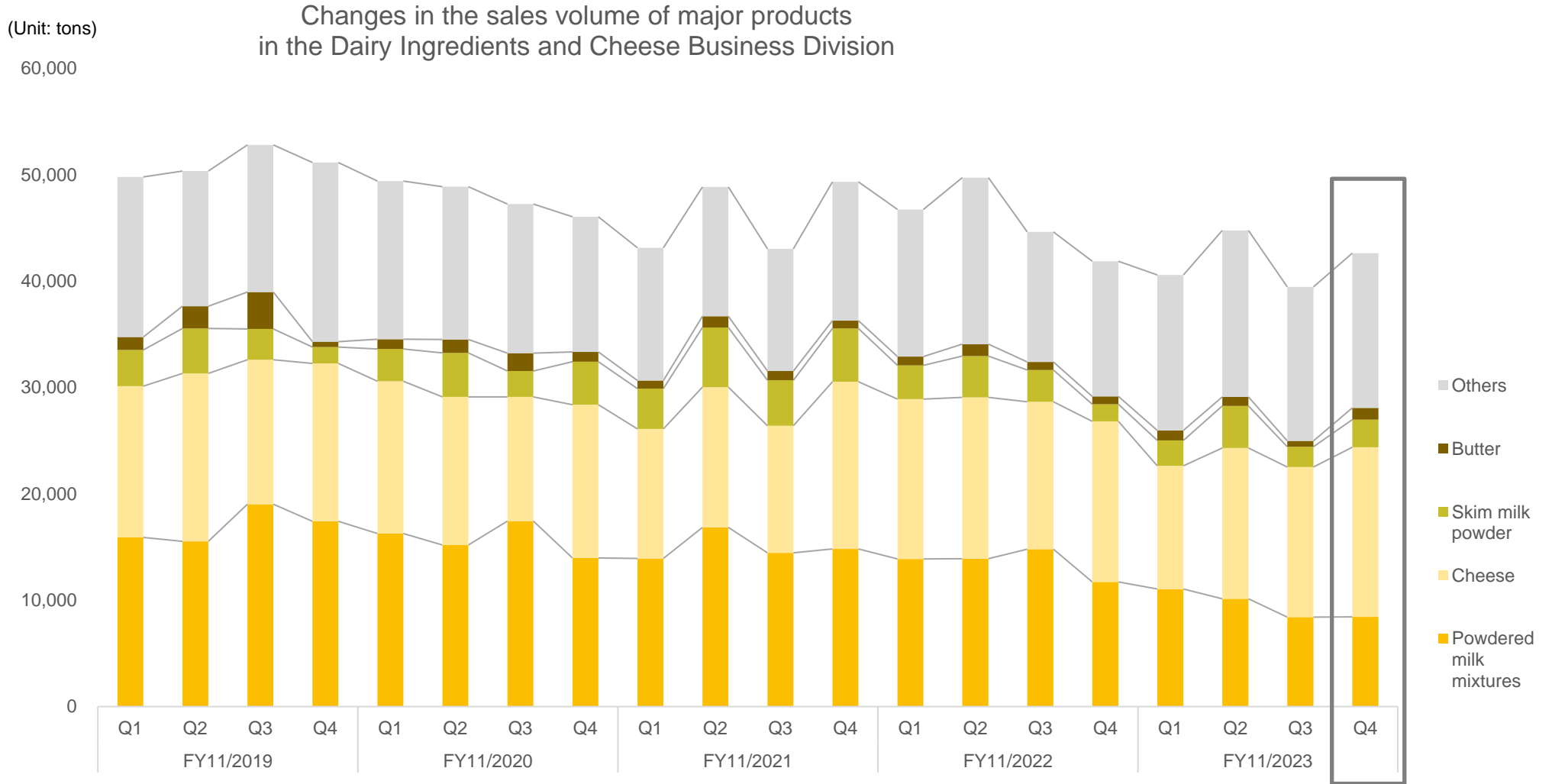


Note: Figures for both sales and sales volume are rounded down to the nearest whole number.

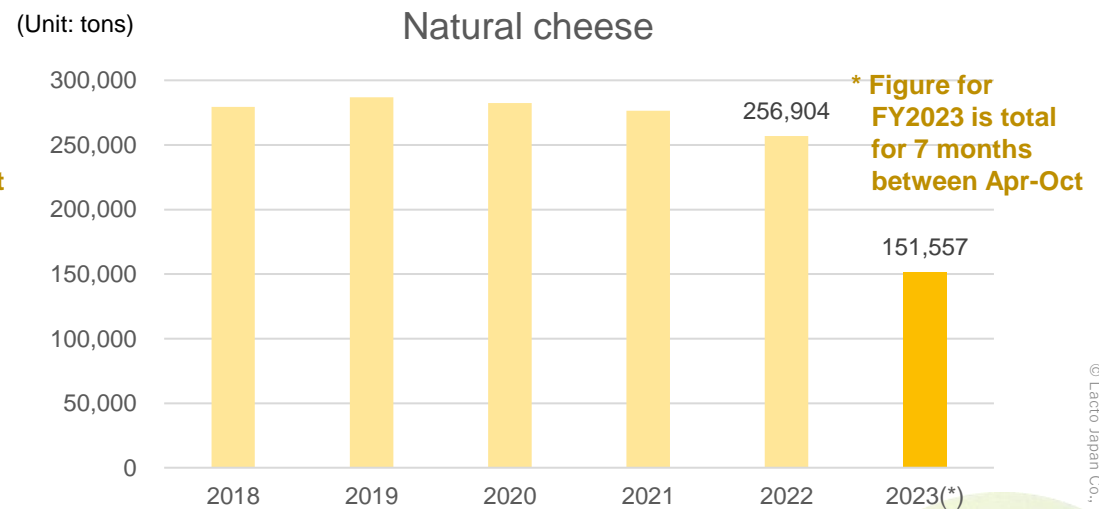
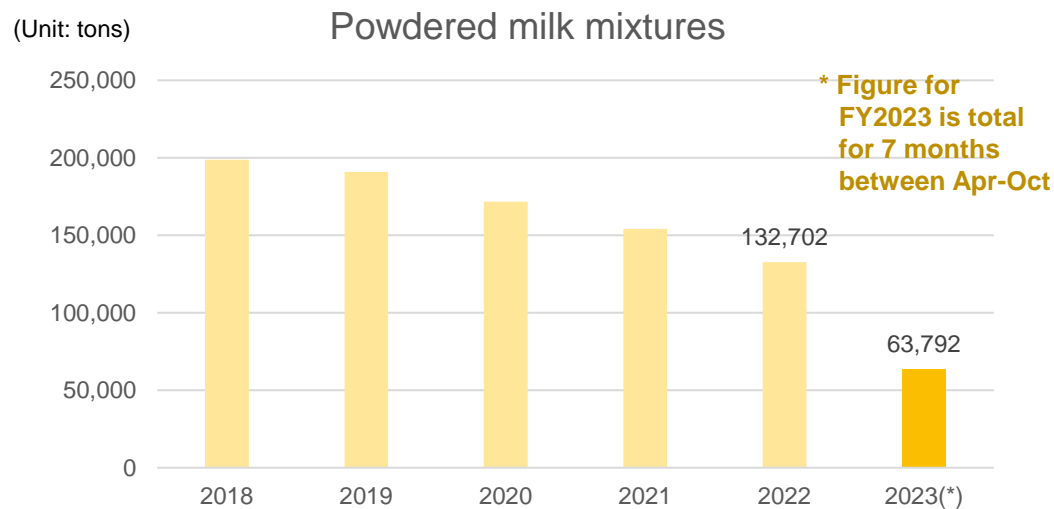
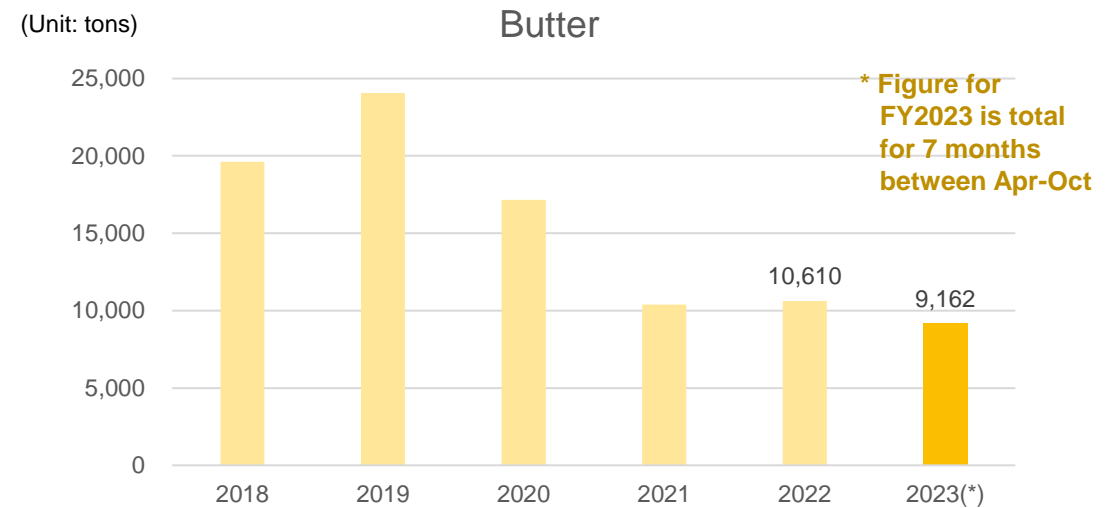
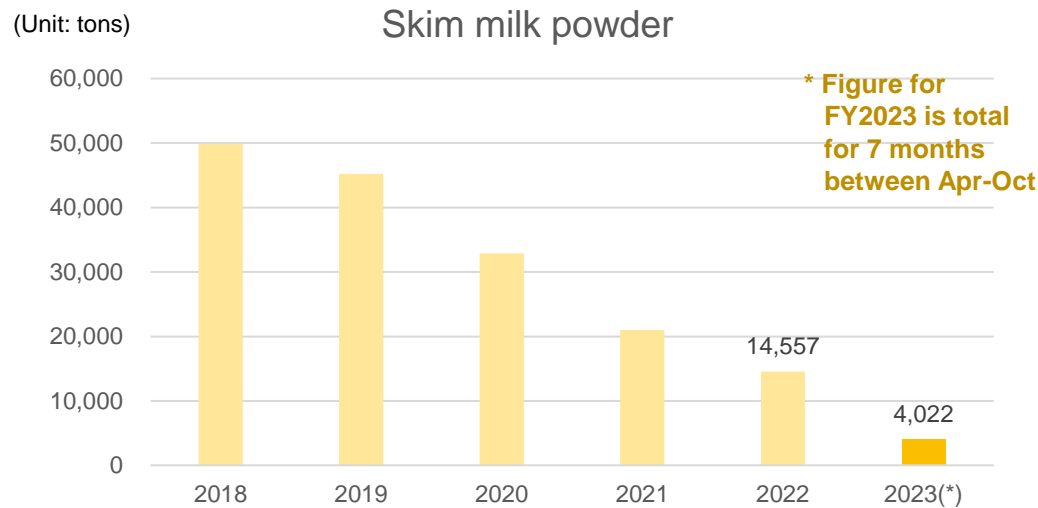
Business overview

- This division saw a YoY decline in sales volume because final demand was sluggish due to food price hikes and because the recovery in demand for dairy ingredients was weaker than expected. However, unit sales prices were high due to the high market prices of ingredients and the weak yen in the previous period, resulting in a YoY increase in net sales.
- Inventory levels of domestically produced skim milk powder declined due to public-private sector initiatives and a decrease in raw milk production. However, such initiatives contributed to an increase in the use of domestically produced ingredients for powdered milk mixtures. Thus, we saw a decline in the sales volume of our powdered milk mixtures, which are among our primary products.
- Demand for cheese was also sluggish due to the impact of price hikes. Import volume in Japan was on a downward trend, and our sales volume also fell YoY.
- However, due to a recovery in tourism demand and other factors, the sales volume of some products used as ingredients for chocolate and confectioneries (whole milk powder, lactose, cocoa preparations, etc.) was on a recovery trend.

- In FY11/2023, the business was impacted by a decline in the sales volume of imported powdered milk mixtures, but there were signs of bottoming out in 4Q



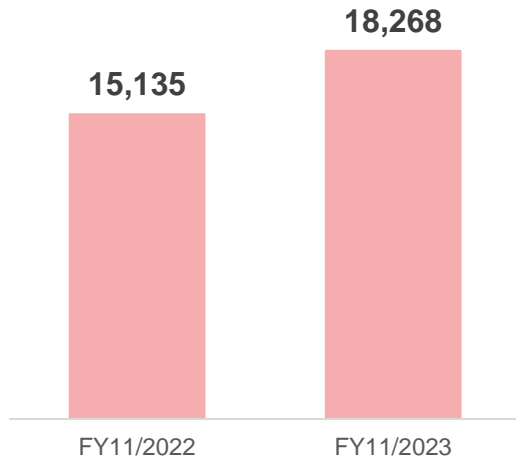
● Japan's major dairy imports



Source: Shuyona nyuseihin no yunyuryo no suii (Changes in imports of major dairy products) (FY) released by J-milk

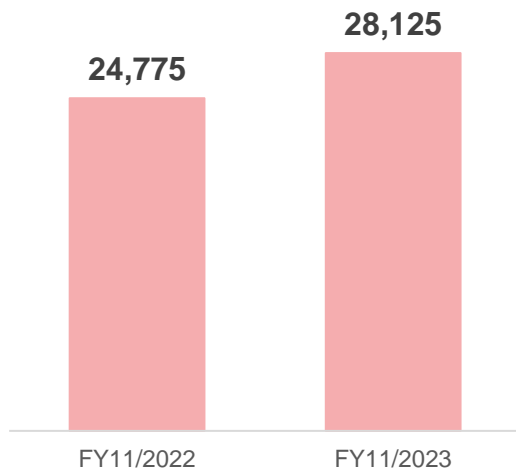
Net sales

(Unit: ¥mn)



Sales volume

(Unit: tons)



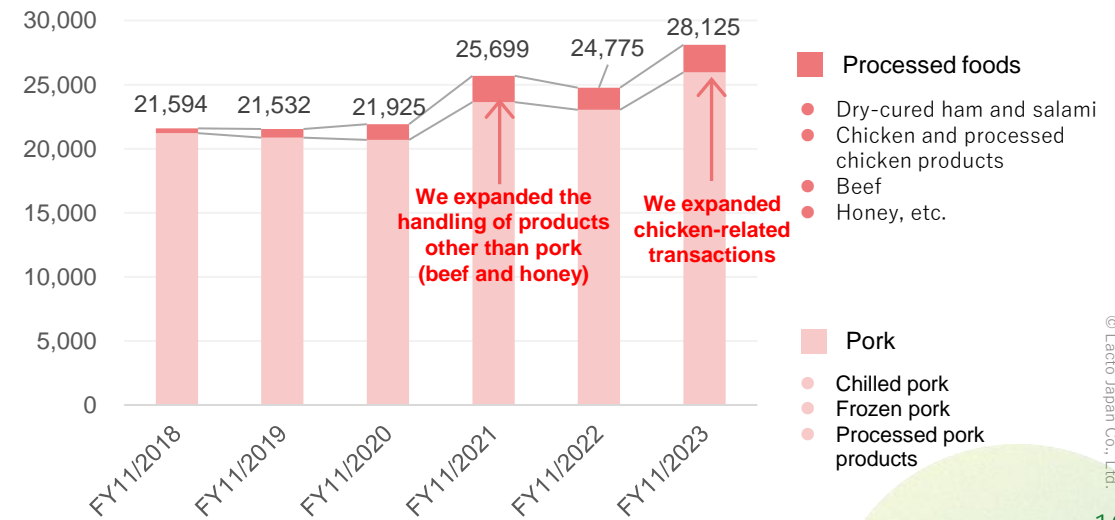
Note: Figures for both sales and sales volume are rounded down to the nearest whole number.

Business overview

- In pork sales, demand for North American pork increased amid rising market prices for European pork. We saw strong sales of pork from North America, where we have a procurement advantage.
- Sales of processed food products increased as we made efforts to diversify our products. Sales of chicken and processed chicken products increased during this period.
- Higher market prices for pork and a weaker yen resulted in higher unit sales prices. Net sales in the division increased YoY as a result.

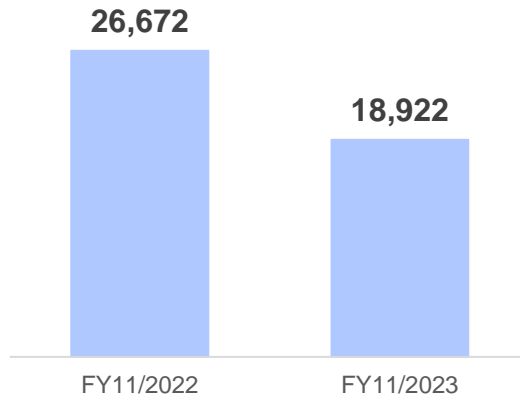
Sales volume of the Meat and Ingredients Division

(Unit: tons)



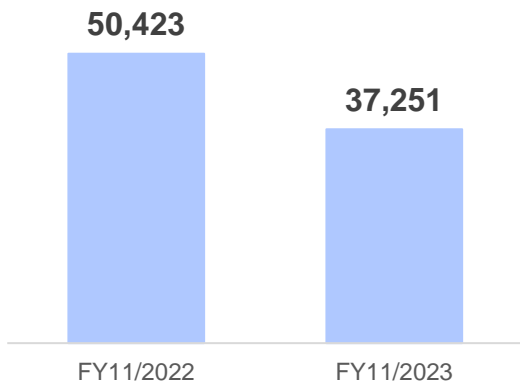
Net sales

(Unit: ¥mn)



Sales volume

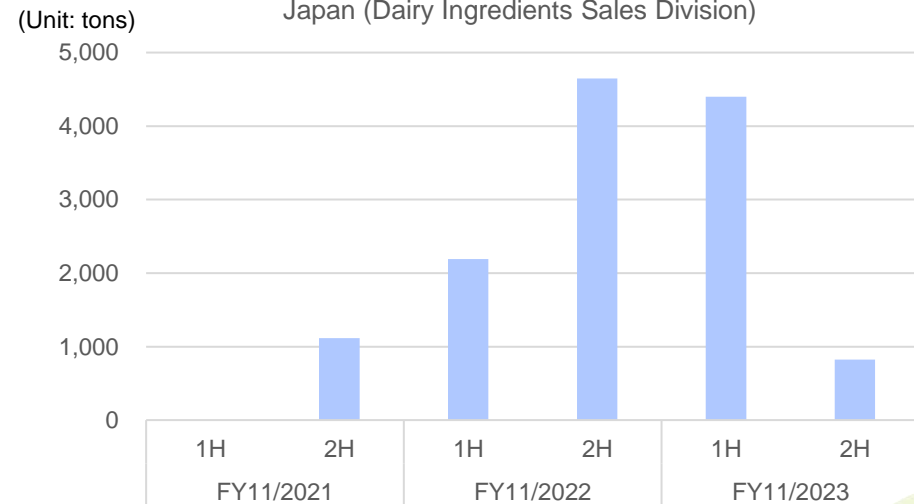
(Unit: tons)



Business overview

- Weak demand for powdered milk mixtures in Japan led to a decline in the sales volume of related ingredients.
- The inventory of skim milk powder in Japan declined. This led to a decline in the volume of export sales of Japan-made skim milk powder related to inventory-adjustment measures.
- The volume of sales to the local market also fell due to the impact of declining demand in China.

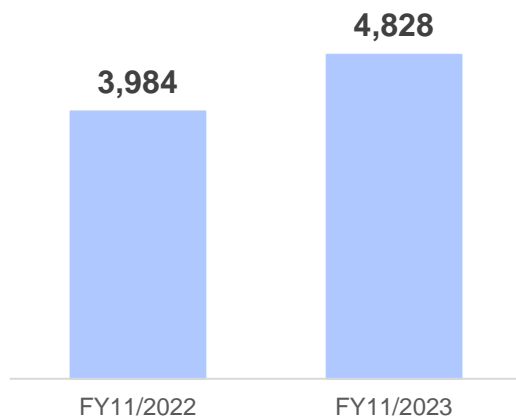
The volume of export sales of skim milk powder produced in Japan (Dairy Ingredients Sales Division)



Note: Figures for both sales and sales volume are rounded down to the nearest whole number.

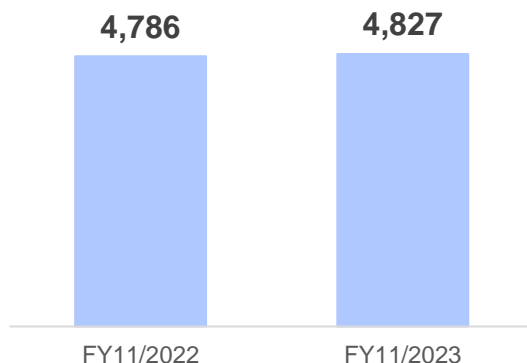
Net sales

(Unit: ¥mn)



Sales volume

(Unit: tons)

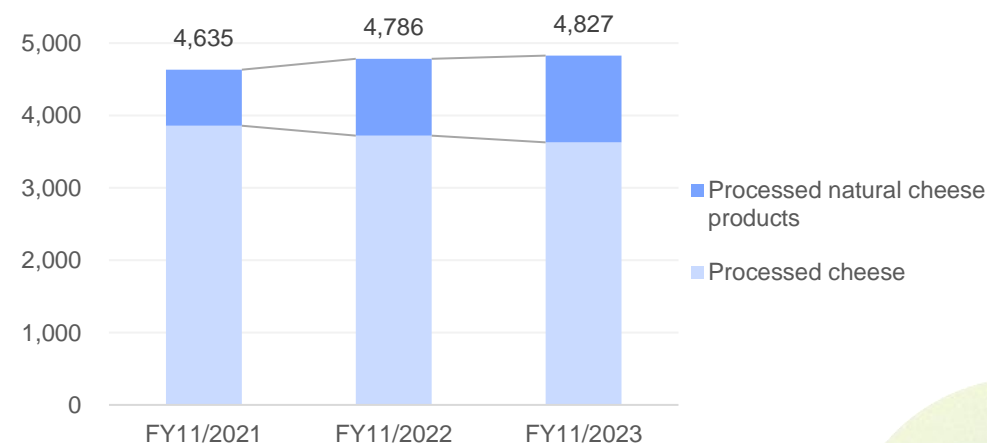


Business environment

- Sales of processed natural cheese products increased for use in restaurants, especially those in Singapore and Malaysia.
- The sales volume of processed cheese was sluggish due to price revisions associated with soaring ingredient prices and the economic slowdown in China and Thailand.
- The handling of processed natural cheese products requires that we distinguish our products from those of local manufacturers. Such an effort will help us strengthen our competitiveness. Thus, we will continue to increase the sales volume of these products in the future.

Sales volume of the Asian Business (Cheese Manufacturing & Sales Division)

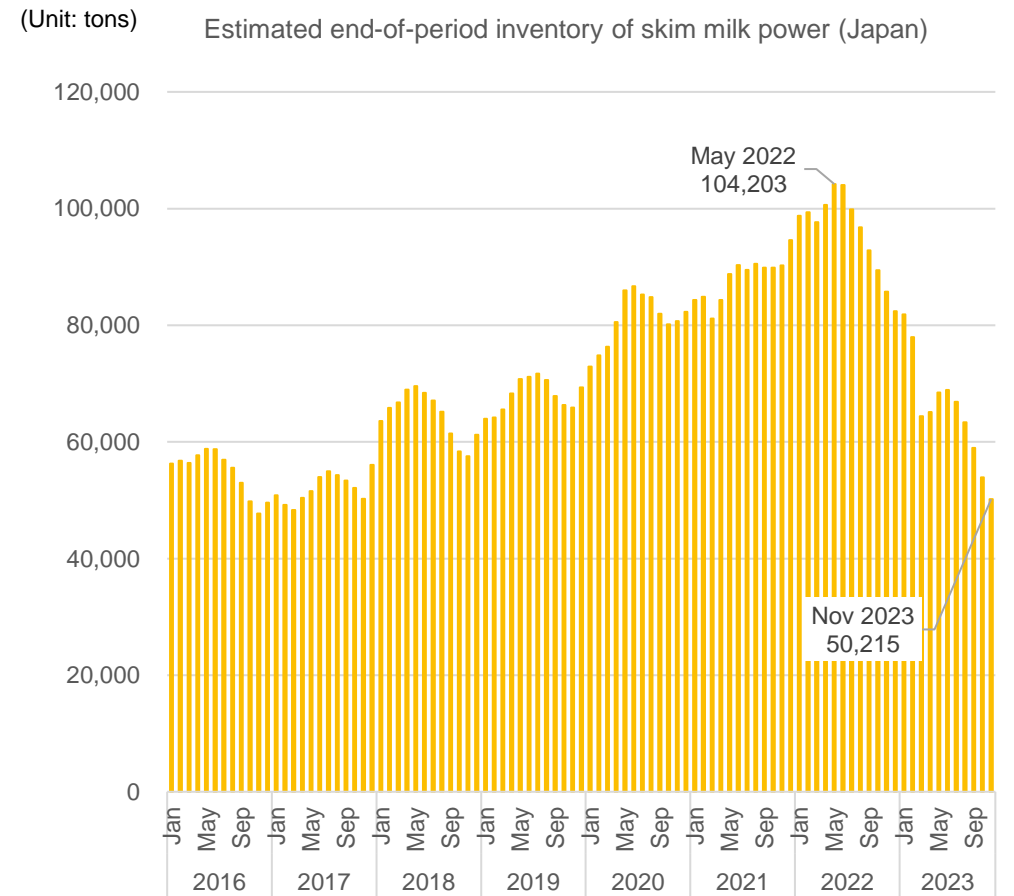
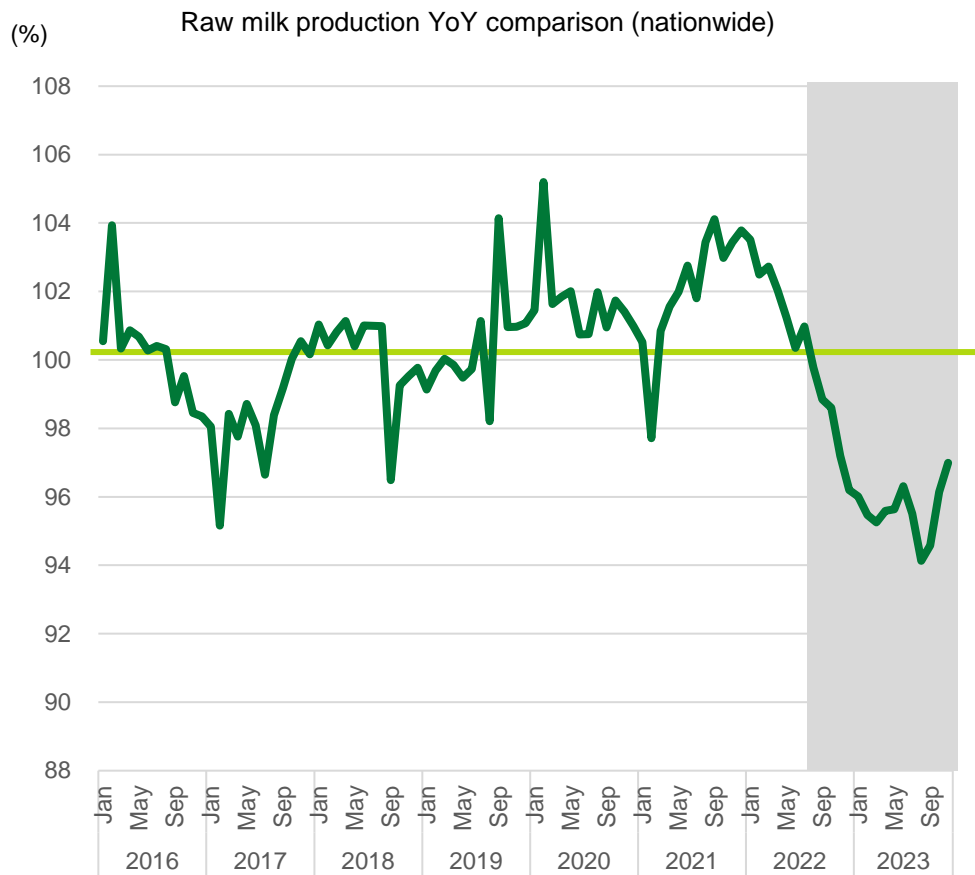
(Unit: tons)



Note: Figures for both sales and sales volume are rounded down to the nearest whole number.

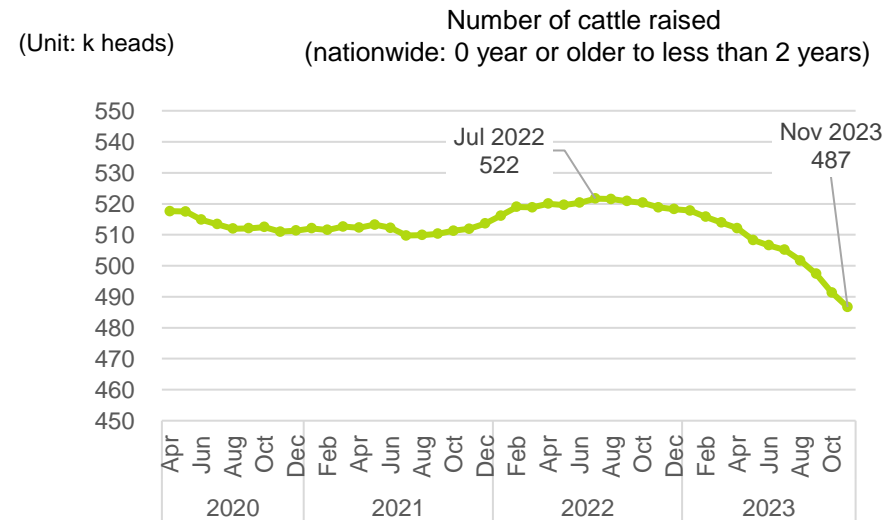
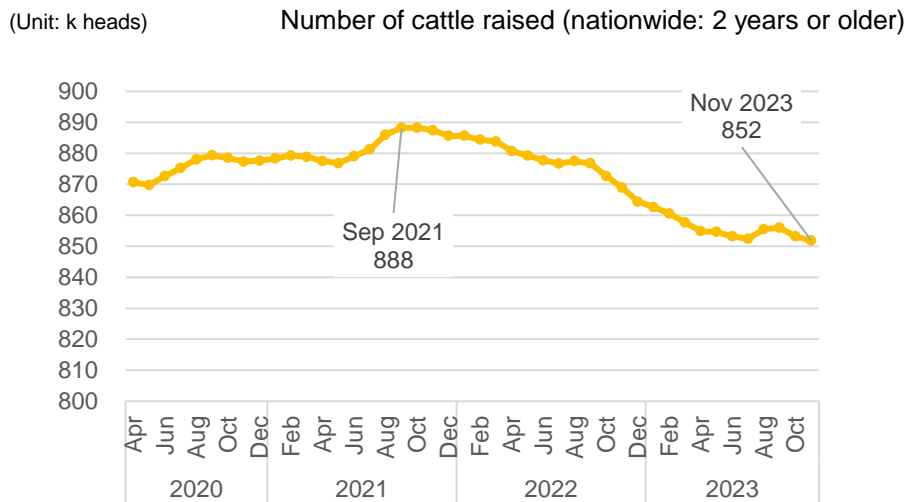
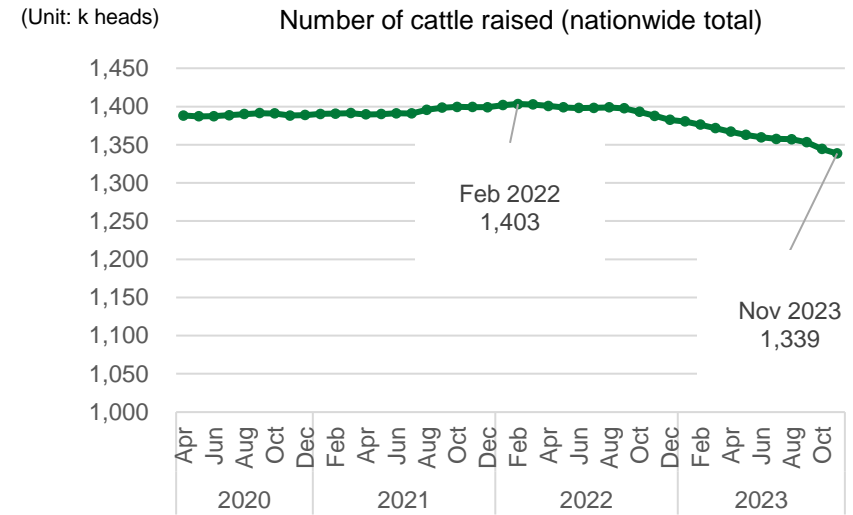
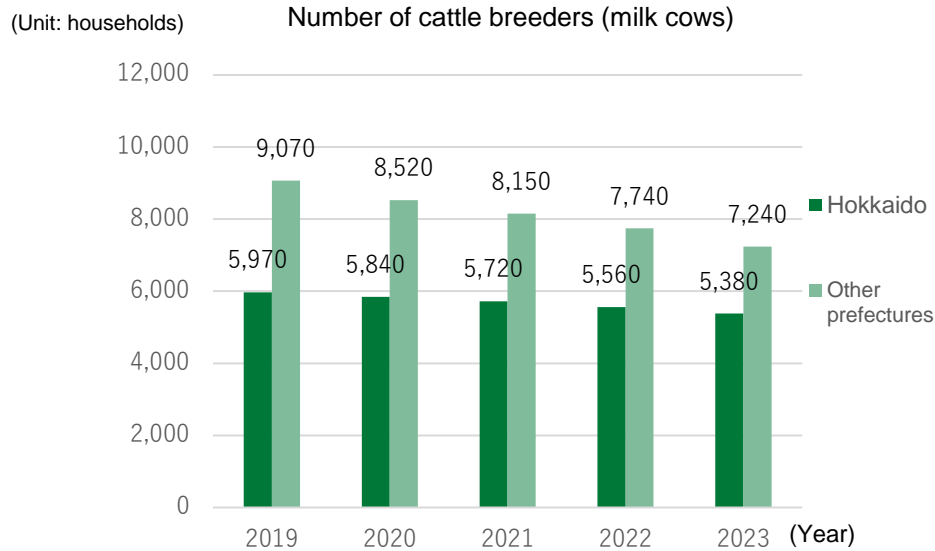
04 Business Environment (Mainly the Dairy Products Sales Business)

- Progress has been made in adjusting the inventory of skim milk powder due to successful countermeasures and a reduction in raw milk production



Source: Based on the Statistical Survey on Milk and Dairy Products (Ministry of Agriculture, Forestry and Fisheries)

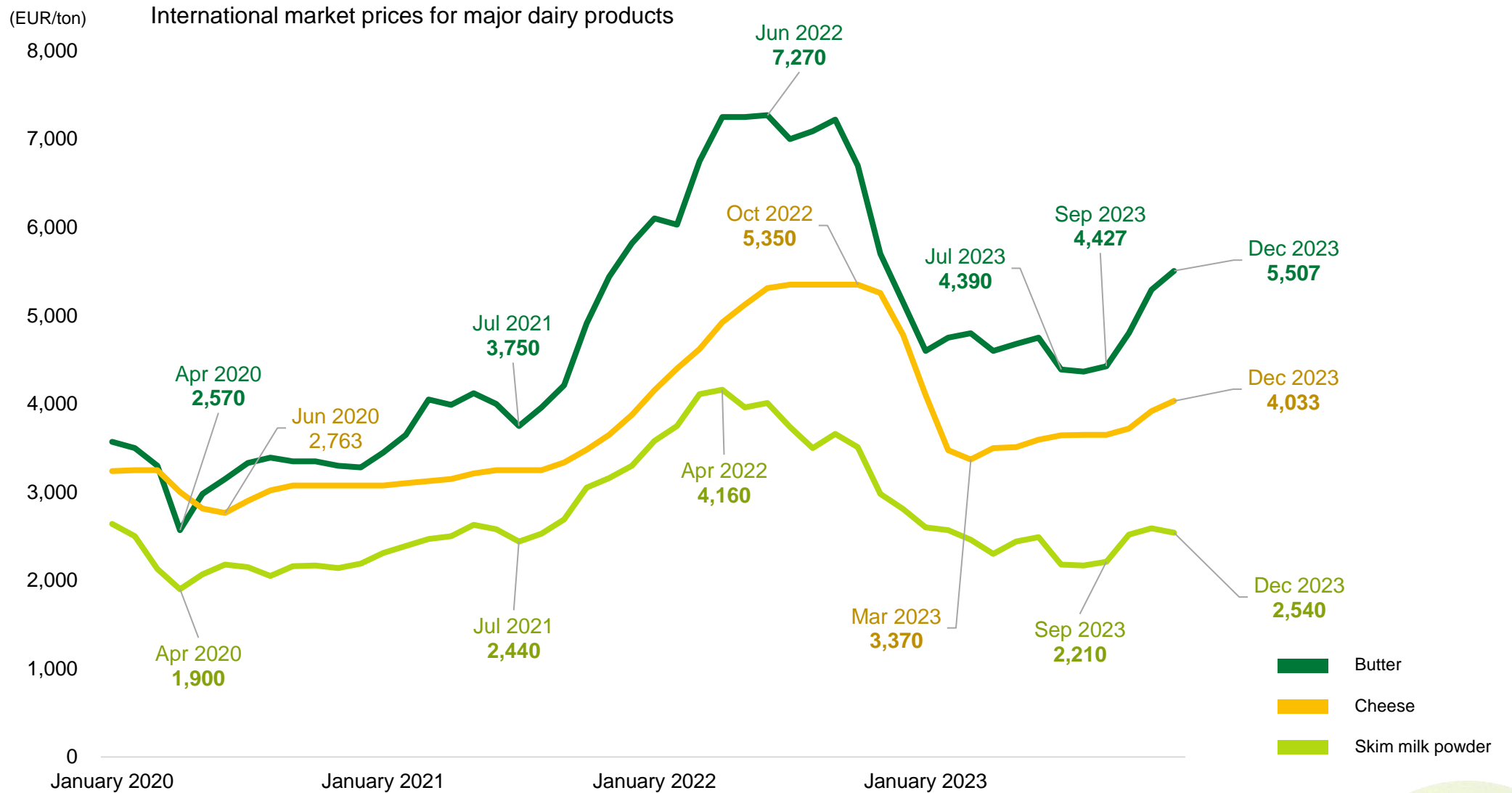
The number of cattle breeders (dairy farming households) and cows are both on a downward trend due to increased production costs in the dairy farming industry



Source: Based on Nendo betsu kenbetsu getsurei betsu nyuyoshu mesu no shiyo tosu (Number of dairy cows [female] by year, prefecture, and month [FY2020-2023])(J-Milk)

International Market Prices for Dairy Products

● International market prices for dairy products have been stable since 2023



Note: Skim milk powder and butter: Dutch official price (pre-factory price)

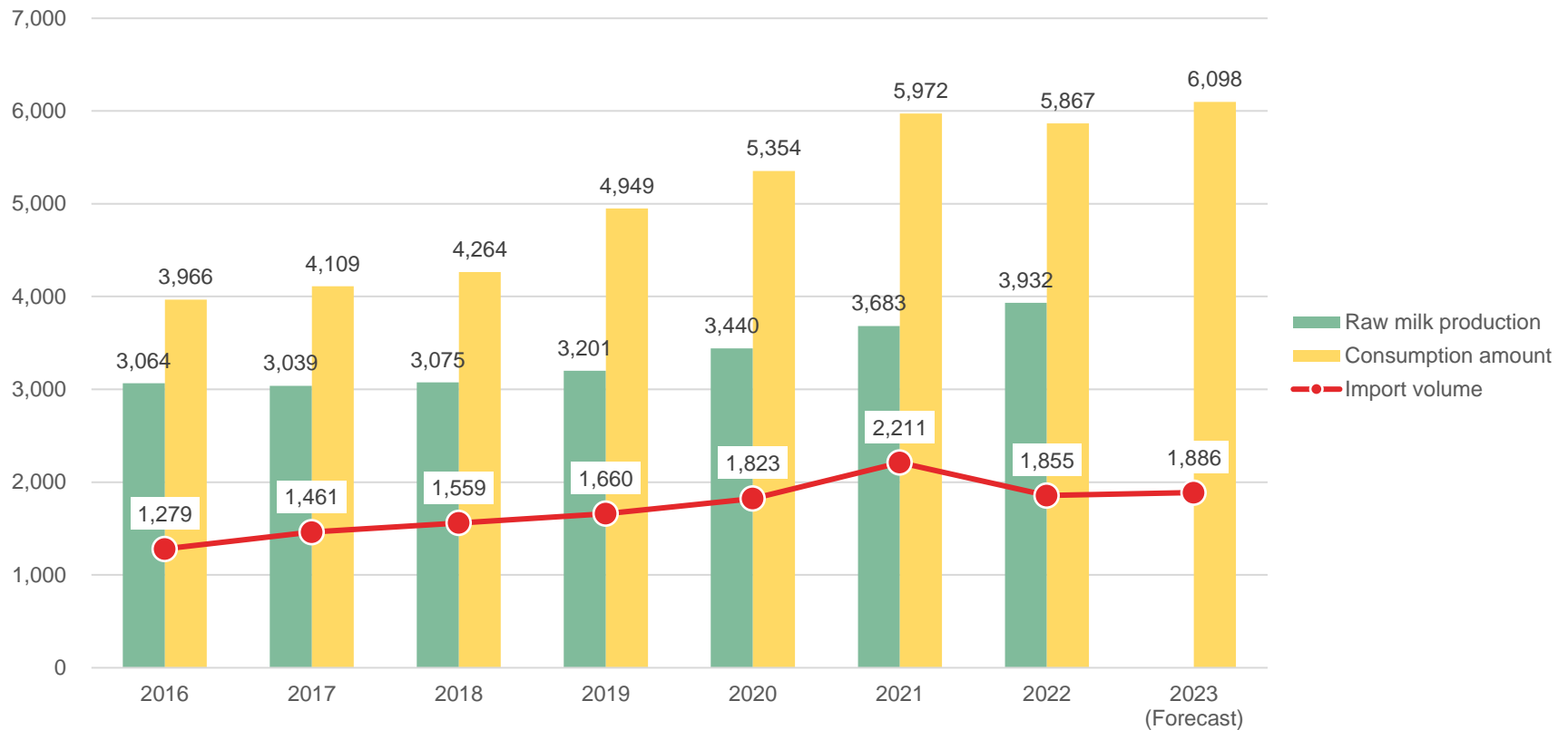
Cheese: German Edam cheese

Supply and Demand Trends for Dairy Products in China

● Trends in China's imports of raw milk, dairy products, etc.

Supply-demand trends and outlook for raw milk and dairy products (China)

(Unit: 10,000 tons)

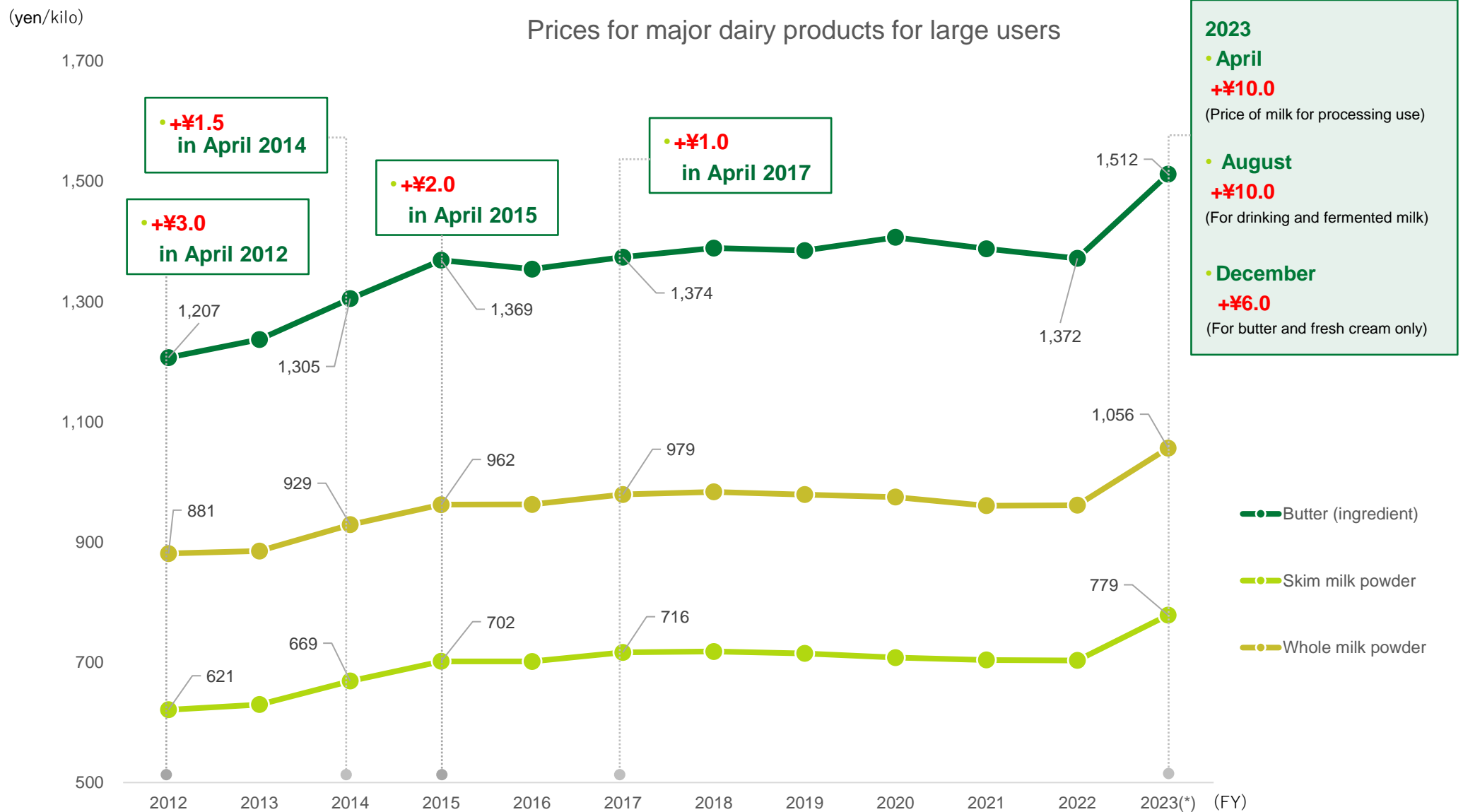


Source: Based on Seinyu nyuseihin to no jukyu doko oyobi mitoshi (Supply and demand trends and outlook for raw milk, dairy products, etc.) (Agriculture & Livestock Industries Corporation [ALIC])

Note: 1. The volume of imports is the amount converted to raw milk
 2. No data available for raw milk production in 2023 (forecast)

Trends in Domestic Dairy Products

● Price increases for major dairy products for large users and for milk for processing



Source: Based on Shuyo nyuseihin no oguchi juyosha muke kakaku no doko (Trends in prices for major dairy products for large users) (Ministry of Agriculture, Forestry and Fisheries) and Yoto betsu genryo nyu kakaku to ni tsuite (Raw milk prices by use, etc.) (Hokuren)

* For FY2023, the figure is the average for the April-December period

05 Initiatives for Each Division for FY11/2024

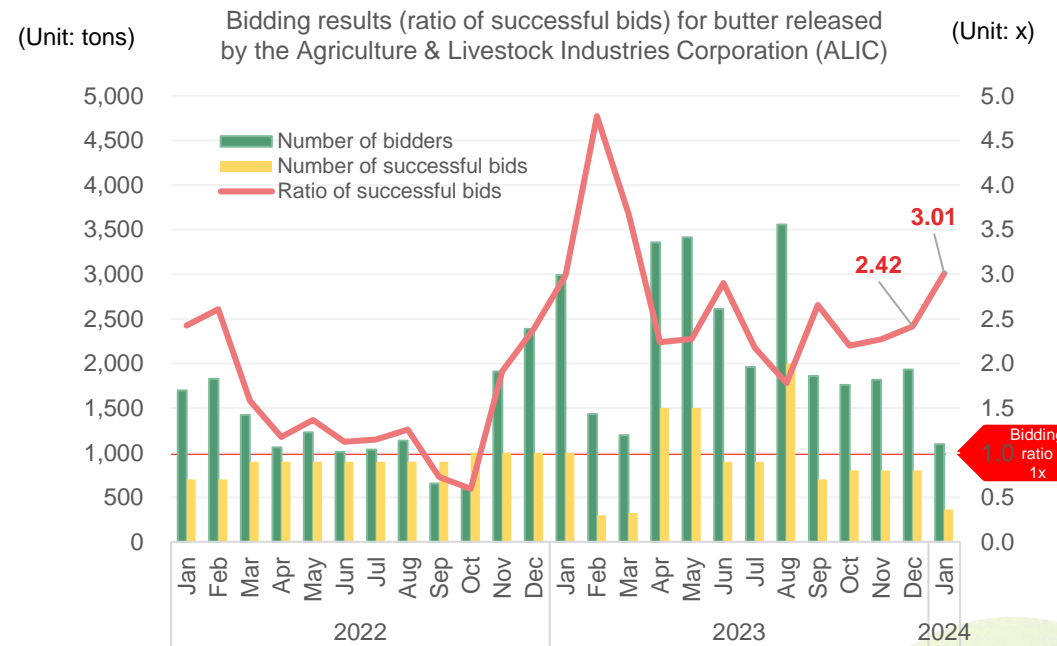
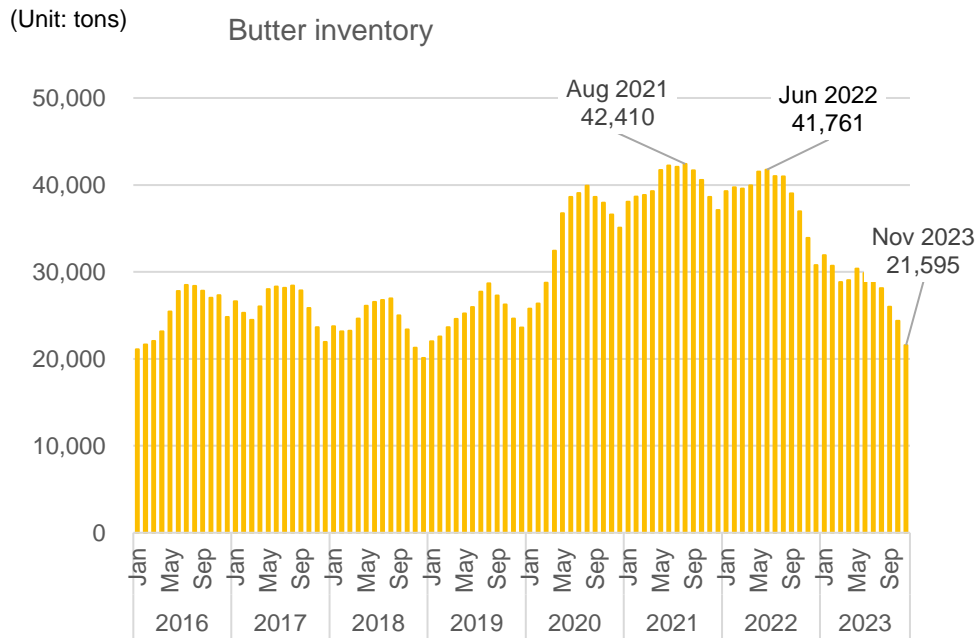
Dairy Ingredients and Cheese Business Div.

Assumptions for the business environment, etc.

- Recovery in demand to accelerate for both dairy ingredients and cheese in 2H and beyond
- Overseas suppliers to take a second look at Japan as a potential growth market with low geopolitical risk

Initiatives for this period

- Steadfast response to a recovery in demand for imported ingredients
- Strengthen sales efforts in Japan to win new customers
- More active efforts to introduce imported ingredients to users of domestic ingredients (in particular, we will strengthen sales of imported butter, among other items)



Source: Based on the Statistical Survey on Milk and Dairy Products (Ministry of Agriculture, Forestry and Fisheries)

Source: Based on data released by the Agriculture & Livestock Industries Corporation(ALIC)

Assumptions for the business environment, etc.

- Recovery in U.S. suppliers' production systems
- Increased demand for processed foods



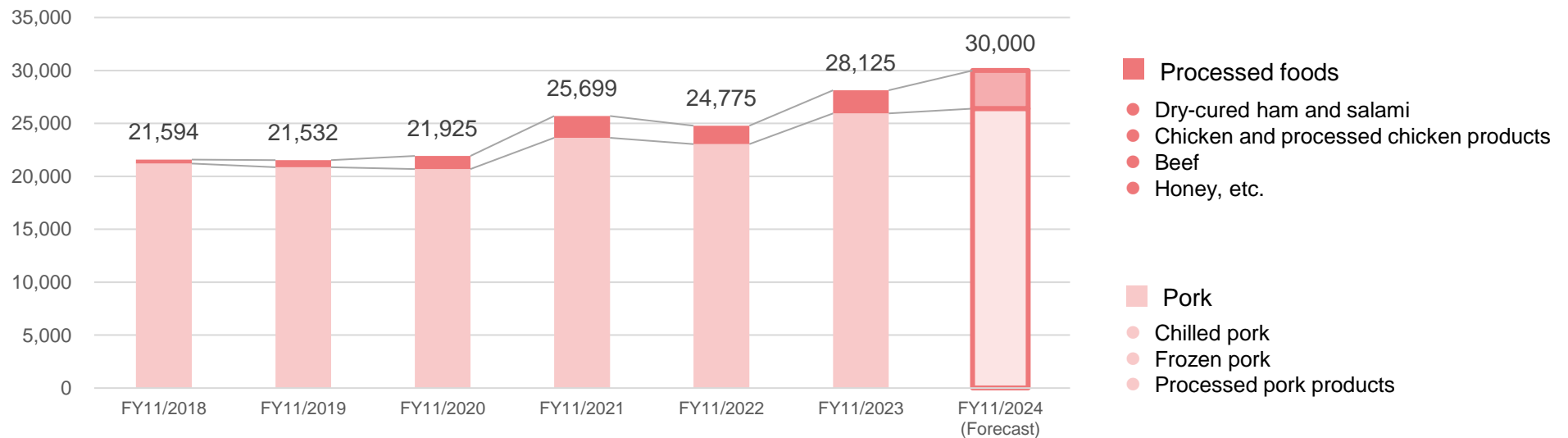
Initiatives for this period

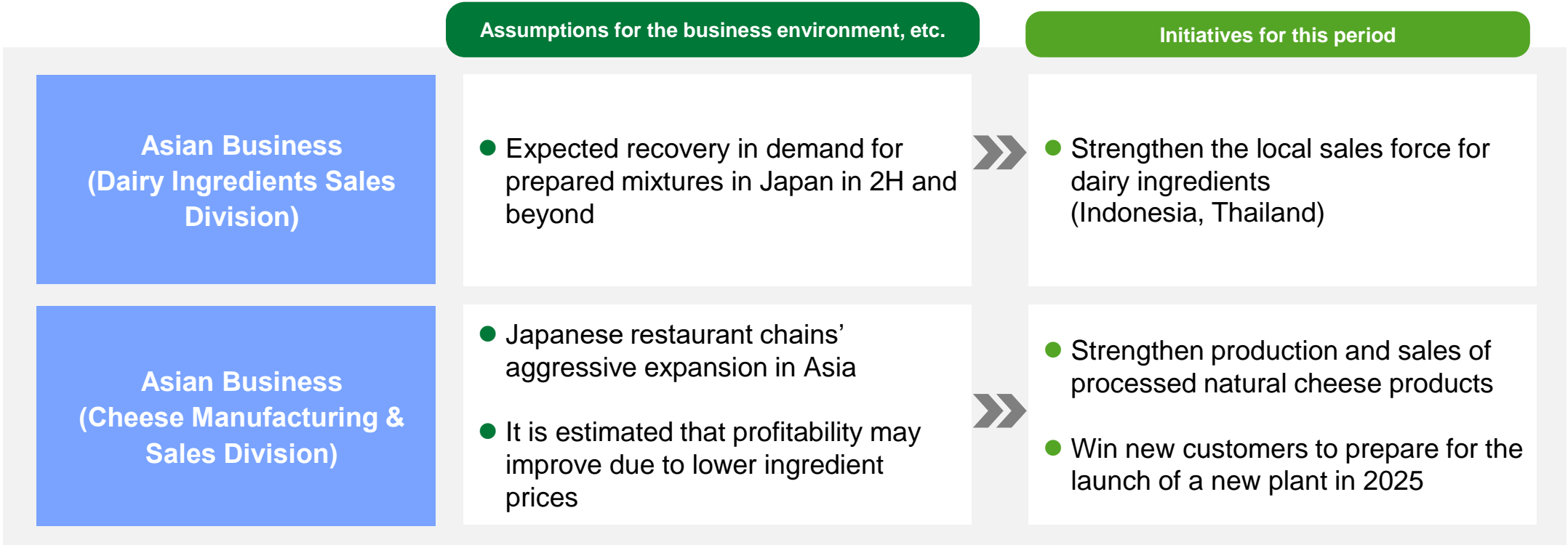
- Aim to recover pork sales profit margin by improving the product mix
- Strengthen sales of processed foods (Win new customers through horizontal product development)

Meat and Ingredients Div.

(Unit: tons)

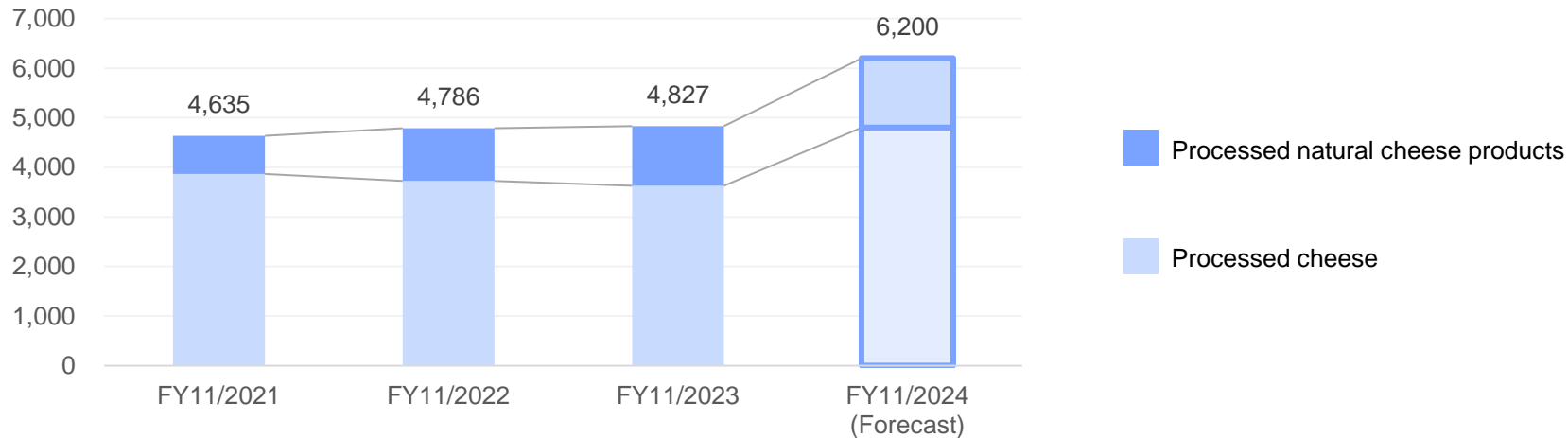
Sales volume of the Meat and Ingredients Division





Sales volume of the Asian Business
(Cheese Manufacturing & Sales Division)

(Unit: tons)



Assumptions for the business environment, etc.

Initiatives for this period

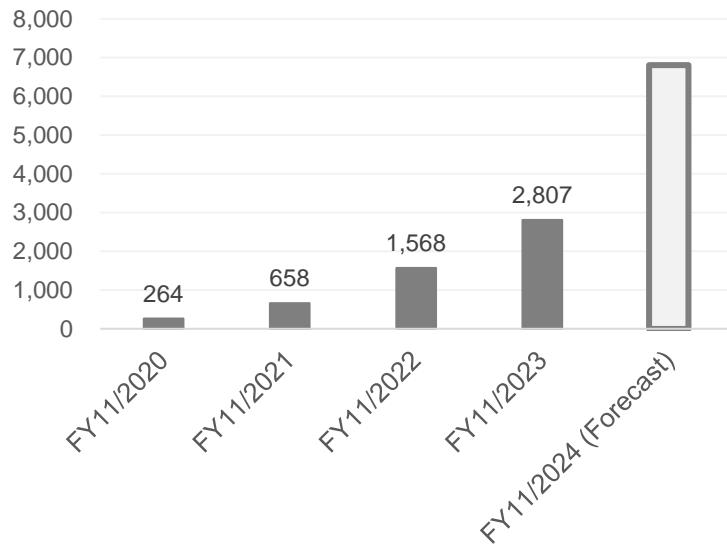
Others
(Sales of
functional food ingredients)

- Increasing need for differentiation of protein products
- Health-food boom spreading in Asia



- Actively propose new protein products using distinctive ingredients
- Make proposals combining multiple functional ingredients
- Expand into the Asian market
- Expand new non-protein categories

(Unit: tons) Sales volume of the functional food ingredients sales business



Examples of proposals for distinctive protein products



We are developing the market by proposing protein products, including ingredients, with special features. These include products that can easily be dissolved in liquids with high temperatures and products that are unlikely to form lumps even in acidic liquids.

06 Progress of the Corporate Business Plan “NEXT-LJ 2025”

- Focus on strengthening the foundation for growth during the three-year period from FY11/2023 to FY11/2025 as the first step toward achieving the long-term vision

	Base Existing business “evolution”	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 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 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		

Progress of Business Growth Measures

- Implement each measure in accordance with our basic policies

	Base Existing business "evolution"	Growth Expansion of the Asian Business	Challenge Build next-generation businesses
Progress	<p>Best matching</p> <ul style="list-style-type: none"> ● Increased market share for several products amid declining imports of dairy ingredients and cheese 	<p>Expansion of the Cheese Manufacturing & Sales Business</p> <ul style="list-style-type: none"> ● Progress in preparations for the construction of a new plant in Singapore (Construction will begin in 1H FY11/2024) <p>Strengthening of the local sales force</p> <ul style="list-style-type: none"> ● Strengthening the local sales force (Reassignment of Japanese staff) 	<p>New products</p> <ul style="list-style-type: none"> ● Expansion of the functional food ingredients sales business (Business efficiency is improving due to an increase in the number of customers. We are developing a new business style not limited to ingredients.)
Ongoing challenges	<ul style="list-style-type: none"> ● Improvement of profit margins for the domestic business <p>Export Japanese food products</p> <ul style="list-style-type: none"> ● Exports of domestically produced skim milk powder declined. We are considering exports of other Japanese foods, including health foods. <p>Diversification of supply sources</p> <ul style="list-style-type: none"> ● Diversification of supply sources for both dairy ingredients and meat is an ongoing issue. 	<p>Expansion of the Cheese Manufacturing & Sales Business</p> <ul style="list-style-type: none"> ● Expansion of sales to local Asian companies continues to be an issue for both dairy ingredients sales and cheese manufacturing and sales. ● Improvement of the efficiency of the manufacturing system for processed cheese and processed natural cheese products until the launch of the new plant (cooperation between Singapore and Thai factories) 	<p>New products</p> <ul style="list-style-type: none"> ● Expansion of the handling of non-protein ingredients (Plant-derived ingredients, gelatin, collagen, etc.)

Progress in Business Performance

- It is estimated that the forecast for FY11/2024, the second year of the Corporate Business Plan, may miss the initial target, but the forecast for the final year has been left unchanged

	FY11/2023 (Results)	FY11/2024 (Forecast)	Corporate Business Plan "NEXT-LJ 2025"		
			FY11/2023 (Target)	FY11/2024 (Target)	FY11/2025 (Target)
Consolidated net sales	¥158.3bn	¥160bn	¥160bn	¥180bn	¥200bn
Consolidated ordinary profit	¥2.85bn	¥3.4bn	¥3.2bn	¥3.6bn	¥4.0bn
Net income attributable to owners of parent	¥2.05bn	¥2.4bn	¥2.3bn	¥2.6bn	¥2.9bn

- The recovery in the business environment may be delayed by six months to a year from the projection made at the time of the release of the Corporate Business Plan.
- The business environment may recover in 2H FY11/2024 and beyond for the following reasons.
 - Continuing downward trend in raw milk production (Japan) ⇒ Increased demand for imported ingredients and elimination of excess skim milk powder inventory in Japan
 - Increased demand for functional food ingredients (such as the expansion of the protein market)

Division	Forecast assumptions
Dairy Ingredients and Cheese Business Div.	It is estimated that imported ingredients (especially powdered milk mixtures) may fully recover in 2H or thereafter. Cheese is expected to recover for commercial use. It is estimated that unit sales prices may decline as international market prices settle down.
Meat and Ingredients Div.	The procurement environment may improve for pork products, while sales may increase for processed foods.
Asian Business (Dairy Ingredients Sales Division)	It is estimated that the recovery in demand for powdered milk mixtures in Japan may lead to a recovery in sales of related ingredients in 2H.
Asian Business (Cheese Manufacturing & Sales Division)	It is estimated that, despite the lingering impact of the Chinese economy, demand may recover for processed cheese and sales volume may increase for processed natural cheese products.
Others (mainly sales of functional food ingredients)	Protein-related sales may continue to grow. We also aim to expand sales of functional food ingredients other than whey protein.

Financial Targets

- The dividend payout ratio and the equity ratio are on track to meet the final-year target of the Corporate Business Plan
- We will maintain our efforts to improve profitability so that ROE will recover to the 10% level

	FY11/2022 (results)	FY11/2023 (results)	FY11/2025 (target)
ROE	10.9%	8.7%	10% or more
Payout ratio	17.3%	23.2%	20-25%
Consolidated equity ratio	30.5%	34.2%	30-35%

Use of funds for the medium term

Investment in plants and equipment

- Investment related to the relocation to a new factory in Singapore
- Investment related to the maintenance and renewal of existing plants and equipment

Shareholder returns

- Increase in the dividend payout ratio
- Flexible shareholder returns

Business-related investments

- Strengthening the sales force in Asia (e.g., base expansion)
- Investment for new business expansion (product development, business alliances, M&A, etc.)
- Investment to improve business efficiency (e.g., renewal of core systems)

Maintenance of financial soundness

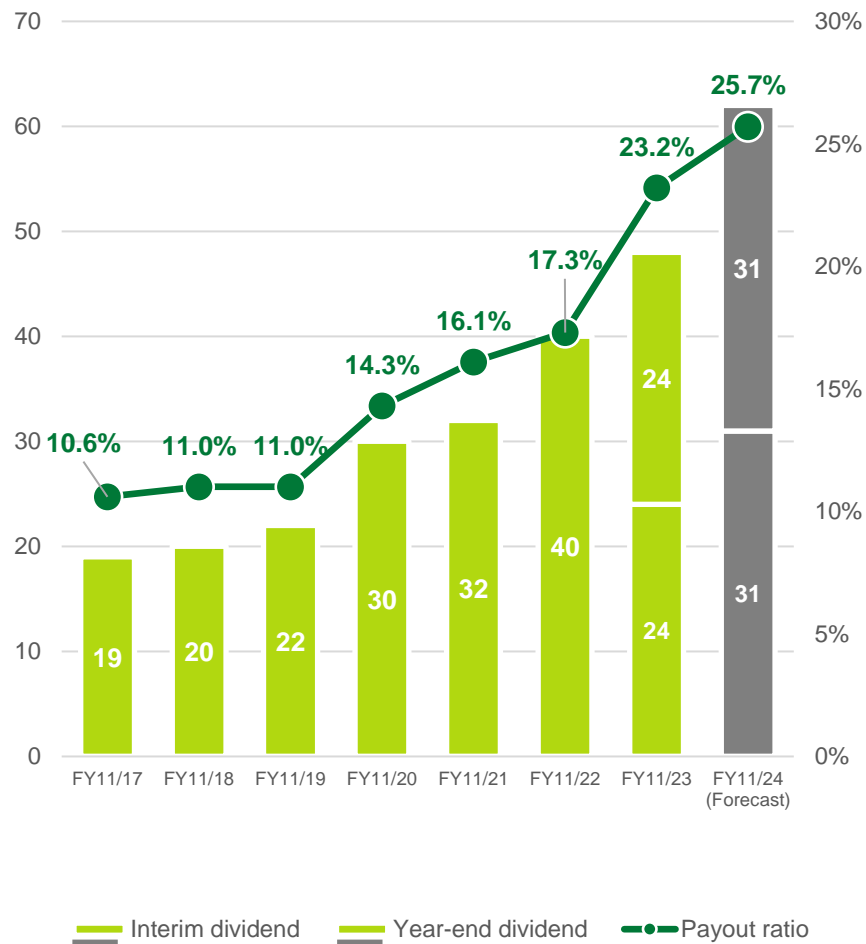
- Maintain a consolidated equity ratio of more than 30%

Dividend Policy

- The basic policy on shareholder returns is to increase dividends as we continue to improve the dividend payout ratio.

Changes in dividends and the dividend payout ratio

(Unit: yen)



Policy on shareholder returns

- Our basic policy for rewarding shareholders is to increase our dividend payout ratio while securing the necessary investment funds and internal reserve for future growth.
- Since our financial base has also been strengthened to some degree thanks to our business growth to date, we plan to increase the dividend for FY11/2024 to 62.00 yen per share (including an interim dividend of 31.00 yen per share) as we pursue our efforts to increase our dividend payout ratio.

Note: The dividend amount reflects the stock split (two-for-one common stock split) that took effect on May 1, 2019

07 (Reference) Dialogue with Shareholders and Investors

● Currently, regular dialogue is held mainly with domestic investors

Main events

* FY11/2023 results

Activities	Event details		Representative
For institutional investors	Financial results briefing (full year and 2nd quarter)	Twice	President, Director in charge of IR
	Individual meetings (mainly with domestic institutional investors)	1H: 32 times 2H: 30 times <small>* Total number of meetings</small>	Director in charge of IR, Manager of Investor Relations & Public Relations Department
	Small meetings (brokerage firms)	Twice	Director in charge of IR, Manager of Investor Relations & Public Relations Department
	SR meetings (mainly with domestic institutional investors)	10 times	Director in charge of IR, Manager of Investor Relations & Public Relations Department
For individual investors	Briefings for individual investors	Once	President

Main themes of dialogue

1. Recent business performance and the business environment

- Business performance progress (Progress toward the full-year forecast)
- Domestic business environment (mainly the status of skim milk powder inventory and future outlook)
- Business environment and business development in Asia

2. Medium-term growth strategy

- Initiatives for growth of the main businesses and focused businesses such as the Asian Business (Cheese Manufacturing & Sales Division) and sales of functional food ingredients
- Investment plan (status of the new Singapore plant and approach to other investment initiatives)
- Approach to financial strategy (status of operating cash flow)
- Shareholder Returns Policy

3. Disclosure of sustainability initiatives and related information

- Response to the TCFD recommendations

● Details of dialogue with shareholders, investors, etc. (Examples of key dialogue)

Questions and comments from shareholders and investors	Summary of our responses
<p>Please improve the dividend payout ratio (a request regarding the shareholder return policy).</p>	<p>We will increase the dividend payout ratio while balancing growth and returns to meet the expectations placed on us as a company listed on the Prime Market.</p>
<p>Tell us about your efforts to expand the disclosure of climate change-related information (plans for disclosure in accordance with the TCFD recommendations, and the governance structure for greenhouse gas reductions).</p>	<p>As a trading company handling dairy products, we are aware that we are expected to make efforts to reduce greenhouse gas emissions. We have established a taskforce to collect and organize data to understand the current situation as we begin with the disclosure of our actual greenhouse gas emissions. We plan to disclose the information on our website.</p>
<p>Please disclose the directors' skills (disclosure of skills matrix and skill items needed for the company).</p>	<p>Knowledge and experience of the manufacturing industry, especially that related to the production floor, are desirable as we expand the Asian Business (Cheese Manufacturing & Sales Division). We plan to disclose a skills matrix in the notice of the next General Meeting of Shareholders.</p>
<p>Tell us about the relocation of the Cheese Manufacturing & Sales Business in Singapore to a new plant.</p>	<p>The expansion of the Cheese Manufacturing & Sales Business in Asia is one of the priority measures in the Group's growth strategy. The new plant is scheduled to begin operation in 2025.</p>
<p>You should pay more attention to asset and capital efficiency.</p>	<p>In the past, we focused on the income statement (especially sales expansion). However, in recent years, we have begun to pay closer attention to the balance sheet. In order to incorporate the return on capital into management, we are also considering the introduction of ROIC for each division as a management indicator.</p>

Dialogue with Shareholders and Investors

- We have expanded information disclosure in response to the feedback received during our dialogue with shareholders and investors. We also improved our disclosure format and information dissemination tools.
- We plan to expand English-language disclosure and release sustainability-related KPIs in the future.

	Questions and comments from shareholders and investors	Our responses
Disclosure of management strategies	The rolling format of the Corporate Business Plan makes it difficult for outsiders to examine progress.	We have changed the format to a fixed three-year plan starting with the Corporate Business Plan “NEXT-LJ 2025”. We now release performance targets for each year (January 2023).
Sustainability-related issues	You should make more aggressive efforts to expand disclosure of climate change-related information.	We began disclosing information in accordance with the TCFD recommendations on our website (February 2023).
Governance-related issues	Please disclose the directors’ skills matrix.	This information was included in the Notice of Convocation of the General Meeting of Shareholders (February 2023). It was also included in the Integrated Report (November 2023).
Financial strategy	You should consider the balance sheet and capital efficiency in managing your business.	We introduced ROIC as a management indicator for each division (from FY11/2024).
Others	Issuance of Integrated Report	An Integrated Report in PDF format was published and made available on our website (November 2023).

This report

contains projections of performance and other projections based on information currently available and certain assumptions judged to be reasonable.

Actual performance may differ materially from these projections as a result of projections as a result of changes in the business environment and other risks and uncertainties.

