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FY2023 First Half
Financial Results Briefing
July 2023



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Consolidated Financial Results for FY11/2023 1H and Full-Year FY11/2023 Earnings Forecasts P. 3

Business Environment in 2H and Future Initiatives P. 15

Reference: Corporate Business Plan “NEXT-LJ2025” P. 28



**Consolidated Financial Results for
FY11/2023 1H and Full-Year
FY11/2023 Earnings Forecasts**

FY11/2023 First Half Financial Results



In 1H, sales increased and profits decreased YoY, which was in line with our initial forecasts.

Sales increased as expected due to higher ingredient prices and a weaker yen.

Ordinary income declined, as we had initially forecast. The main reasons were that the Asian Cheese Manufacturing and Sales business recorded both a decrease in the gross margin due to higher raw cheese prices and weak sales to the Chinese market reflecting lower demand in China.

(Million yen)

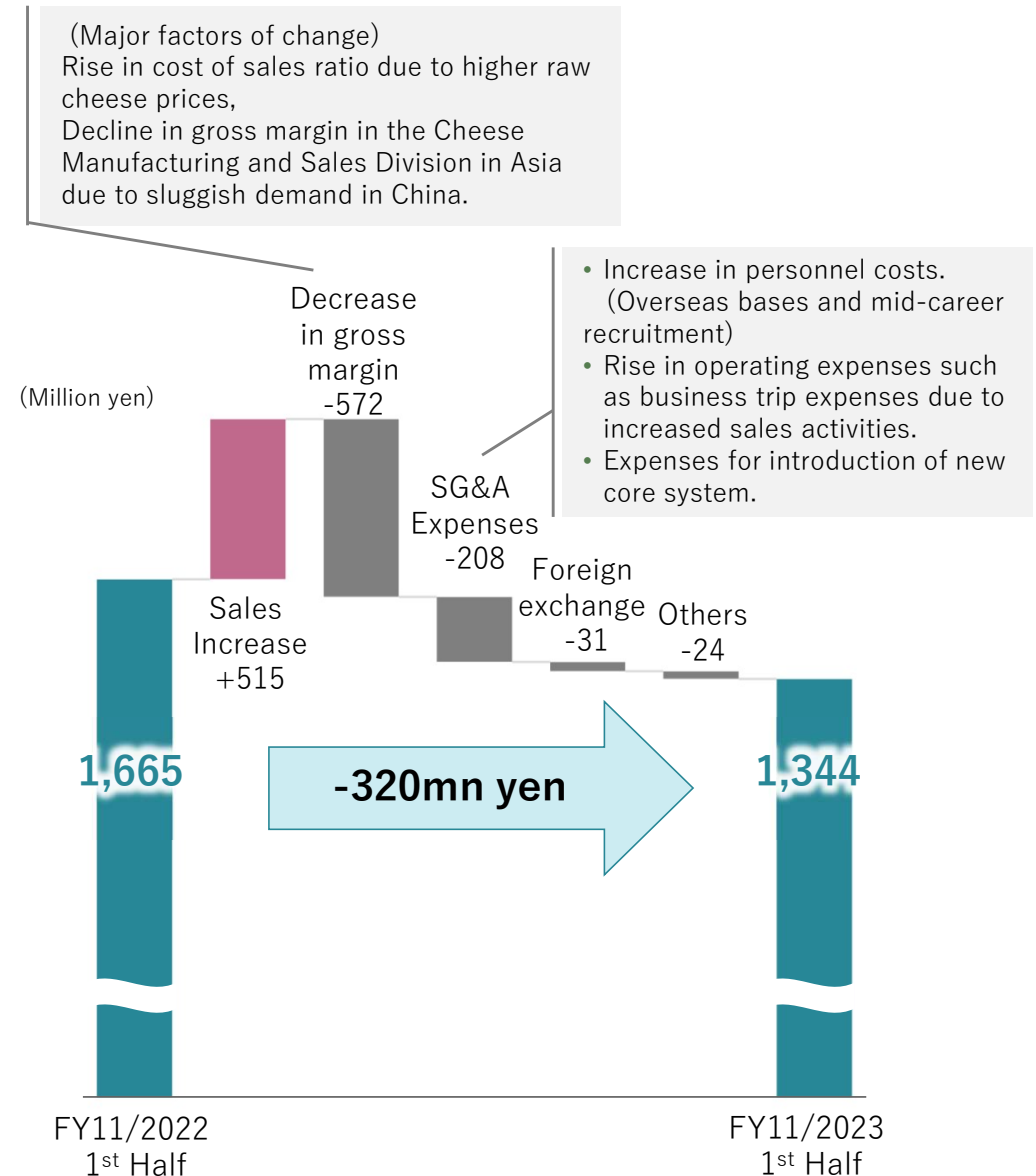
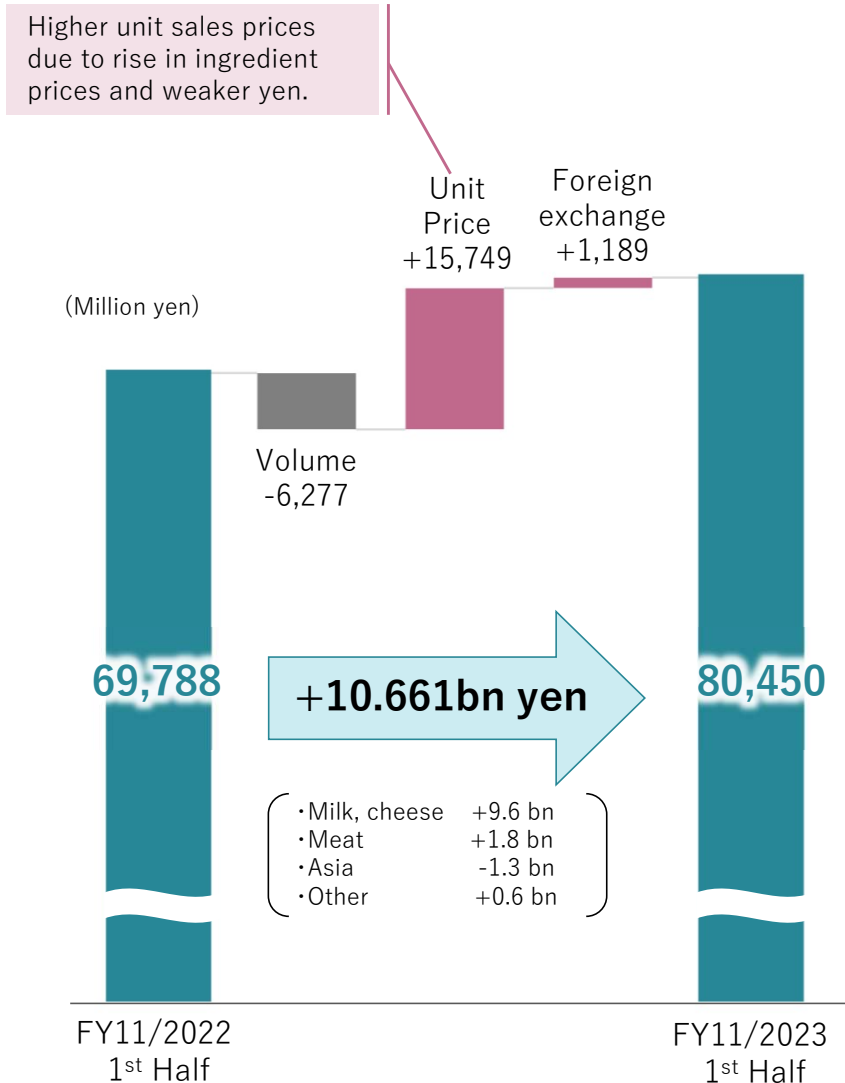
	FY11/ 2021 1 st Half	Initial Forecast	FY11/ 2023 1 st Half		
			Actual	YoY Change	vs. Initial Forecast Change
Net sales	69,788	77,000	80,450	15.3%	104.5%
Ordinary income	1,665	1,540	1,344	-19.2%	87.3%
Ordinary income ratio	2.4%	2.0%	1.7%	—	—
(Foreign exchange impact on ordinary income*)	(-41)	—	(-72)	—	—
(Ordinary income adjusted for foreign exchange impact)	(1,707)	—	(1,417)	(-17.0%)	(92.0%)
Net income attributable to owners of the parent	1,207	1,125	922	-23.6%	82.0%
Net income ratio	1.7%	1.5%	1.1%	—	—
Net income per share (Yen)	122.38	113.64	93.17		
Exchange rate (Yen/USD)	119.55	—	133.82		
Exchange rate (Yen/EUR)	132.11	—	144.09		

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

Net sales

Ordinary Income



※ Breakdown of changes in "Net sales" and "Ordinary income" : Rounding to the nearest whole number.

Consolidated Balance Sheets



(Million yen)

	30-Nov-2022	31-May-2023	Difference
Current assets	70,067	77,369	7,302
Cash and cash equivalents	6,379	8,587	2,207
Trade notes and accounts receivable	21,065	22,141	1,075
Inventories	41,382	45,594	4,211
Others	1,238	1,047	-191
Non-current assets	3,389	3,437	47
Property, plant and equipment	942	902	-39
Intangible assets	39	51	12
Investment and other assets	2,408	2,482	74
Total assets	73,456	80,806	7,350
Accounts payable	17,349	15,636	-1,713
Interest-bearing liabilities	31,262	39,838	8,576
Other	2,364	1,663	-701
Total liabilities	50,975	57,137	6,162
Net assets	22,481	23,669	1,187
Total liabilities and net assets	73,456	80,806	7,350

Major factors of change

Increase in inventories

- Cheese consumption decreased due to a rise in retail prices. Consequently, business partners postponed inventory transactions. (cheese)
- Increase in inventories due to higher customer orders. (meat products)
- Impact of rise in product unit prices and foreign exchange. (weaker yen)

Increase in interest-bearing liabilities

- Increase in short-term loans and commercial paper due to increase in working capital.

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

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

	(Million yen)
	FY11/2023 1st Half
Cash flows from operating activities	-5,839
Cash flows from investing activities	-227
Cash flows from financing activities	8,133
Effect of exchange rate changes on cash and cash equivalents	141
Change in cash and cash equivalents	2,207
Cash and cash equivalents at beginning of period	5,883
Cash and cash equivalents at end of period	8,091

Major factors of change

Decrease in cash flows from operating activities

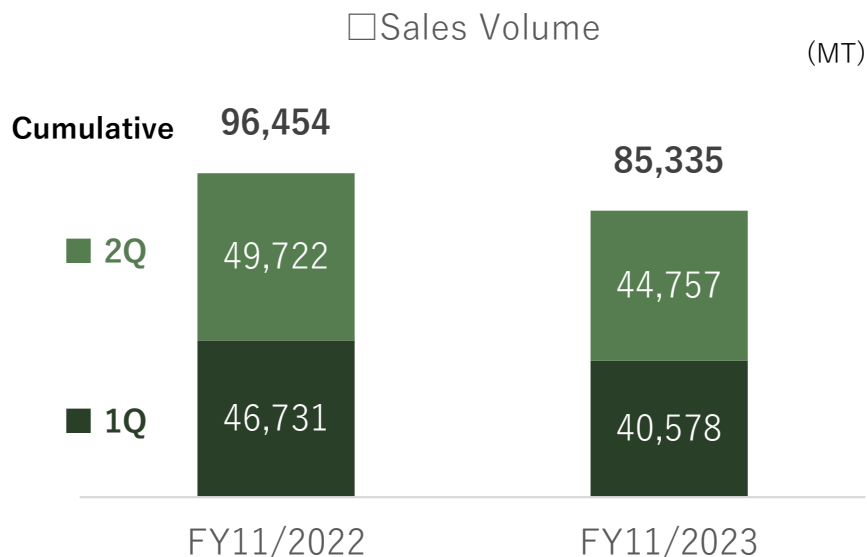
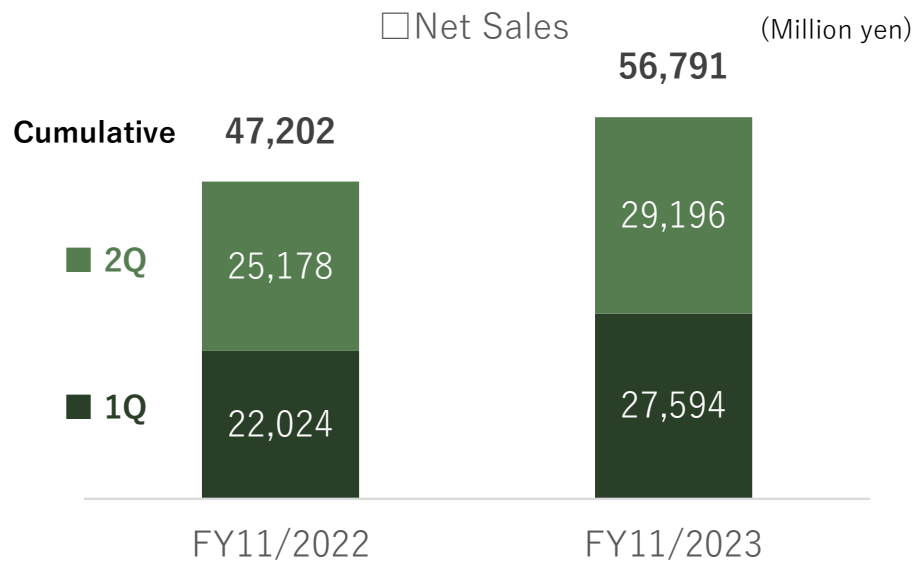
Due to increase in working capital:

- Increase in inventories. (cheese and meat products)
 - Increase in accounts receivable due to higher customer orders. (meat products)
 - Increase in inventories and accounts receivable caused by rise in purchasing and sales unit prices. (higher ingredient prices and weaker yen)
- (companywide)

Increase in cash flows from financing activities

Financial cash flows increased mainly due to short-term loans and issuance of commercial paper to meet increased working capital requirements.

Note: Amounts of less than one million yen have been rounded down and the breakdown shows only major items.



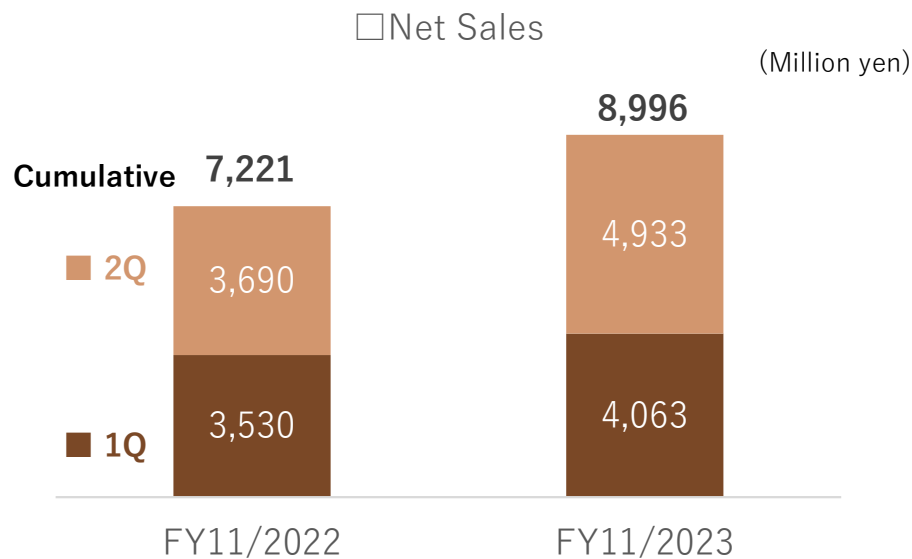
□ Business environment

- | Along with the recovery of the movement of people, including inbound travel, demand for eating out and leisure activities gradually recovered.
- | However, retail demand was in a downtrend due to the impact of price hikes for final products.
- | Excess inventory of domestically produced skim milk powder led to further substitution of ingredients for skim milk powder and powdered milk mixtures with domestically produced products.
- | Decreasing trend in skim milk powder inventories due to countermeasures project, lower raw milk production, etc. Progress toward inventory optimization.

□ Sales trends

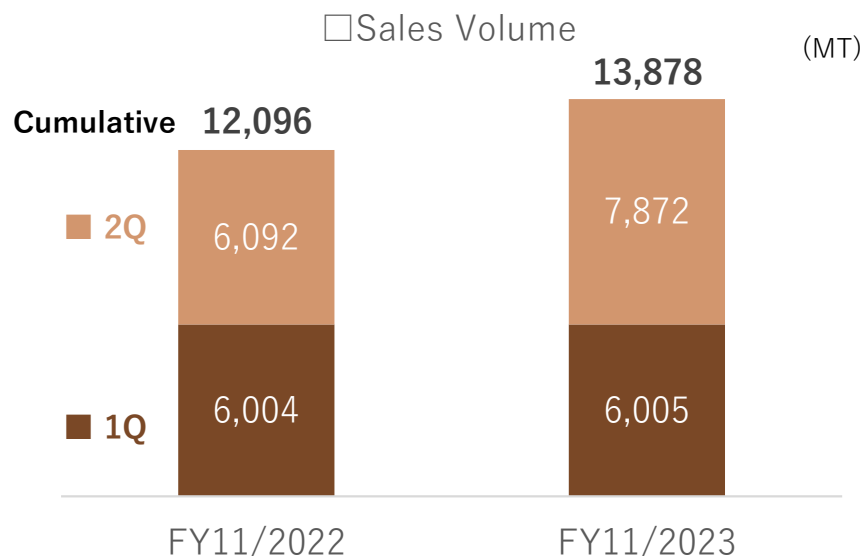
- | Sales of imported skim milk powder and imported powdered milk mixtures decreased due to replacement with domestic ingredients.
- | Sales of lactose and powdered milk mixtures used as ingredients for butter and chocolate were strong.
- | Cheese sales also saw a recovery in demand from restaurants and other commercial users, but sales volume fell, as retail demand declined due to the impact of price hikes.

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



□ Business environment

- Restaurant demand was in a recovery trend. Demand for imported pork was strong, as market prices for domestic pork trended upward.
- Higher production costs and the impact of ASF (African swine fever) caused market prices for European pork to rise, and inquiries for North American pork, which has a price advantage, increased.
- In Japan, demand for chicken increased due to higher prices for beef and other products.

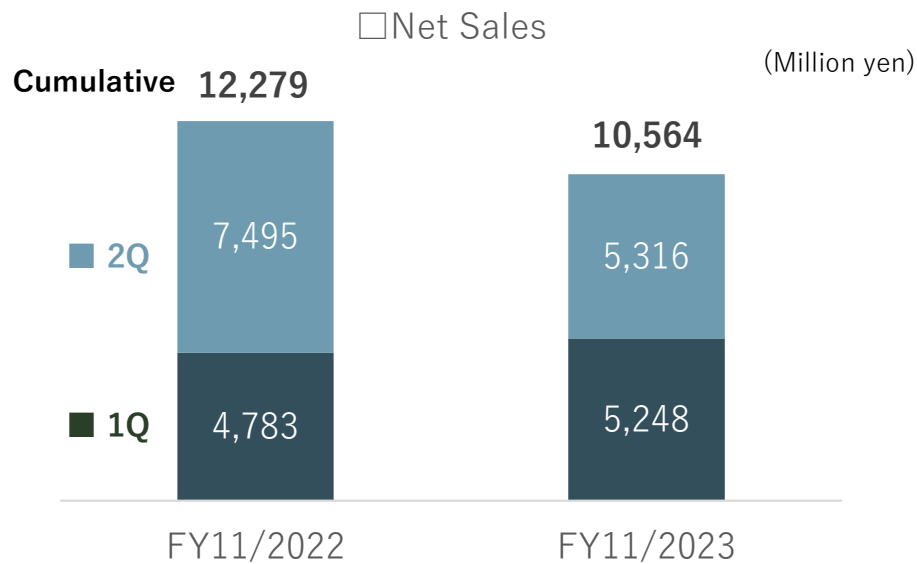


□ Sales trends

- Sales of chilled and frozen pork were strong. Amid rising market prices for European pork, we increased sales of North American pork, which is our strong point in terms of procurement.
- The production system of our major supplier (in the US), which had been affected by a worker shortage since the COVID-19 pandemic, gradually recovered.
- With the aim of diversifying our product lineup, we strengthened sales of chicken and processed foods.

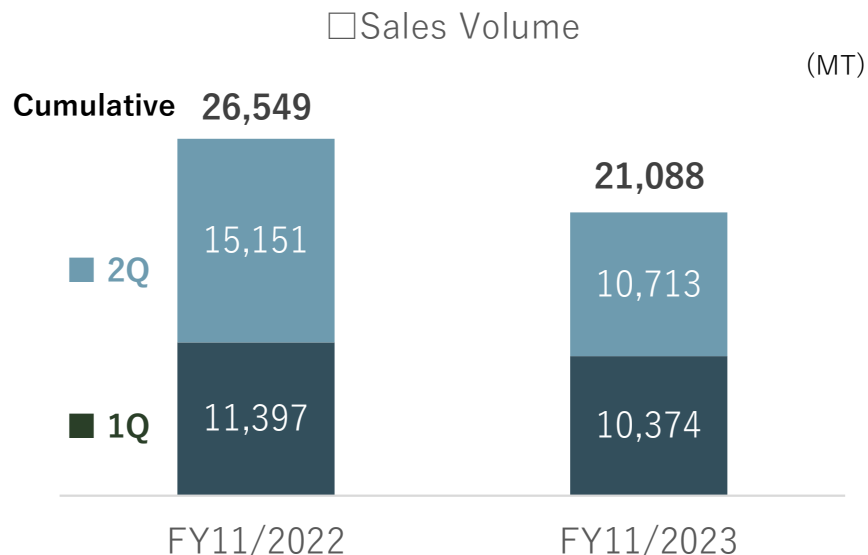
(Note) Figures for both sales and sales volume are rounded down to the nearest whole number.

Overview of Asian Business (Dairy Ingredients Div.) (1st Half)



□ Business environment

- | Local demand for dairy products recovered, especially for commercial use, due to the recovery of the movement of people.
- | Demand for imported products declined in Japan due to the impact of measures to adjust Japanese skim milk powder inventories. Ingredients for imported milk powder preparations were replaced with those for Japanese skim milk powder.

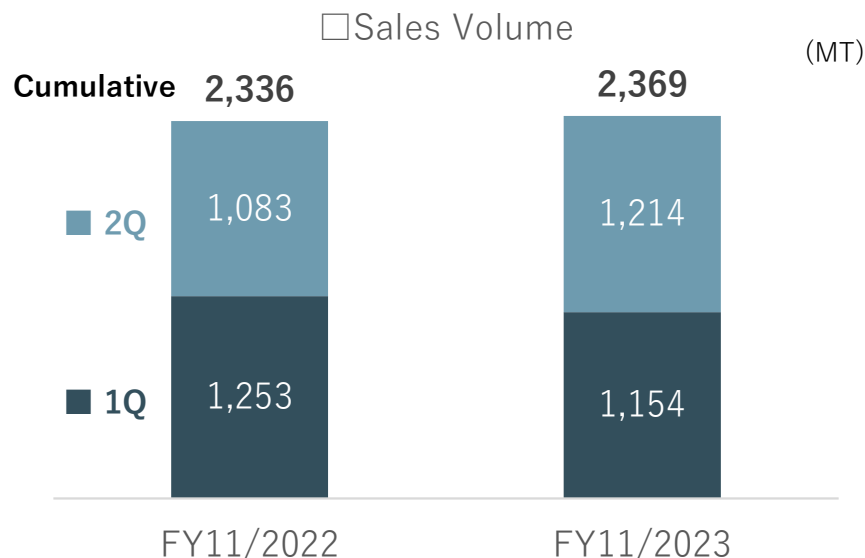
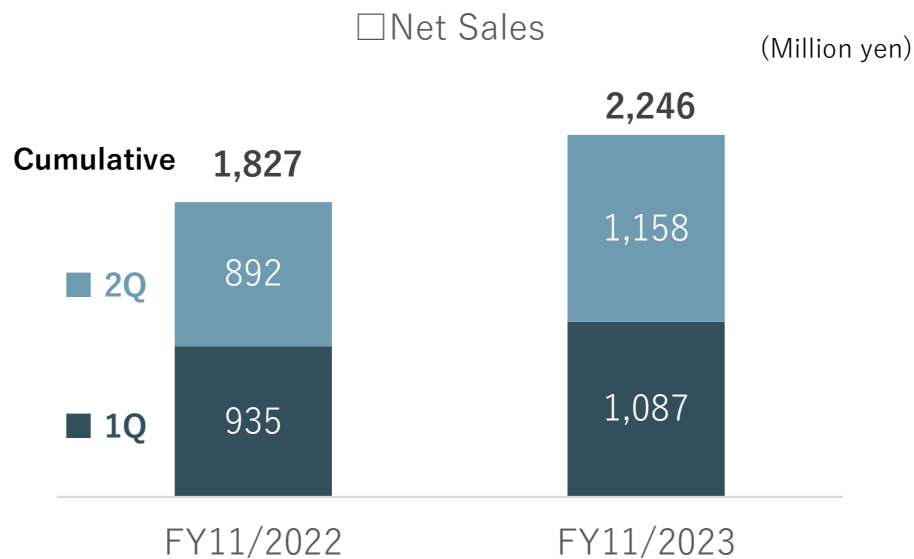


□ Sales trends

- | Sales of Japanese skim milk powder to local food manufacturers and others were favorable. (Sales of export products from Japan were supported by excess inventory adjustment measures.)
- | Sales of ingredients for powdered milk mixtures in Asia decreased due to lower demand for powdered milk mixtures associated with the skim milk powder inventory problem in Japan.

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

Overview of Asian Business (Cheese Div.) (1st Half)



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

□ Business environment

- | Demand from restaurants and bakeries showed underlying strength, especially in Singapore.
- | In China, economic recovery was slow, and demand for food products in general was sluggish. The impact of this extended throughout Asia, and demand from manufacturers that produce food products for the Chinese market declined.

□ Sales trends

- | Sales to manufacturers that produce food products for the Chinese market decreased.
- | In recent years, sales of natural shredded cheese, for which inquiries have increased, have risen steadily mainly to the food service industry.
- | Last year, profit margins on natural cheese fell due to the impact of a steep rise in the price of raw cheese. Since the start of this year, market prices have continued to decline so we expect profit margins to improve gradually in 2H.

In 2H, imports of dairy ingredients are expected to recover as inventories of domestic skim milk powder are optimized.

In the case of Asian cheese manufacturing and sales, profit margins are expected to gradually improve due to a decline in raw cheese prices.

(Million yen)

	FY11/2022 Actual	FY11/2023		
		Forecast	YoY Difference	YoY Change
Net sales	147,423	160,000	+12,576	+8.5%
Ordinary income	3,134	3,200	+65	+2.1%
Ordinary income ratio	2.1%	2.0%	-	-
Net income attributable to owners of the parent	2,286	2,330	+43	+1.9%
Net income ratio	1.6%	1.5%	-	-
<hr/>				
Net income per share (Yen)	231.64	235.03	+3.39	
Dividends per share (Yen)	Interim	0.00	24.00	+24.00
	FY-End	40.00	24.00	-16.00

Net Sales and Sales Volume by Business Division (YoY)



(Million yen)

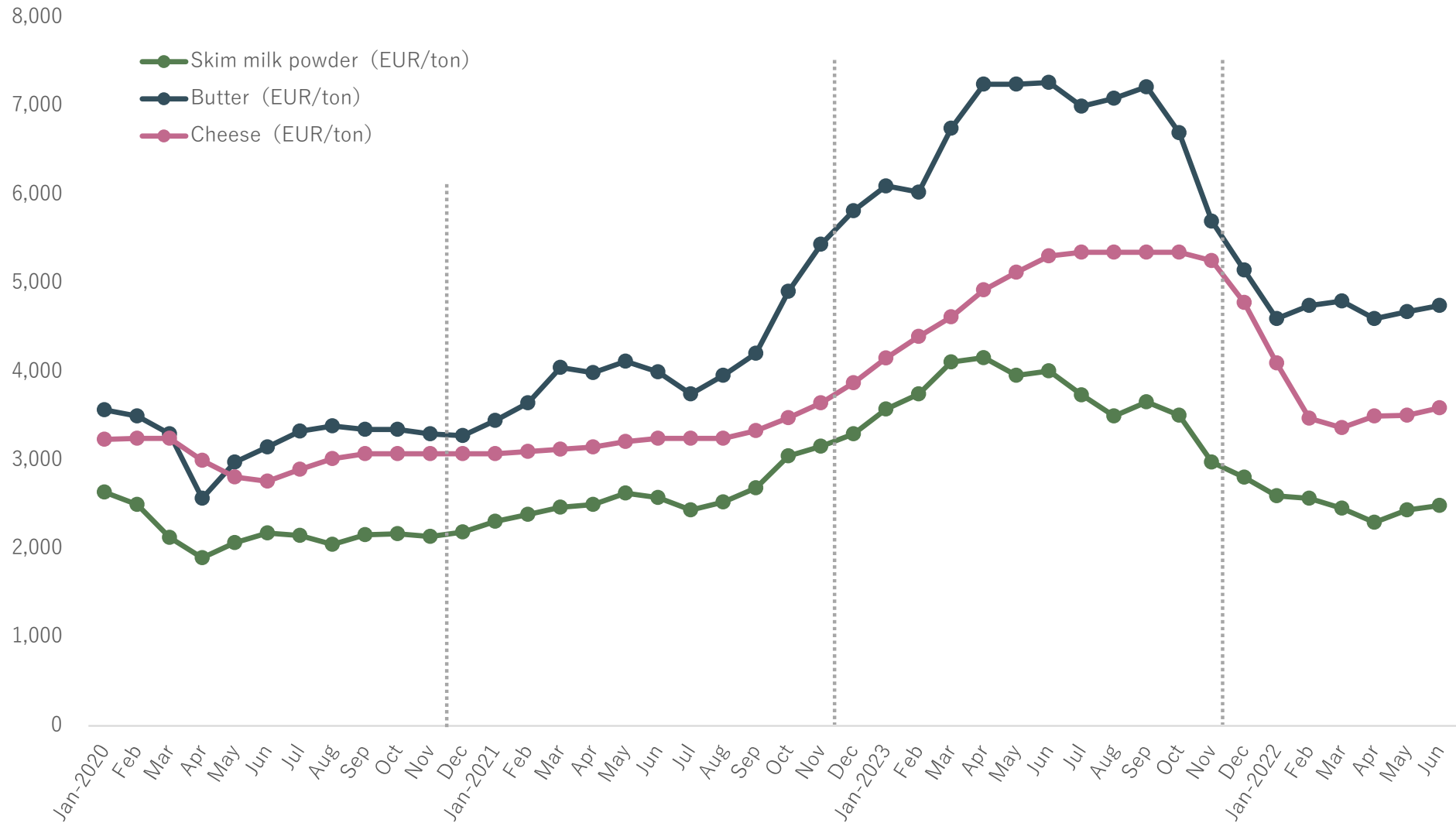
□ Net sales	FY11/2022 2Q Cumulative	FY11/2023 2Q Cumulative	Difference	YoY Change	Full-year Estimates
Dairy Ingredients and Cheese Business	47,202	56,791	9,588	20.3%	106,400
Meat and Ingredients	7,221	8,996	1,775	24.6%	15,200
Asian Business (Dairy Ingredients)	12,279	10,564	-1,714	-14.0%	26,800
Asian Business (Cheese)	1,827	2,246	419	22.9%	4,600
Others	1,257	1,851	593	47.2%	7,000

(MT)

□ Sales Volume	FY11/2022 2Q Cumulative	FY11/2023 2Q Cumulative	Difference	YoY Change	Full-year Estimates
Dairy Ingredients and Cheese Business	96,454	85,335	-11,118	-11.5%	172,000
Meat and Ingredients	12,096	13,878	1,781	14.7%	28,000
Asian Business (Dairy Ingredients)	26,549	21,088	-5,461	-20.6%	56,500
Asian Business (Cheese)	2,336	2,369	32	1.4%	5,900

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

International Prices of Dairy Products



Note: Skim milk powder and butter: Dutch official price (pre-factory price) Cheese: German Edam cheese



Business Environment in 2H and Future Initiatives

Positive

- Domestic skim milk powder inventories should head toward an appropriate level.
- There is likely to be a shortage of domestic butter and cream ingredients and increased demand for imported products.
- Restaurant, leisure, and inbound travel demand should be strong.
- Domestic milk price hikes are likely to boost the price of domestically produced ingredients. In contrast, as market prices for imported ingredients have fallen, they should regain their relative price competitiveness, leading to increased demand.

Negative

- Reduction in domestic sales of domestic products and export business due to decrease in domestic skim milk powder inventories.
- We will closely monitor the impact of lower consumption of dairy products due to dairy product price hikes.

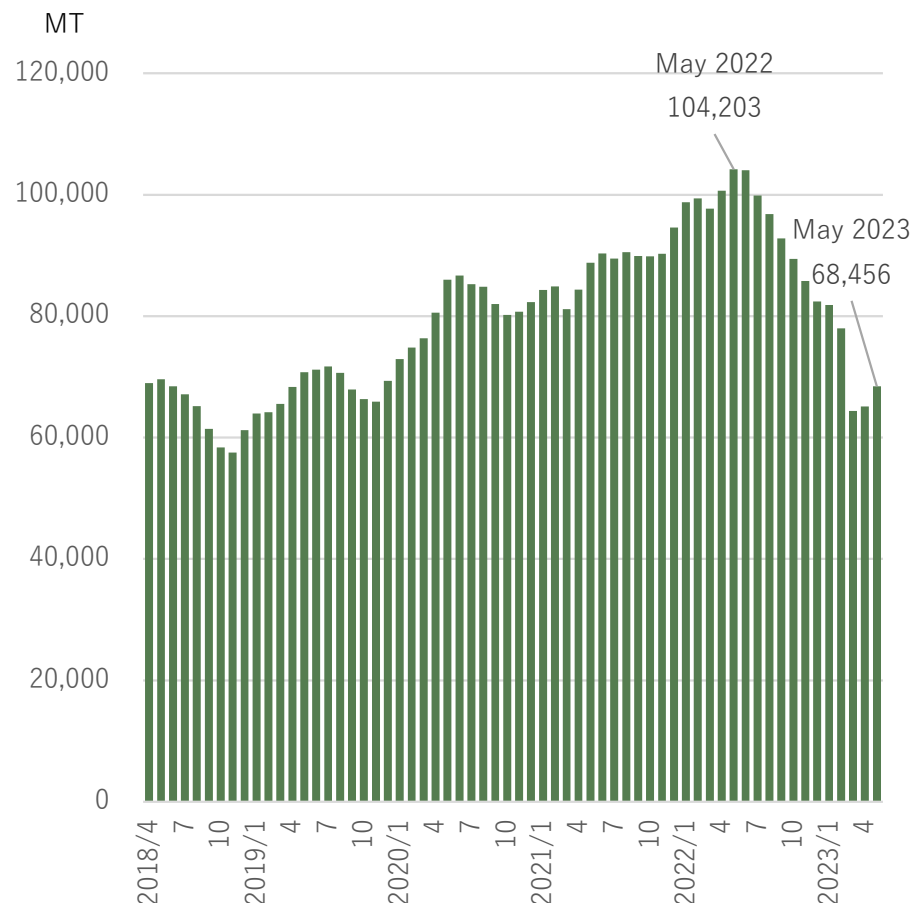
Status of skim milk powder inventories

Against the backdrop of recovering demand and declining raw milk production, skim milk powder inventories are decreasing toward a state of optimization.

Nationwide raw milk production volume (YoY)

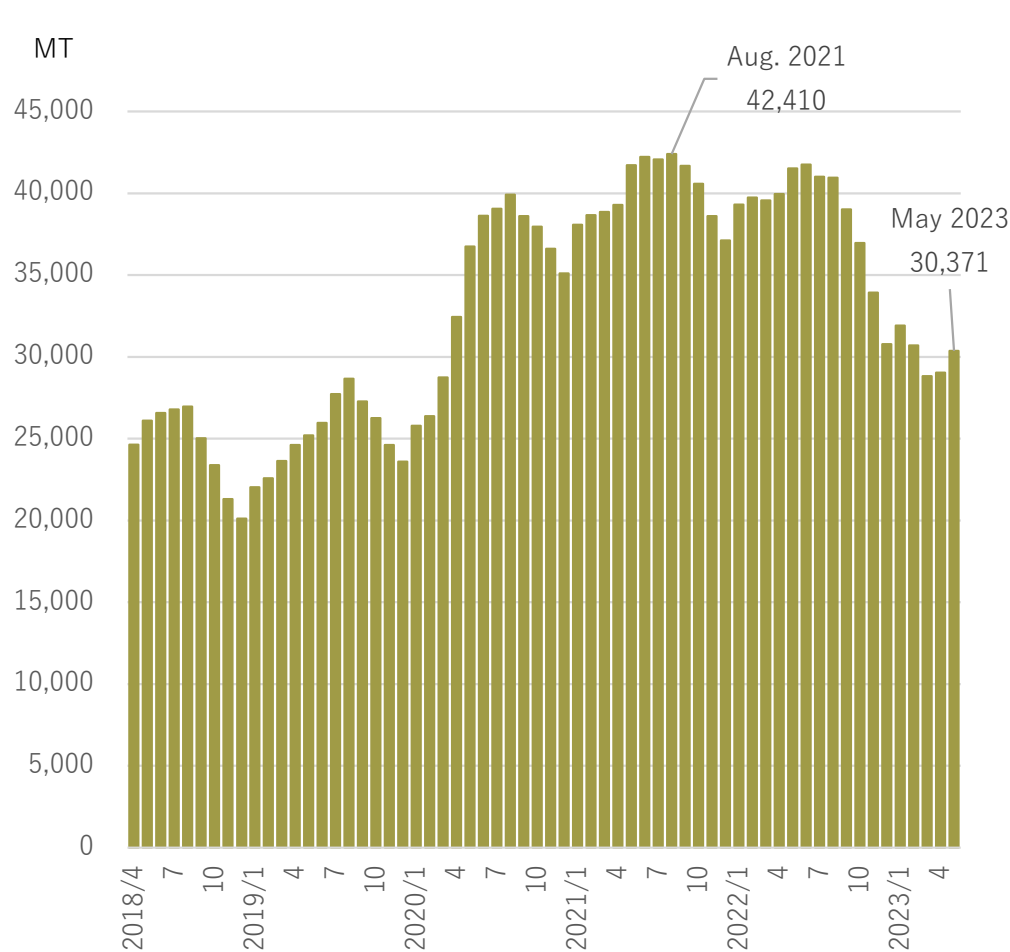


Skim milk powder inventory volume

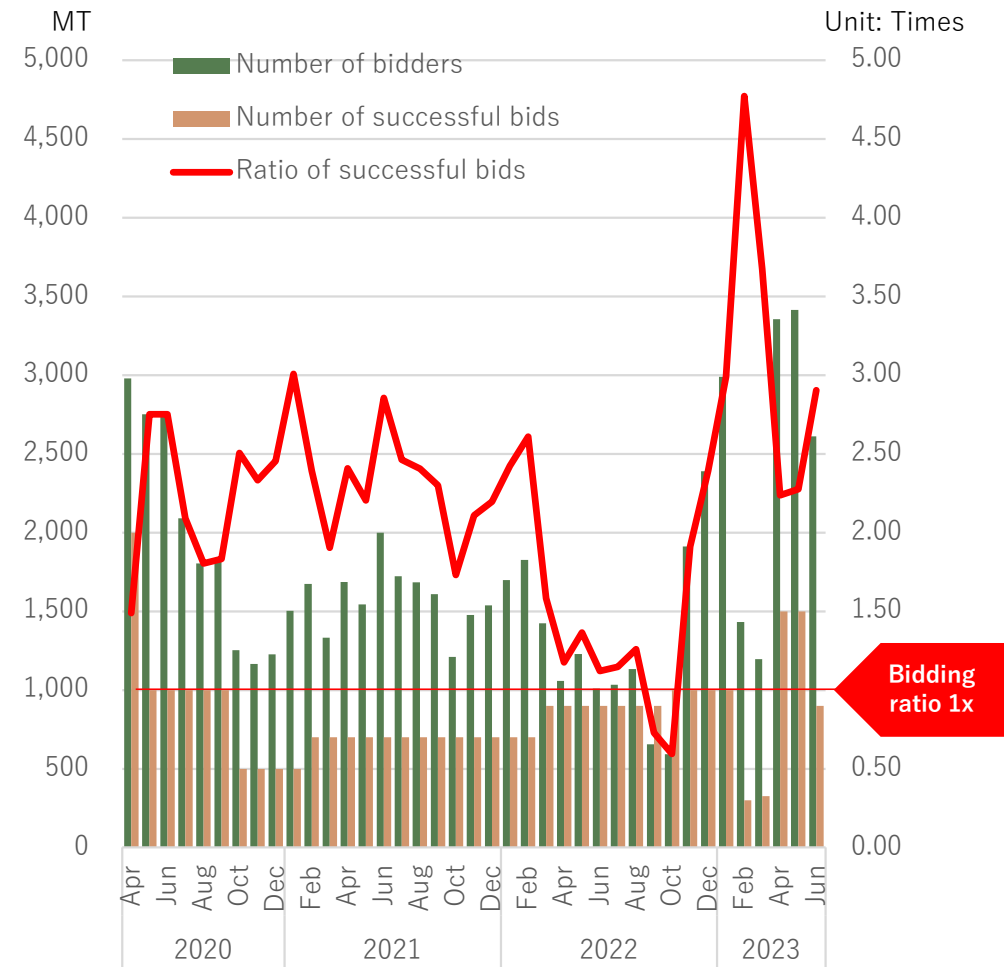


Source: Based on Ministry of Agriculture, Forestry and Fisheries, Statistical Table, "Milk Production and Processing Volume by Use (Nationwide)."

Butter inventory volume (domestic)



Bidding results for butter



Source: Based on Ministry of Agriculture, Forestry and Fisheries, Statistical Table, "Milk Production and Processing Volume by Use (Nationwide)."

Source: Data published by Agriculture and Livestock Industries Corporation (ALIC) Prepared by Lacto Japan based on "Simultaneous Buy-Sell (SBS) Mechanism for Butter Results."

Promoting a full-fledged recovery in demand for imported dairy products.

■ Strengthening sales of imported dairy ingredients, especially imported powdered milk mixtures.

Promote replacement of domestic ingredients with imported ingredients.

■ Expanding imports of dairy ingredients for which supply-demand balance is expected to be tight.

Support imports of butter and cream ingredients and actively propose them.

■ Expanding product items handled.

Based on cooperation with suppliers, introduce milk-derived ingredients with high functionality to domestic users.

Positive

- The production system of our major supplier of pork (in the US) is improving. Elimination of concerns regarding supply of chilled and frozen pork.
- Due to higher production costs and the impact of ASF (African swine fever), the supply of European pork is expected to continue to decline in the near term. Expecting increased demand for North American pork.

Negative

- Slowing domestic consumption in response to higher prices, and a decrease in ingredient usage by manufacturers of processed meat products to curb price increases.
- There are also concerns that the price competitiveness of imported products will decline due to soaring ingredient prices and a weaker yen.

In Europe, ASF will continue in 2023 as well.

Imported pork supply areas to Japan are expected to be limited for the time being.

【ASF Outbreak in Europe】

Country	Category	FY2022		FY2023	
		Occurrence Number of cases	Last Confirmation Date	Occurrence Number of cases	Last Confirmation Date
Bulgaria	Domestic pigs	2	Jan 28 th	-	-
	Wild boars	387	Dec 20 th	71	Feb 3 rd
Czech Republic	Domestic pigs	-	-	-	-
	Wild boars	1	Dec 2 nd	2	Jan 5 th
Estonia	Domestic pigs	-	-	-	-
	Wild boars	57	Dec 22 nd	14	Feb 3 rd
Germany	Domestic pigs	3	Jul 2 nd	1*	May 1 st *
	Wild boars	1,628	Dec 29 th	408*	Feb 3 rd *
Greece	Domestic pigs	-	-	-	-
	Wild boars	-	-	2	Jan 26 th
Hungary	Domestic pigs	-	-	-	-
	Wild boars	550	Dec 19 th	103	Jan 31 st
Italy	Domestic pigs	4	Sep 27 th	1	Feb 3 rd
	Wild boars	277	Dec 31 st	195*	Mar 1 st *
Latvia	Domestic pigs	6	Aug 31 st	-	-
	Wild boars	913	Dec 30 th	61	Feb 3 rd
Lithuania	Domestic pigs	16	Nov 7 th	-	-
	Wild boars	302	Dec 20 th	44	Feb 5 th
Poland	Domestic pigs	14	Sep 7 th	-	-
	Wild boars	2,152	Dec 30 th	434	Feb 3 rd
Romania	Domestic pigs	329	Dec 29 th	29	Feb 3 rd
	Wild boars	465	Dec 28 th	80	Feb 3 rd
Slovakia	Domestic pigs	5	Jul 27 th	-	-
	Wild boars	550	Dec 22 nd	103	Feb 3 rd

(Source) 「ASF Outbreak in Europe」 ALIC *(Asterisk) shows update and addition from ALIC News (March 16, 2023)

We will steadily capture North American pork demand and further diversify our product lineup, including processed products.

■ **Expansion of sales of chilled and frozen pork.**

Expansion of sales of North American pork, for which there are many inquiries and supply volume is also in a recovery trend.

■ **We will cultivate ingredient suppliers and processed food manufacturing partners.**

Cultivation of South American pork suppliers in Mexico, etc.

Cultivation of domestic and overseas processed meat product manufacturers.

■ **Promotion of diversification of products handled.**

We will expand the handling of chicken.

Sales of OEM products in cooperation with domestic meat processing plants. (roast beef, pancetta, etc.)

Import and sales of processed meat products, etc. (produced in Thailand)

■ **Expansion of sales channels in Japan.**

Expansion of transactions with mass retailers.

Positive

- Despite the impact of high prices caused by inflation, demand from local food manufacturers should be firm. (dairy ingredient)
- Profit margins should gradually improve due to falling raw cheese prices. (cheese)
- New business aimed at restaurant chains will be in full swing. (cheese)

Negative

- Sales of Japanese skim milk powder (export business) are expected to decrease in tandem with the optimization of skim milk powder inventories in Japan. (dairy ingredient)
- Sluggish sales by manufacturers of food for the Chinese market reflecting the economic slowdown in China. (cheese)

In dairy ingredient sales, we will focus on cultivating new customers and increasing the number of items proposed to existing customers.

In cheese manufacturing and sales, we will aim to boost sales by steadily capturing demand from restaurants outside of China.

Dairy Ingredient Sales

- Increase number of items proposed to customers.
- Strengthen initiatives aimed at expanding sales of Japanese dairy products.

Cheese Manufacturing & Sales

- Bring new products to market.
- Expand sales of shredded cheese.
- Expand sales to hotels and restaurants through direct sales channels in Thailand.

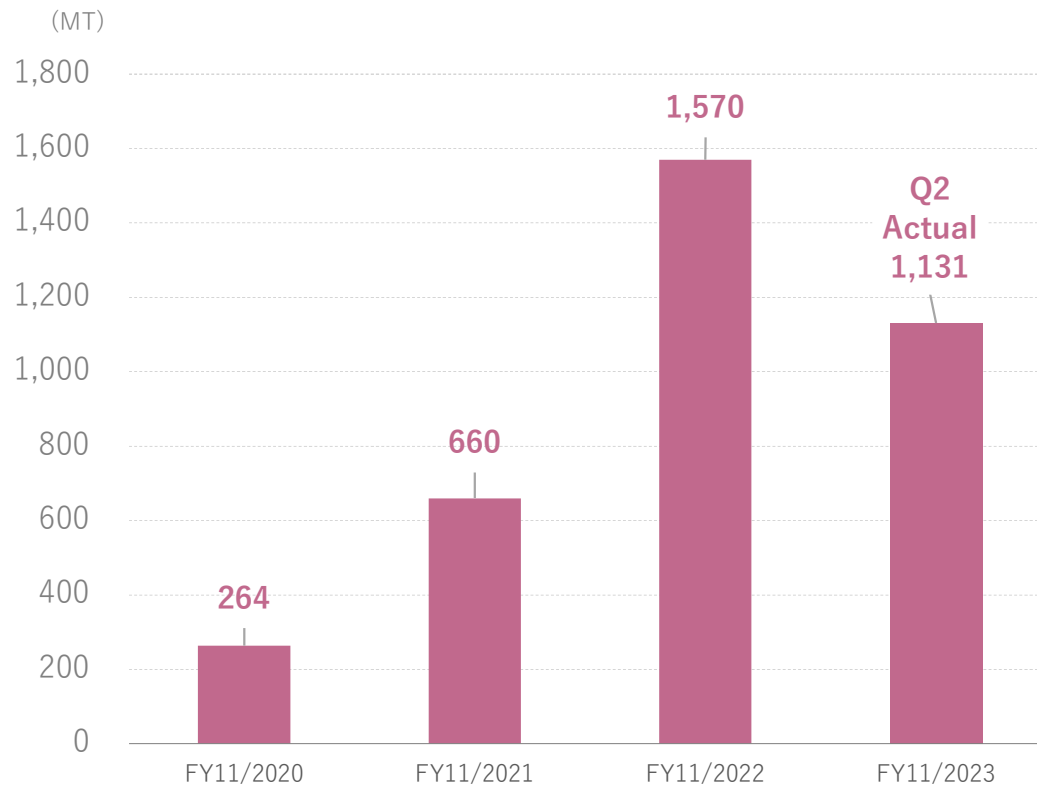
Priority Measures in the Medium-Term Plan: Accelerate development of functional food ingredients business



Sales centered on protein, demand for which continues to grow

However, we will propose value-added formulations designed for final products, not just protein alone.

Trend in functional food ingredient sales volume



- Strengthen sales for sports nutrition. (propose formulations that achieve product differentiation for manufacturers)
- Cater for development and manufacturing of final products with partners capable of OEM production.

Proposal of high-protein protein ingredients that do not solidify even in hot water at 100°C.



ホッとPROTEIN
ホッとするひとときに。
お湯で飲むプロテインを。

休日のくつろぎタイムでも、あわただしい朝食の時間でも、ホットミルクやホットコーヒーを飲むように、「手軽に」でも「しっかりと」たんぱく補給ができれば...

*ホッとPROTEIN*はそんなニーズにこたえる、お湯で溶いて飲む新しいタイプの粉末プロテインです。

特長①
ホットでも手軽にプロテインが飲める！

粉末プロテインで一般的なホエイたんぱく質は80°C以上の熱で変性し凝固します。そのため、ホットでプロテインを飲む場合、水で溶いてから電子レンジで温めるなど手間がかかります。*ホッとPROTEIN*シリーズは、100°Cのお湯に分散するので、温め直す必要もなし。飲むまでのストレスがかかりません。

特長②
さっと分散、だまにならない！

*ホッとPROTEIN*はスプーンステアですぐ分散。お湯を入れたシェイカーで攪拌...なんていう手間はいりません。コーヒーや紅茶を飲むように、手軽にプロテインドリンクを飲めるのです。お湯だけでなく、冷たい水や牛乳にも分散しだまになりにくいため、滑らかな口当たりで飲みやすいのも特長です。

特長③
もちろん、高たんぱく！

*ホッとPROTEIN*の主原料は「MCI90」。1食あたり約14gのたんぱくを含んでいるため、スポーツ・プロテインと遜色ない高たんぱくプロテインです。手軽、だけどしっかりプロテインを摂取できる、それが*ホッとPROTEIN*の特長です。



Feature (1) Dispersion in hot water

Generally, protein denatures and coagulates at temperatures above 80°C, but the new product developed by Lacto Japan disperses without solidifying even in hot water at 100°C.

Feature (2) High protein

Contains high-protein ingredients.

Feature (3) Stirring with a spoon

It disperses immediately when stirred with a spoon.

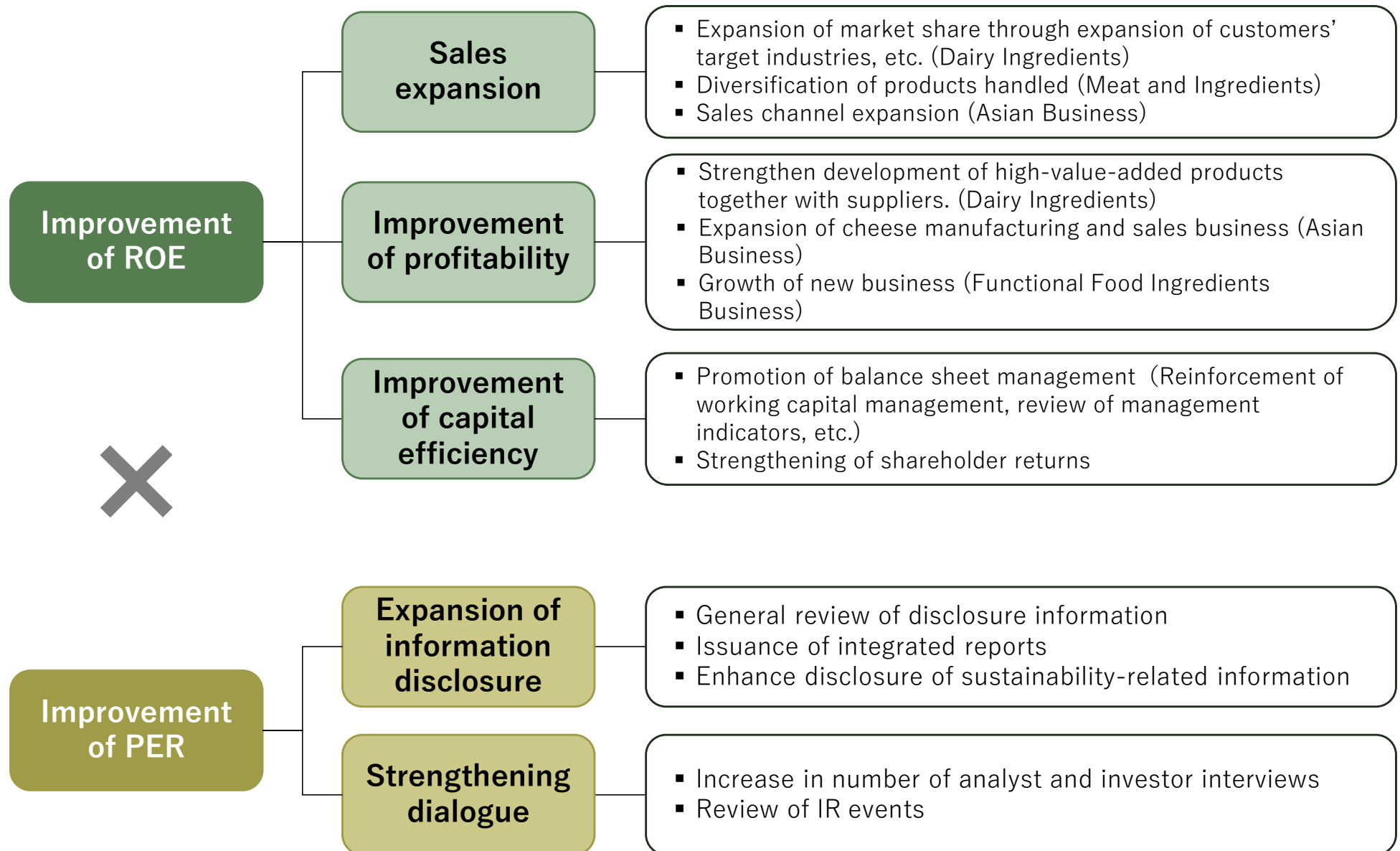
No need to stir in a shaker with hot water.

Feature (4) Tastes great with water or milk

Disperses even in cold water or milk.

Flavoring is also possible.

In addition to striving to raise ROE, we will also focus on improving the PER





**Reference : Corporate Business Plan
“NEXT-LJ 2025”**

	Base Existing business “evolution”	Growth Expansion of Asian business	Challenges 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, 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		

**Ensure stable supply and increase market share through best matching
In addition to expanding sales of functional foods to existing customers,
develop exports on a full scale**

Business segment	Business policy	Major measures	Relationship to Basic Policy			
			Base	Growth	Challenges	Management base
Dairy Ingredients (Domestic)	Ensure stable supply and expand market share	<ul style="list-style-type: none"> ● Diversification of supply sources ● Reinforcement of sales of domestic dairy ingredients, expansion of exports ● Expansion of handling of plant-based products 	● ●		●	●
Cheese (Domestic)	Ensure stable supply and expand demand	<ul style="list-style-type: none"> ● Diversification of supply sources ● Development of functional cheese ● Exports of domestic cheese 	● ● ●			●
Meat and Ingredients	Diversify from U.S. pork import business	<ul style="list-style-type: none"> ● Expansion of suppliers (raw material livestock breeds) ● Expansion of suppliers (processed products and processed foodstuffs) and products handled ● Expansion into production and processing of prepared dishes, etc. 	● ●		● ●	
Functional foods	Create next-generation business by proposing and selling new products to an existing blue-chip client base	<ul style="list-style-type: none"> ● Expansion of sales of functional foods such as sports nutrition ● Business expansion through alliances and collaboration ● Exports and trilateral trade of functional foods 		●	● ●	●

**Aggressive investment in strengthening local systems, relocation to new plants, etc.
Evolve into a complex food company by expanding into upstream and downstream areas**

Business segment	Business policy	Major measures	Relationship to Basic Policy			
			Base	Growth	Challenges	Management base
Dairy Ingredients (Asia)	Strengthen local systems to capture robust market growth and increase market share	<ul style="list-style-type: none"> ● Diversification of supply sources ● National staff development ● Establishment of local subsidiary governance structure ● Expansion of bases and development of areas 	●	●		●
Cheese manufacturing (Asia)	Expand manufacturing capacity to capture robust market growth and increase market share	<ul style="list-style-type: none"> ● Move to new factory in Singapore ● Strengthening of Thai factory functions and enhancement of productivity ● Development of high-value-added products 		●		●
Manufacturing and processing (Downstream areas)	Increase number of items manufactured overseas and raise manufacturer ratio	<ul style="list-style-type: none"> ● Manufacturing of health foods and supplements ● Development and manufacture of products for retail market ● M&As with food product makers 			●	●
Dairy farming, etc. (Upstream areas)	Contribute to sustainable dairy and livestock farming industries	<ul style="list-style-type: none"> ● Involvement in dairy farming industry in Southeast Asia ● Sales of environmentally friendly feed 			●	●

Changed disclosure format from a rolling method to a fixed term method

By clarifying the goals for each period, we aimed to increase the effectiveness of the plan and make it a driving force for solid growth, while at the same time facilitating dialogue with our shareholders and investors.

Item	FY11/2022 (Actual)	FY11/2023 (Forecasts)	FY11/2024 (Plans)	FY11/2025 (Plans)
Net sales	¥147.4 bn	¥160.0 bn	¥180.0 bn	¥200.0 bn
Ordinary income	¥3.13 bn	¥3.2 bn	¥3.6 bn	¥4.0 bn
Net income attributable to owners of the parent	¥2.28 bn	¥2.3 bn	¥2.6 bn	¥2.9 bn

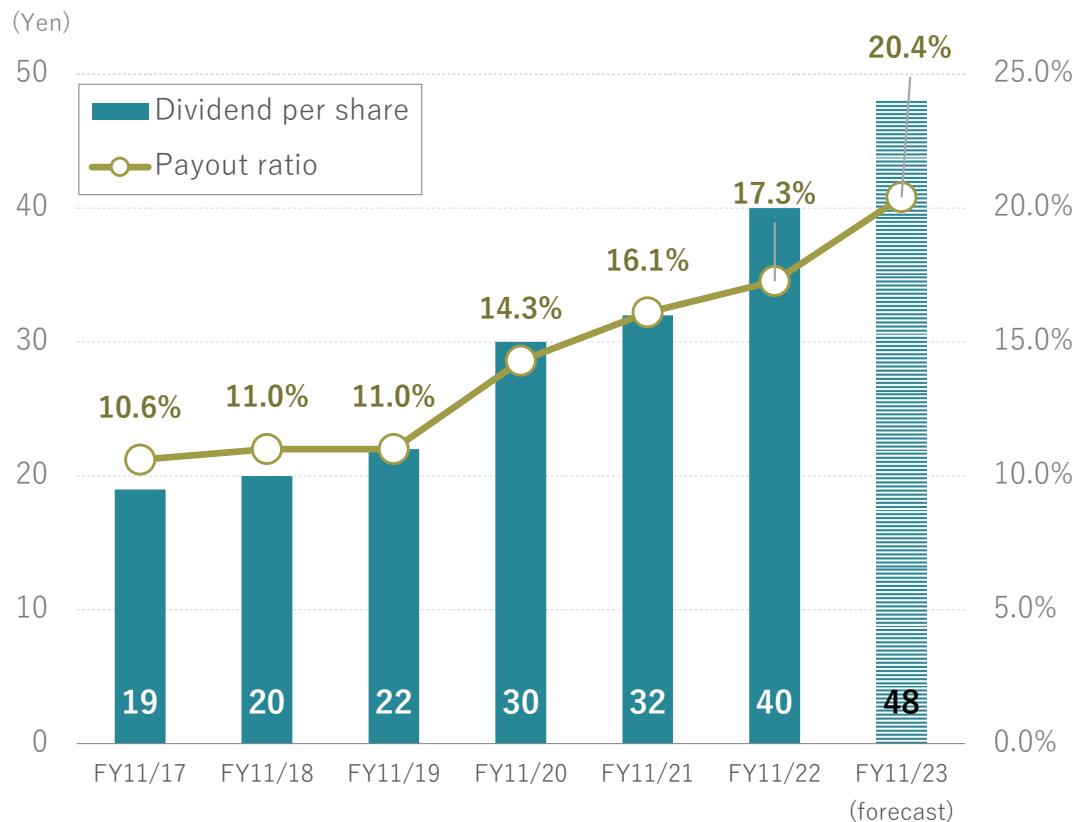
Item	FY11/2022 (Actual)	FY11/2025 (Plans)
ROE	10.9%	10% or more
Payout ratio	17.3%	20-25%
Consolidated shareholders' equity ratio	30.5%	30-35%

Medium-term use of funds

- **Capital investment**...At present, we expect the move to the new factory in Singapore to be the largest investment during the period of NEXT – LJ2025
 - Investment related to move to new factory in Singapore
 - Investment related to maintenance and renewal of existing factory equipment
- **Business related investment**
 - Enhancement of marketing capabilities in Asia (expansion of bases, etc.)
 - Investment related to objective of expanding new businesses (product development, business alliances, M&A:, etc.)
 - Investments to improve business efficiency (e.g., updating core systems)
- **Shareholder returns**
 - Improvement of payout ratio
 - Flexible shareholder returns (start paying interim dividends)
- **Maintenance of financial soundness**
 - Maintain shareholders' equity ratio of more than 30%

Shareholder return policy is based on increasing dividends and will promote raising of dividend payout ratio

Trends in dividends and payout ratio




Increased dividends based on stable dividends

- In order to achieve medium- to long-term growth, we will combine investment in the Asian Business with the reinforcement of our financial position. At the same time, we aim to increase dividends based on stable dividends, positioning the return of profits to shareholders as a key management issue.

Increase in payout ratio

- We aim to further improve the dividend payout ratio from 20% in FY11/2023, the 25th anniversary of the company's founding, to a target of 20-25% in three years' time.

Note: The dividend amount is stated after taking into account the stock split (one common share split into two shares) with the effective date of May 1, 2019



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 changes in the business environment and other risks and uncertainties.