



Financial Results for the
Fiscal Year Ended
November 2020
(FY11/2020)
January 21, 2020



Lacto Japan Co., Ltd.



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Consolidated Financial
Results for FY11/2020 and
Forecast for FY11/2021



Amid the global trend of COVID-19 infection, economic activity deteriorated rapidly mainly due to sluggish corporate activity and personal consumption.

Although net sales were lower than in the previous fiscal year, we secured ordinary income growth.

Consolidated Net Sales: -5.1% YoY

- In the Dairy Ingredients and Cheese Business, demand for dairy products for home use increased due to the “consumption of goods at home,” reflecting the impact of the spread of COVID-19 infection. However, as demand for commercial dairy products decreased in tandem with such factors as the tendency to stay indoors and domestic dairy product inventories increased rapidly, sales of imported ingredients were weak and sales volume declined. In addition, owing to the impact of a drop in unit purchase prices, selling prices fell and sales decreased YoY.
- In the Asian Business, although sales of ingredients for food services declined, sales of products to the retail sector were robust, reflecting an increase in the consumption of goods at home. As a result, both net sales and sales volume were higher than a year earlier.

Consolidated Ordinary Income: +1.2% YoY

- Despite the impact of a drop in sales volume associated with weak domestic demand, we secured profit growth mainly due to an increase in the handling of high-margin products.

FY11/2020 Consolidated Financial Results



(Million yen)

	FY11/2019	FY11/2020		
		Actual	Difference	YoY Change (%)
Net sales	116,794	110,837	-5,956	-5.1
Ordinary income	2,746	2,780	+34	+1.2
Ordinary income ratio (%)	2.4	2.5	-	-
Foreign exchange impact on ordinary income*	(-32)	(29)	-	-
Net income attributable to owners of the parent	1,963	2,062	+99	+5.1
Net income ratio (%)	1.7	1.9	-	-
Net income per share (Yen)	200.11	209.47	+9.35	
Exchange rate (Yen/USD)	109.33	107.27	-2.06	
Exchange rate (Yen/EUR)	122.63	121.40	-1.23	

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

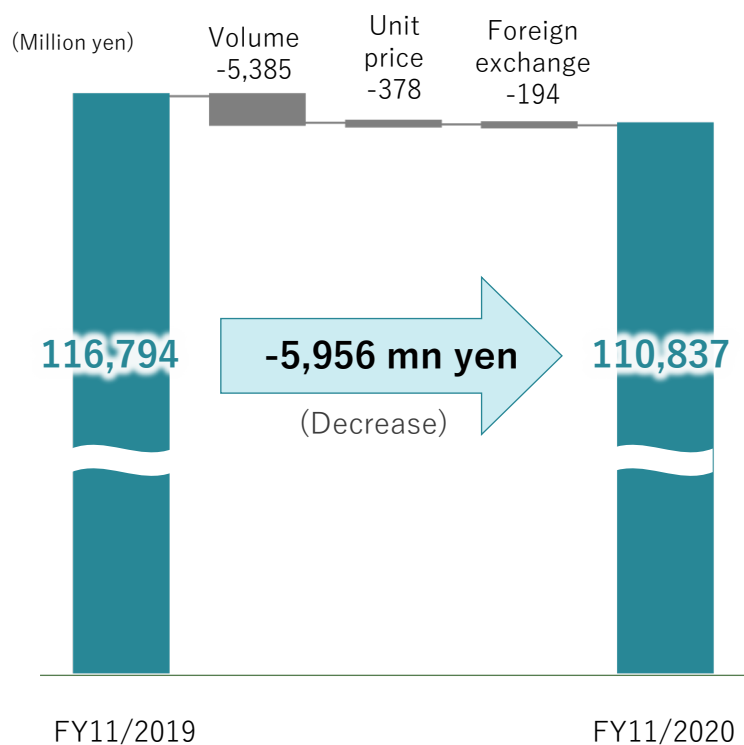
*Foreign exchange impact on ordinary income: As Lacto Japan applies "Separate accounting treatments," the impact of foreign exchange hedging is recorded in both cost of goods sold and non-operating income/loss. Therefore, the amount of impact of foreign exchange hedging on both cost of goods sold and non-operating income/loss is shown. (Please refer to P. 33-35)

Factors Contributing to Increase/Decrease in Sales and Ordinary Income

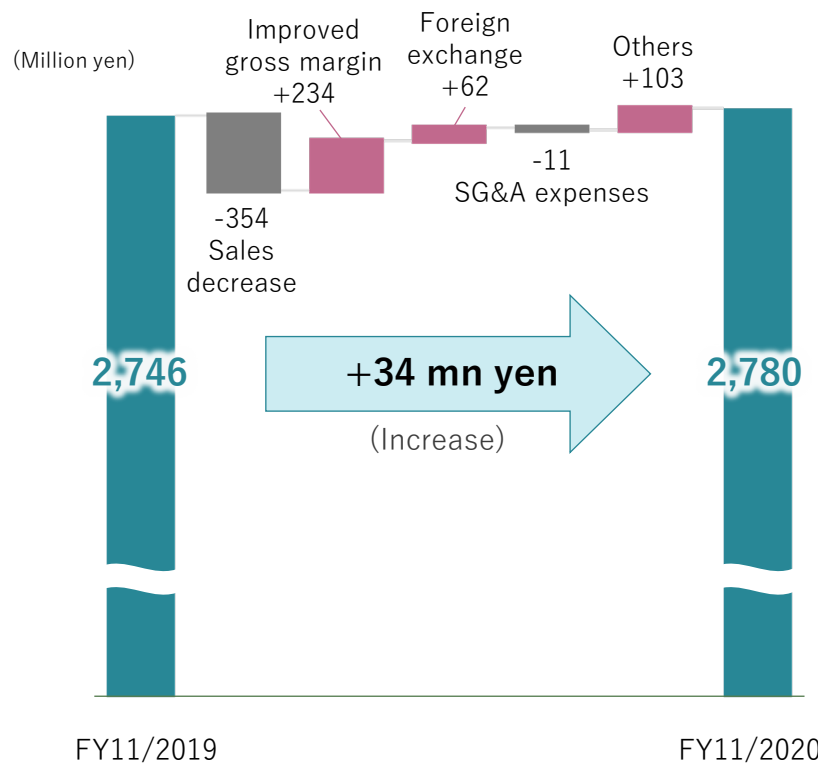
Sales declined mainly due to a decrease in sales volume, while a drop in unit prices and foreign exchange fluctuation also had an impact.

Ordinary income was slightly higher than the previous fiscal year, as the profit decline caused by the decrease in sales was offset by factors such as an improvement in the gross margin.

□ Net sales



□ Ordinary income



(Million yen)

	FY11/2019- end	FY11/2020- end	Difference
Current assets	45,774	40,623	-5,151
Cash and cash equivalents	4,474	5,004	529
Trade notes and accounts receivable	17,852	13,849	-4,002
Inventories	22,946	21,383	-1,563
Other	501	386	-114
Non-current assets	2,360	2,746	386
Property, plant and equipment	568	690	122
Intangible assets	29	20	-9
Investment and other assets	1,761	2,035	273
Total assets	48,134	43,369	-4,765
Accounts payable	12,649	9,739	-2,909
Interest-bearing liabilities	17,641	14,314	-3,327
Other	1,879	1,724	-155
Total liabilities	32,170	25,777	-6,392
Net assets	15,964	17,592	1,627
Total liabilities and net assets	48,134	43,369	-4,765

Main factors of change

Decline in trade notes and accounts receivable

Decrease in accounts payable

Year-end holiday factor(*) and decrease in sales due to COVID-19 pandemic.

*In FY11/2019, the end of the fiscal year (November 30) was a holiday so the collection of accounts receivable was postponed until FY11/2020. However, as the final day of FY11/2020 was a weekday, accounts payable decreased.

Decrease in interest-bearing liabilities

Decrease in interest-bearing liabilities caused by a decline in working capital and the repayment of long-term borrowings.

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

(Million yen)

	FY11/2019	FY11/2020	Difference
Cash flows from operating activities	3,365	4,534	1,168
Cash flows from investing activities	848	-136	-985
Cash flows from financing activities	-3,694	-3,764	-69
Effect of exchange rate changes on cash and cash equivalents	-49	-71	-21
Change in cash and cash equivalents	469	561	92
Cash and cash equivalents at beginning of year	3,477	3,946	469
Cash and cash equivalents at end of year	3,946	4,508	561

Main factors of change

Increase in cash flows from operating activities

Decline in accounts receivable due to the elimination of the year-end holiday factor and decline in inventories associated with decrease in sales

Decrease in cash flows from financing activities

Decrease in interest-bearing liabilities due to repayment of long-term borrowings, etc.

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

FY11/2021 Consolidated Forecasts



(Million yen)

	FY11/2020 Actual	FY11/2021		
		Forecasts	YoY Difference	YoY Change (%)
Net sales	110,837	115,000	+4,162	+3.8
Ordinary income	2,780	2,600	-180	-6.5
Ordinary income ratio (%)	2.5	2.3	-	-
Net income attributable to owners of the parent	2,062	1,850	-212	-10.3
Net income ratio (%)	1.9	1.6	-	-
Net income per share (Yen)	209.47	187.35	-22.12	
Dividend per share(Yen)	30	32	+2	

FY11/2021 Estimated Net Sales and Sales Volume by Business Division



Net sales

(Million yen)

	FY11/2020			FY11/2021
	1 st Half	2 nd Half	Full Year	Forecasts
Dairy ingredients and Cheese	39,927	38,402	78,330	81,470
Meat Products	6,107	5,788	11,895	12,990
Asian Business (Dairy Ingredients)	10,138	6,886	17,025	15,640
Asian Business (Cheese)	1,352	1,542	2,895	3,120
Other	385	305	690	-

Sales volume

(Tons)

	FY11/2020			FY11/2021
	1 st Half	2 nd Half	Full Year	Forecasts
Dairy ingredients and Cheese	98,294	93,280	191,575	192,431
Meat Products	11,453	10,471	21,925	25,210
Asian Business (Dairy Ingredients)	34,921	25,238	60,159	52,920
Asian Business (Cheese)	1,983	2,213	4,197	4,593

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

Overview of Business
Environment and Business
Divisions in FY11/2021



□ Domestic business is expected to continue to be affected by the spread of COVID-19, mainly in the first half

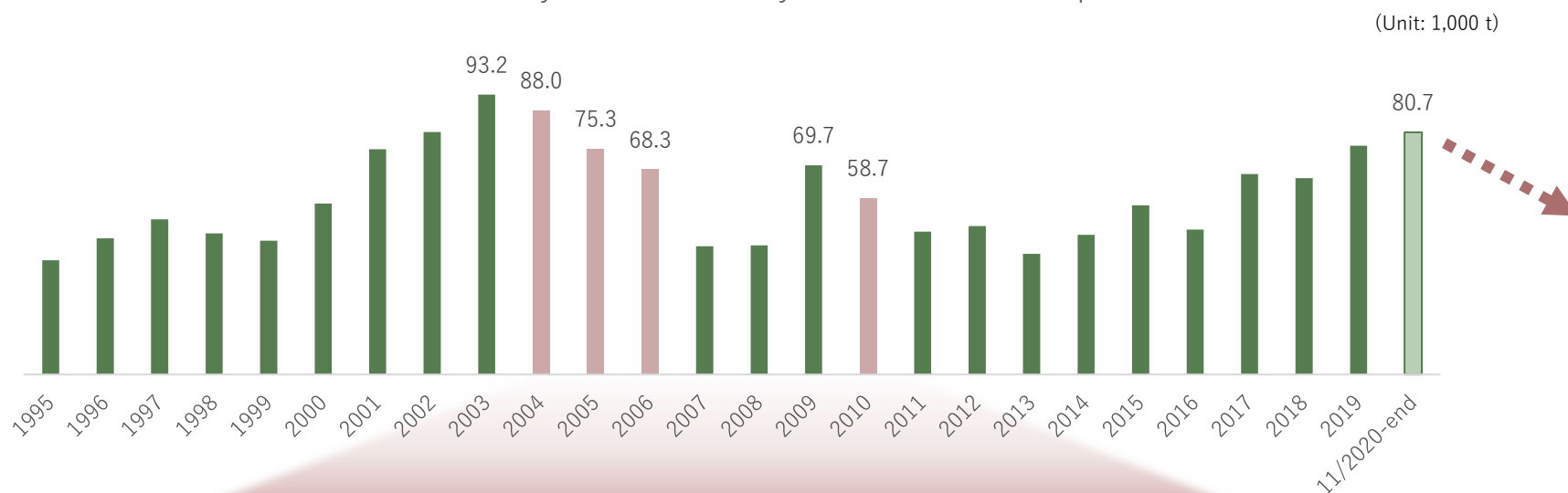
- We forecast weak demand for dairy ingredients as well due to sluggish commercial demand
- The government's import quota will be reduced due to the high level of domestic dairy ingredient inventories. However, a certain amount of imports will be maintained due to the continuation of minimum access, an international agreement, and the use of frameworks such as the TPP, the Japan-EU EPA.
- We expect the effects of the Project to Mitigate Supply and Demand Conditions for domestic dairy ingredients to be realized throughout FY2021

□ Although fear of infection remains, we foresee a relatively fast economic recovery in the Asian market

- In regard to sales of dairy ingredients in China and ASEAN countries, we expect robust demand centered on home meal demand
- We assume continued inquiries for raw material cheese used in frozen foods and convenience store foods for Japan

□ Effects of past measures to mitigate supply and demand conditions will be realized from next fiscal year onward

□ Estimated year-end inventory volume of skim milk powder



	Mitigation-based skim milk powder** (1,000 tons)	Estimated year-end inventory volume of skim milk powder (1,000 tons)	Change from previous year
FY2004	22.1	88.0	-5.6%
FY2005	36.8	75.3	-14.4%
FY2006	27.0	68.3	-9.3%
FY2010	10.0	58.7	-15.8%

*Based on research by Lacto Japan **Volume of skim milk powder sold based on the use of government subsidies.

- We are also actively involved in the sale of domestic skim milk powder.
There are also many advantages for us.

**Short-term
benefits**

- Covers decreased portion of imported ingredient sales
- Contributes to early elimination of excess inventories

**Medium and
long-term
benefits**

- Development of new customers by taking advantage of project to mitigate supply and demand conditions
- Reinforcement of relationships with dairy producers

□ Overview of FY11/2020

Although the impact of the pandemic was positive and negative, the impact of sluggish business demand was large and sales volume declined YoY. In addition to the decline in sales volume, weak international raw material market prices and the impact of foreign exchange rates (yen appreciation) also led to a decrease in sales.

There was a decrease in the volume of tenders by the government due to excess inventories of domestic dairy ingredients and the replacement of some imported materials with domestic materials also had a negative impact. However, the use of the framework of free trade agreements such as the TPP and the Japan-EU EPA as well as sales of domestic raw materials supported net sales and sales volume.

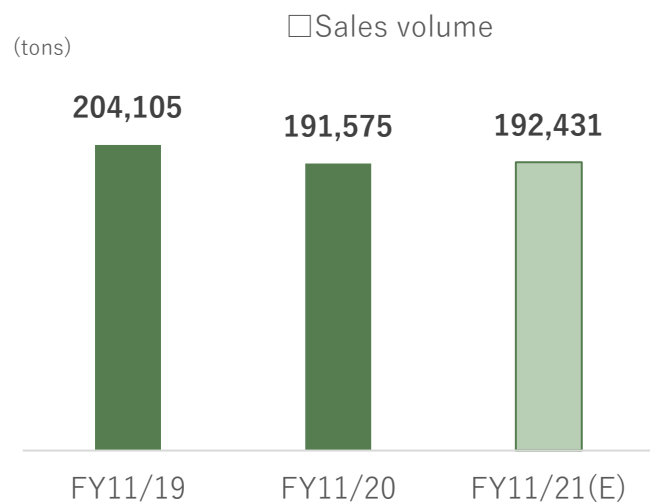
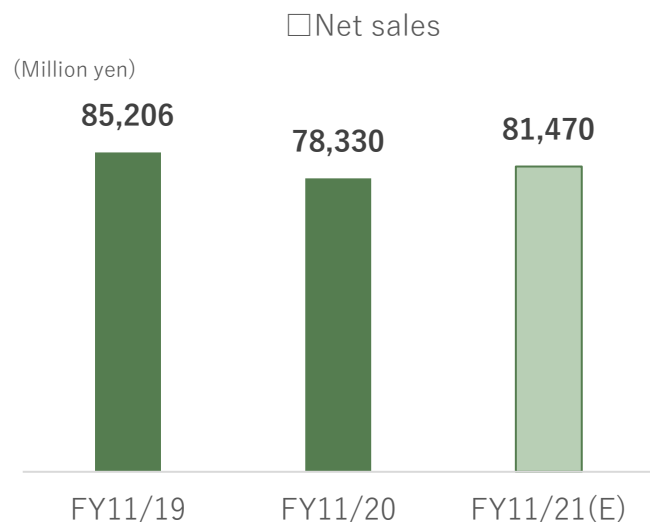
By business partner, sales to feed manufacturers and beverage makers were strong, with sales increasing due mainly to the start of business with new customers.

□ Forecasts for FY11/2021

We aim to increase sales by utilizing the framework of free trade agreements and expanding sales of newly developed products.

We will actively handle sales of domestic raw materials with an eye to maintaining sales and volume and contributing to domestic inventory reduction.

We will also start building business involving exports of domestic dairy products by using the Group's sales network.

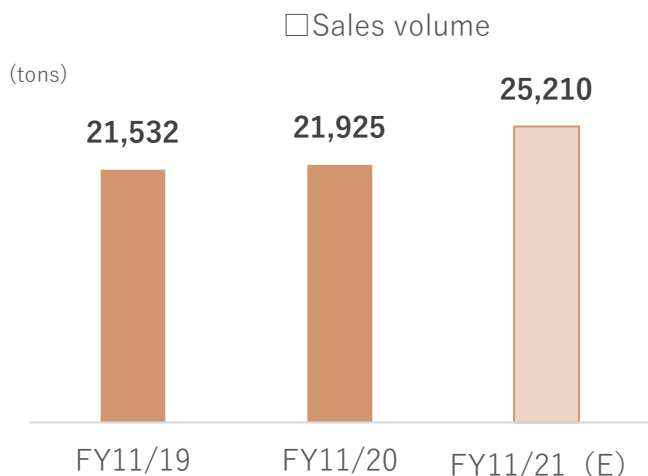
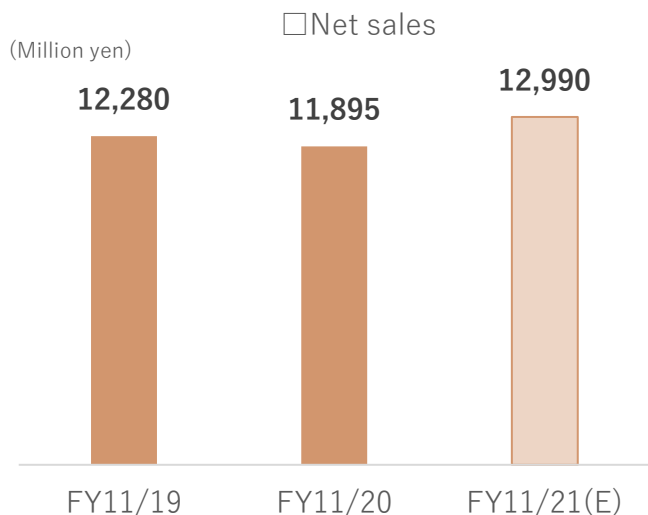


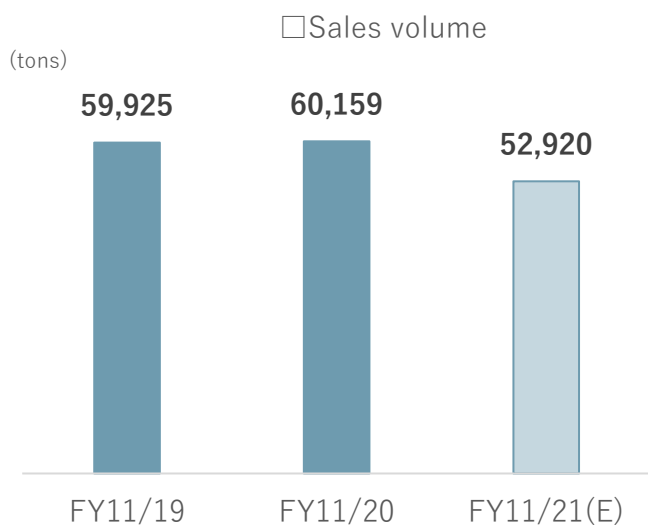
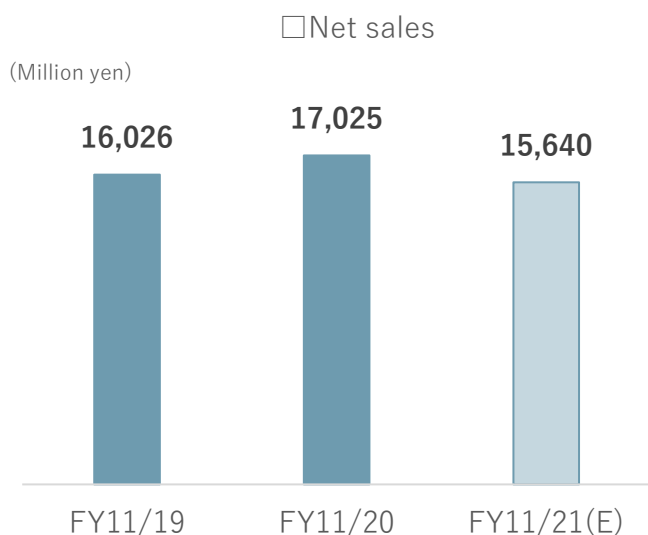
Overview of FY11/2020

- In the imported pork business, sales volume decreased due to changes in the import policy of major business partners, but this was offset by a steady increase in transactions with new customers. As for products, ingredients for ham and sausages for home consumption performed well.
- Sales of processed meat products such as dry-cured ham and salami declined in both value and volume, as demand related to restaurants was weak, reflecting the impact of the spread of the pandemic.
- In the second half, reduced production caused by the COVID-19 pandemic at a U.S. supplier, which is a major supplier, had an impact but this was generally eliminated at the end of the year.

Forecasts for FY11/2021

- In the imported pork business, we aim to increase sales by promoting the branding of products in cooperation with suppliers.
- Supplier development will be strengthened further following on from the United States, Canada and Europe.
- We will continue to focus on expanding our business partners. We aim to expand sales by actively proposing new products to customers who have recently started newly trading with us.





□ Overview of FY11/2020

- | As the percentage of sales related to food services was low, the impact of COVID-19 was limited. In the Philippines, an increase in items sold to a major business partner contributed.
- | While focusing on remote sales, we also made progress in developing new business partners.
- | In the second half, sales of raw materials for dairy products to Japan decreased due to the impact of the high level of domestic dairy ingredient inventories in Japan.

□ Forecasts for FY11/2021

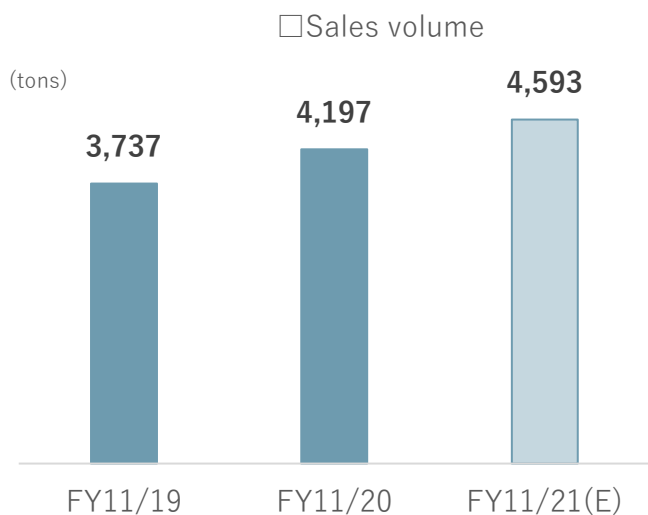
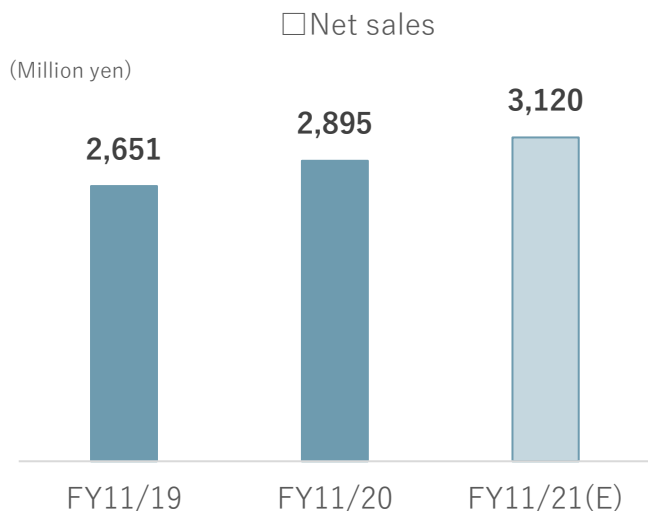
- | Although sales of raw materials for dairy products to Japan will remain affected for the time being this fiscal year as well, we will aim to further expand sales to China, where business is expanding due to its quick recovery from the effects of the pandemic, and to local companies in Southeast Asia, where sales remain strong.
- | We will counter competition by developing competitive dairy ingredients in partnership with suppliers.
- | In cooperation with the Dairy Ingredients Division at the head office, we will begin to build a system for expanding sales of domestic dairy products in the ASEAN region.

Overview of FY11/2020

- Demand for food services, including restaurants and bakeries, was temporarily sluggish due to the impact of COVID-19. On the other hand, demand for home meals was strong and offset the slump in demand for food services.
- In terms of sales by region, in addition to Thailand, sales to China, which recovered rapidly from the impact of COVID-19, were strong.
- Despite the effects of the pandemic, the Cheese Manufacturing and Sales Division recorded all-time high net sales and sales volume.

Forecasts for FY11/2021

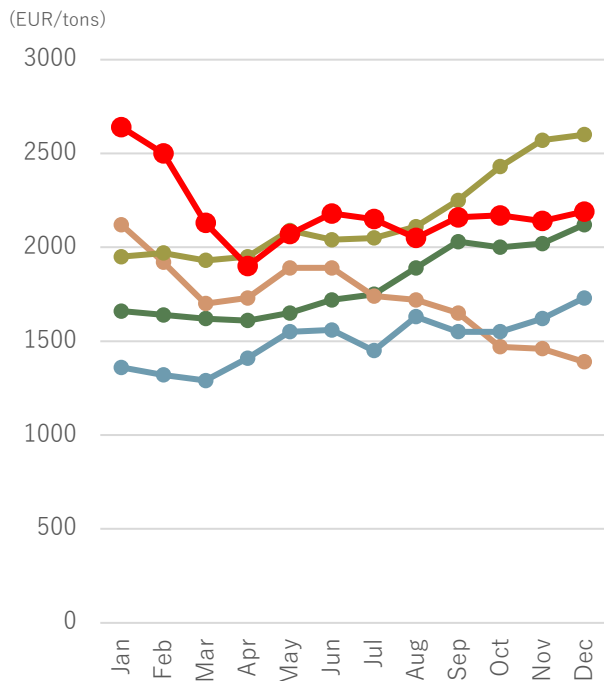
- We expect the market recovery to be earlier than in Japan, and we will aim to increase sales. In particular, we intend to further strengthen sales to China, where trading is expanding.
- In light of the increasingly fierce competitive environment, we will focus on developing products that can achieve differentiation, following on from heat-resistant cheese. We aim to launch them on the market at an early stage.
- We will improve costs by reviewing raw material cheese with the use of the Group's procurement capabilities and strengthen our efforts to increase productivity.



International Prices of Dairy Products

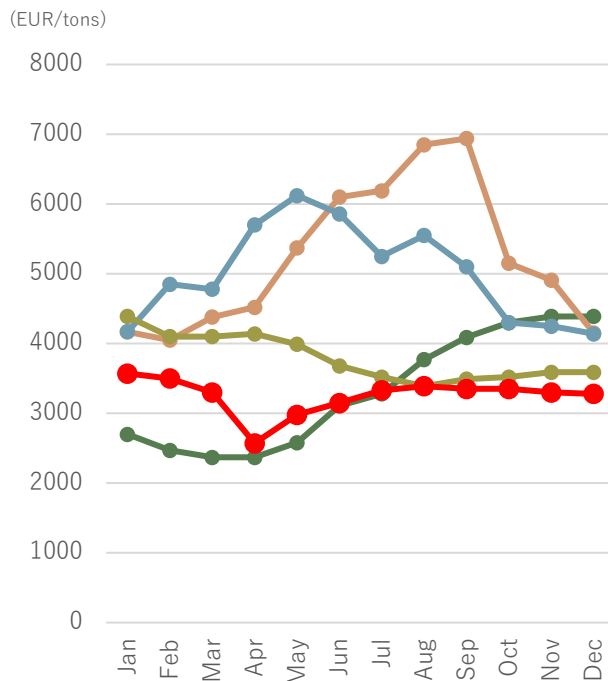
Skim milk powder

2016 2017 2018
2019 2020



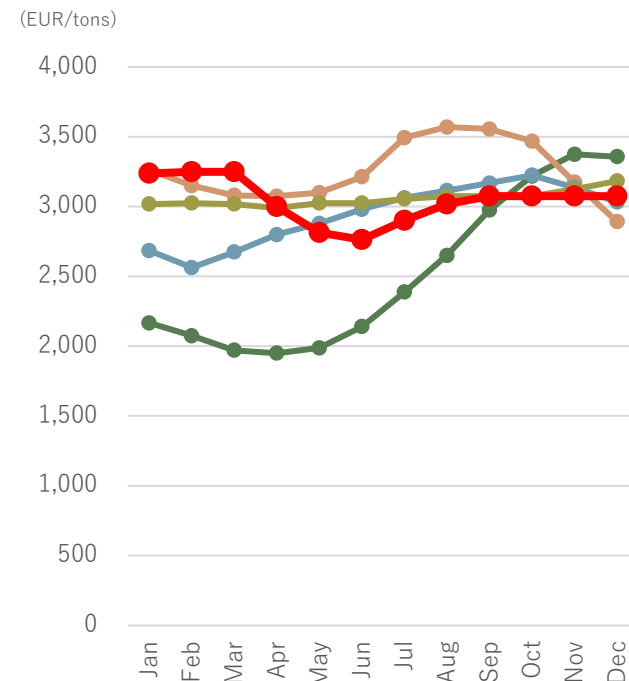
Butter

2016 2017 2018
2019 2020



Cheese

2016 2017 2018
2019 2020



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

New Corporate Business Plan “NEXT-LJ2023”



Build next-generation business

- Established Business Development Department (Functional Food Ingredients Team) and started handling new products (collagen, glucosamine, etc.)
- Strengthened ties with overseas bases and handling of new functional food ingredients is also in sight

Expand business in fast-growing markets in Asia

- Incorporated home meal-related demand and the Cheese Manufacturing and Sales Business recorded both all-time high net sales and sales volume
- Postponed expansion of the Singapore plant due to the impact of COVID-19 (expected to start operation by end of FY11/2021)

Existing business "evolution" and development of new customers

- Business Development Division, Dairy Ingredients Division, and Cheese Business Division collaborated in launching marketing activities (proposal of new products to existing customers)
- Started new business with health and beauty industries (started with sales of high-protein dairy ingredients)

Strengthening of management base for sustainable growth

- Brought forward promotion of "working style reform", including establishment of a remote work system, based on response to COVID-19 pandemic
- Strengthened governance (determined policy on transition to a company with an audit and other committees)

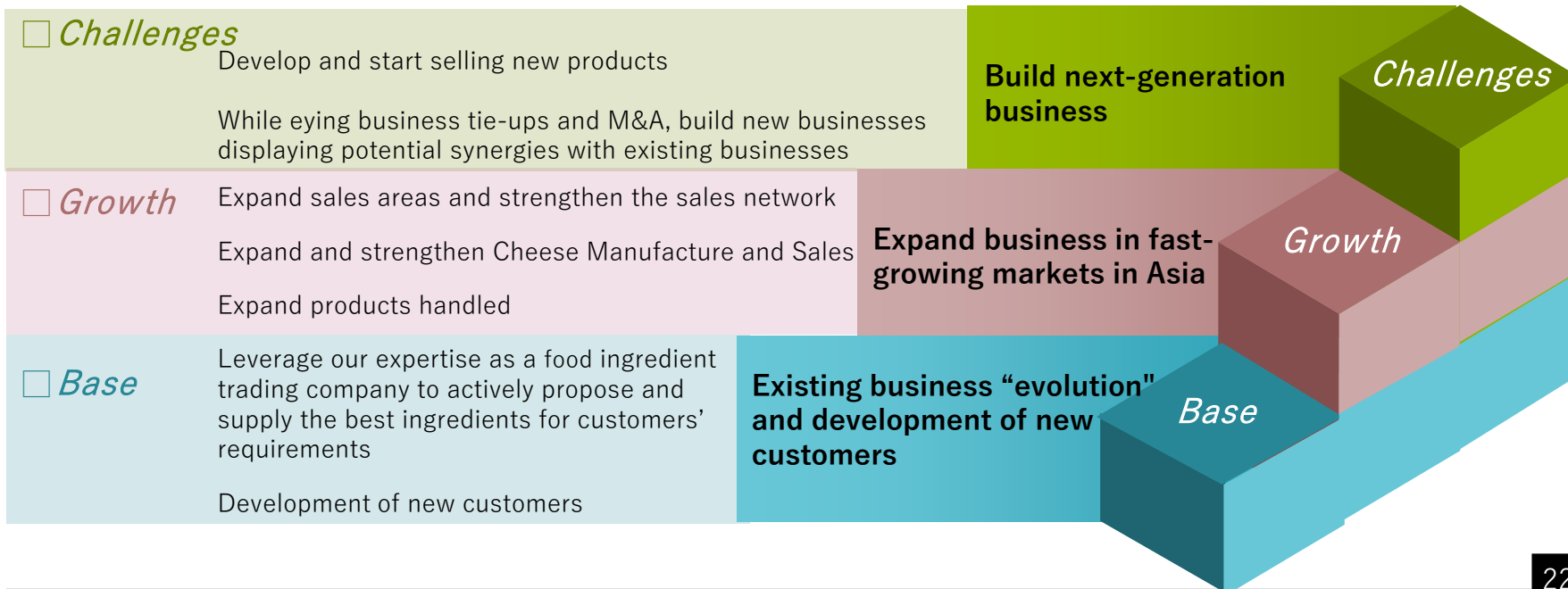
New Corporate Business Plan “NEXT-LJ2023”: Basic Policy and Numerical Targets

"Evolve" businesses of existing customers and build new businesses to support next generation of Lacto Japan Group

	FY11/2020 Actual	FY11/2023 Targets	% change vs FY11/2020
Net sales	110.8 billion yen	141.0 billion yen	+27.2%
Ordinary income	2.78 billion yen	3.5 billion yen	+25.9%
Net income attributable to owners of the parent	2.06 billion yen	2.5 billion yen	+21.2%

* Targets are consolidated sales and earnings

* This rolling medium-term plan is revised every year and the targets for the third year are then disclosed



Envisaged medium- to long-term use of funds

Investment aimed at growth of Cheese Manufacturing and Sales Division in Asia

Reinforcement of facilities (expansion of production lines, establishment of new factories and other projects)

Further increase in financial soundness

Reinforcement of shareholders' equity in preparation for diversification of business structure (from mainly trading company to trading company + manufacturer)

Use funds to start new businesses

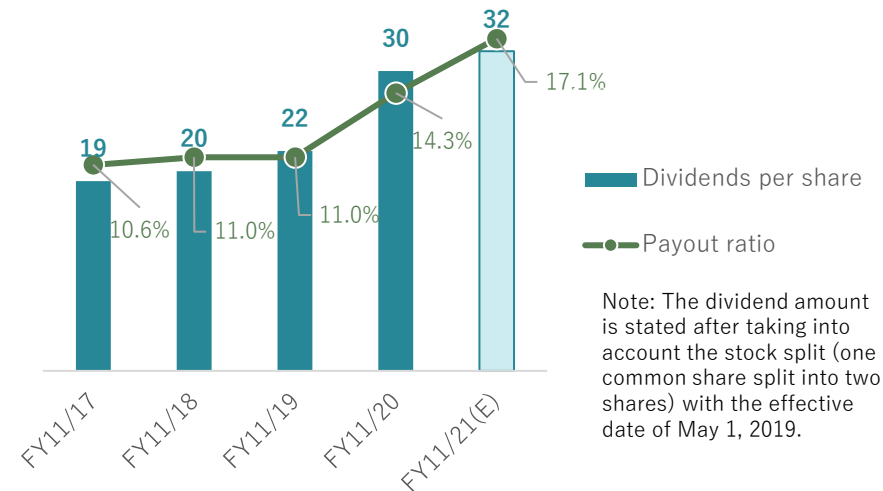
Business alliances and M&A are also being viewed

Dividend policy

Concerning the distribution of profits, we regard the return of profits to shareholders as an important management issue, and our basic policy is to aim for dividend growth based on stable dividends.

Meanwhile, in order to achieve medium- to long-term growth, we will invest in the reinforcement of facilities in the Cheese Manufacturing and Sales Division in Asia and endeavor to strengthen the financial structure for that purpose. In light of this, the dividend policy will be based on "stable dividends and increased dividends" and we aim to achieve a dividend payout ratio of 20% in FY11/2023.

Dividends per share and payout ratio



- **After taking into account the impact of the COVID-19 pandemic, we have reviewed our perception and assumptions regarding the business environment**

■ Japanese Market

- Firm establishment of demand for dairy products for home use due to increased health awareness among consumers
- Increasing need for development of foods with improved functionality, based on health as the key word
- Sluggish demand for commercial dairy products due to the spread of COVID-19
- Decrease in bidding volume for government-controlled trade items (skim milk powder and butter) due to excess inventories of domestic dairy ingredients
- Impact on marketing activities caused by behavioral restrictions to prevent infection

■ Asian Market

- Early recovery from the impact of infection in the Asian economy (early recovery compared to Europe, the United States, and Japan)
- Progress of Westernization of food in Asia
- Penetration of “Lacto Approach”* marketing in sales areas
- Materialization of demand for Japan-branded foods

(*)

“Lacto Approach”: A marketing style cultivated over many years in the Japanese market that aims to optimize customer needs. Specifically, the provision of information through our global supply network, a system for supplying stable, reliable raw materials, and customer support based on the provision of knowledge and know-how by professional personnel.

Japanese Market

1 Reinforce product development and proposal-based marketing

(Dairy Ingredients and Cheese)

2 Actively develop functional food ingredients business

(Dairy Ingredients and Cheese/Others)

3 Start “domestic dairy product” export sales business

(Dairy Ingredients and Cheese/Asian Dairy Ingredients)

Asian Market

4 Strengthen cheese development and improve production system

(Asian Cheese)

5 Further strengthen marketing capabilities, based on “localization” as key word

(Asian Dairy Ingredients)

- **Development of higher-value-added products based on imported raw materials and reinforcement of proposal-based marketing**

- **Development of products in response to free trade agreements, such as TPP and Japan-EU EPA**
 - Development of raw materials that can enjoy tariff benefits

- **Development of raw materials that contribute to the improvement of users' operating costs**
 - Start handling liquid products and proposal-based marketing of large containers

- **Strengthen initiatives with recipe development companies that are responsible for product development such as convenience stores and beverage manufacturers**
 - Proposal of raw materials and development of raw materials to match recipes

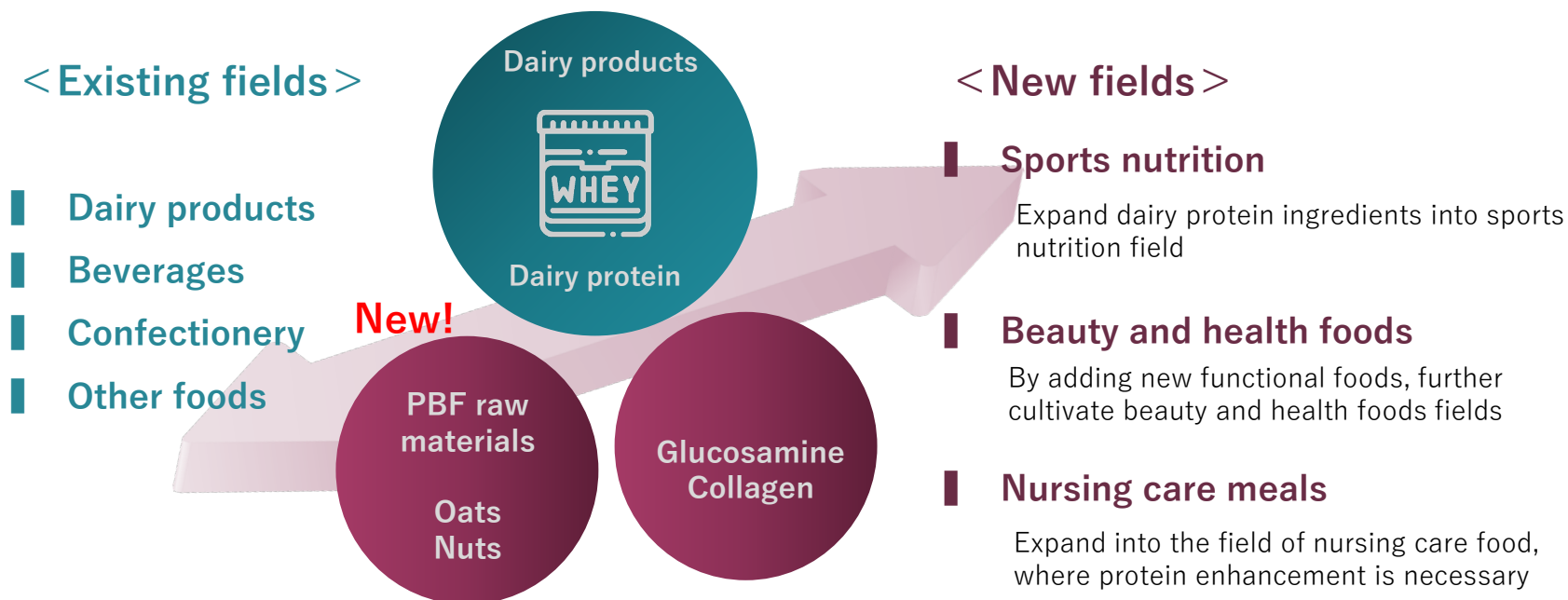
- **Product development in line with the theme of "ESG"**
 - Proposal of raw materials produced and manufactured with environmental consideration and raw materials with guaranteed traceability

Marketing activities

- Priority given to proposals to customers in existing fields based on collaboration between the Business Development Division and the Dairy Ingredients Division
- For new fields, approach will be from sports nutrition field

Product development

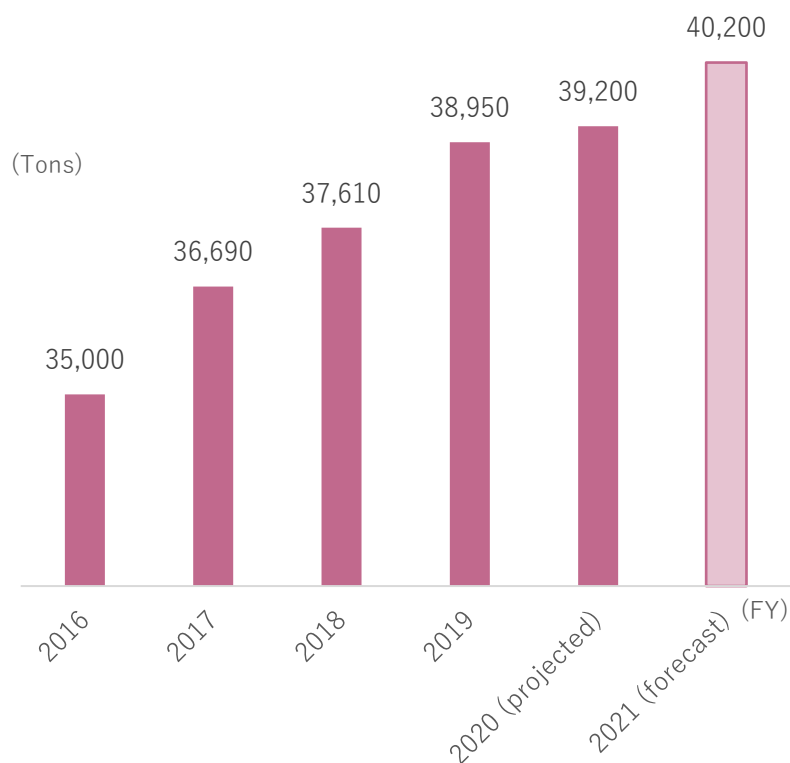
- Strengthen development of new products with dairy protein ingredients and cultivation of suppliers in cooperation with overseas bases
- Expand new product items (PBF raw materials*) * PBF: Plant-based foods (plant-derived foods)



(Reference) Market Trends for Functional Food Ingredients and Protein Supplement Products

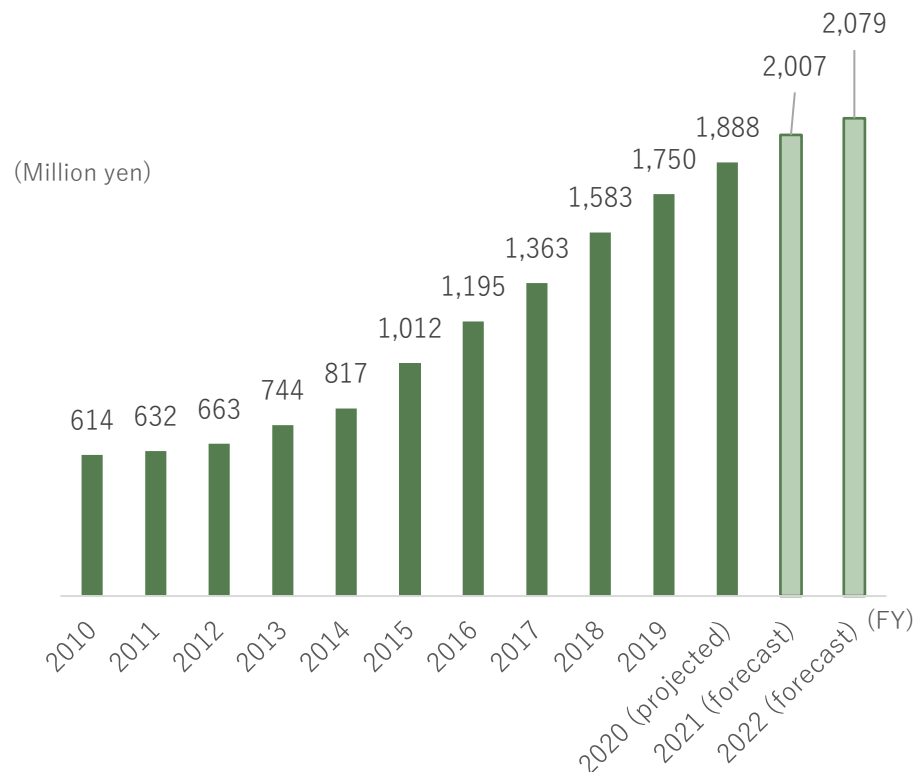
- The functional food ingredients market and protein supplement product market are expanding. Future growth potential can also be expected.

□ Size of Japanese functional food ingredients market



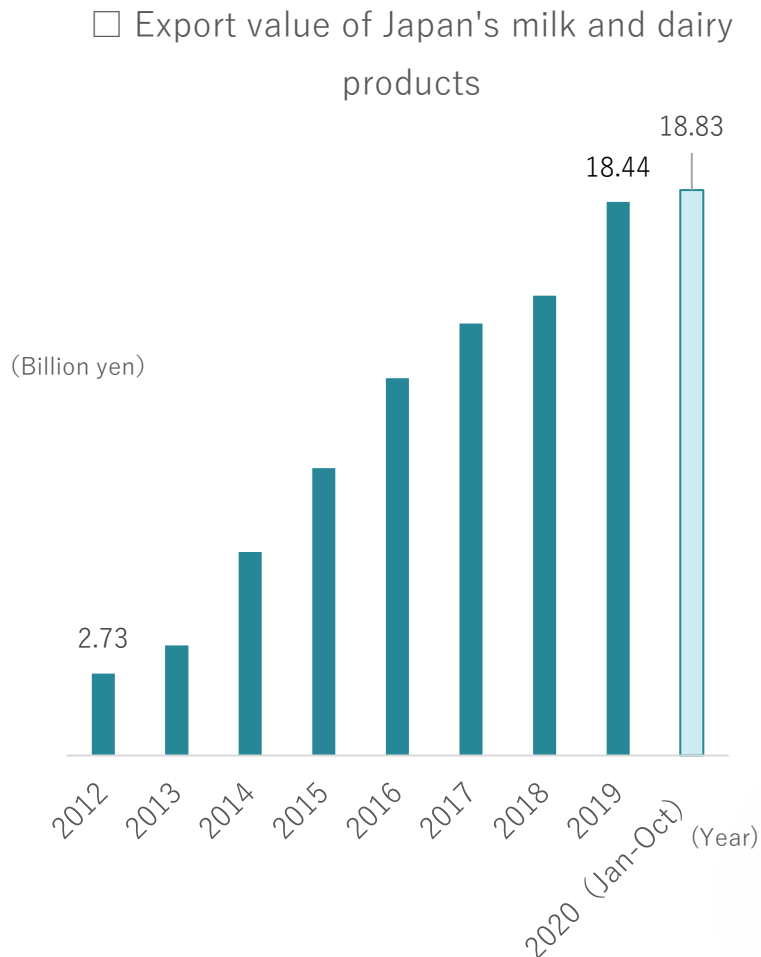
Source: "Market Analysis Survey of Functional Food Ingredients" 2020
TPC Marketing Research Corp.

□ Size of Japanese protein supplement product market



Source: "Market Analysis Survey of Protein Supplement Products" 2020
TPC Marketing Research Corp.

□ We will build an export and sales business for “domestic dairy products” by leveraging Lacto Japan's dominance



Source: Ministry of Finance, "Trade Statistics"

■ Export target is Asia

- Aiming to develop ASEAN and Chinese markets
 - The quality of Japanese products is highly evaluated in Hong Kong and Taiwan
 - Increasing health awareness
 - Rapid expansion of wealthy and middle class population
 - Japanese government to strengthen exports of agricultural, forestry and fishery products and foods
- Leveraging the dominance of Lacto Japan
- Leveraging the sales network in Asia
 - It will be possible to source competitive products by utilizing good relationships with Japanese dairy manufacturers

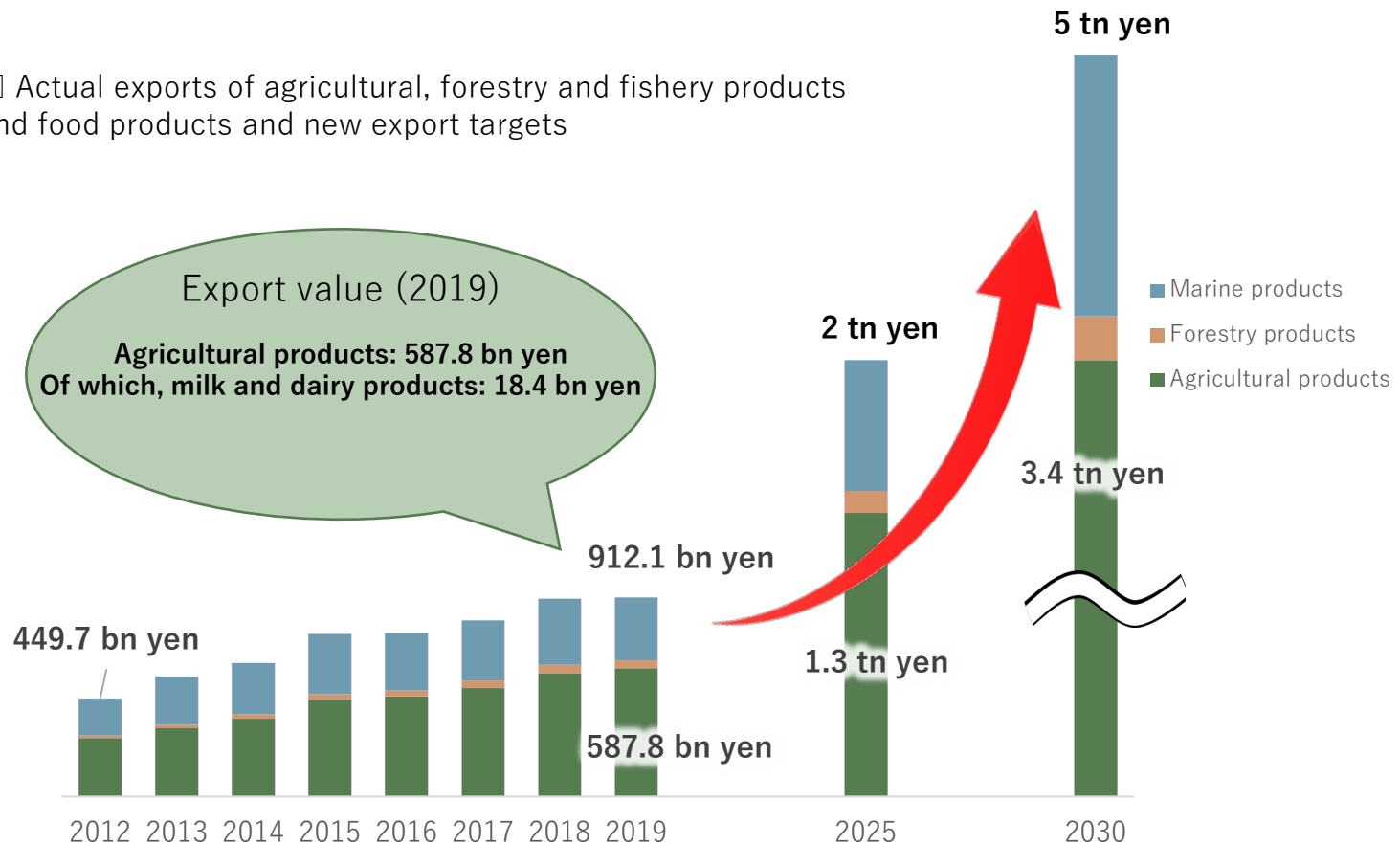
Lacto Group (Singapore)
Actual sales of Hokkaido-produced milk and dairy products

Fiscal 2019 to Fiscal 2020
Sales volume to double

(Reference) Japanese Government to Promote Exports of Agricultural, Forestry and Fishery Products and Foods

- Japanese government raises targets for growth in export value of agricultural, forestry and fishery products and foods
- 27 items with strong Japanese reputation overseas and large export expansion capacity are priority items
- Milk and dairy products included in "export priority items (27 items)"

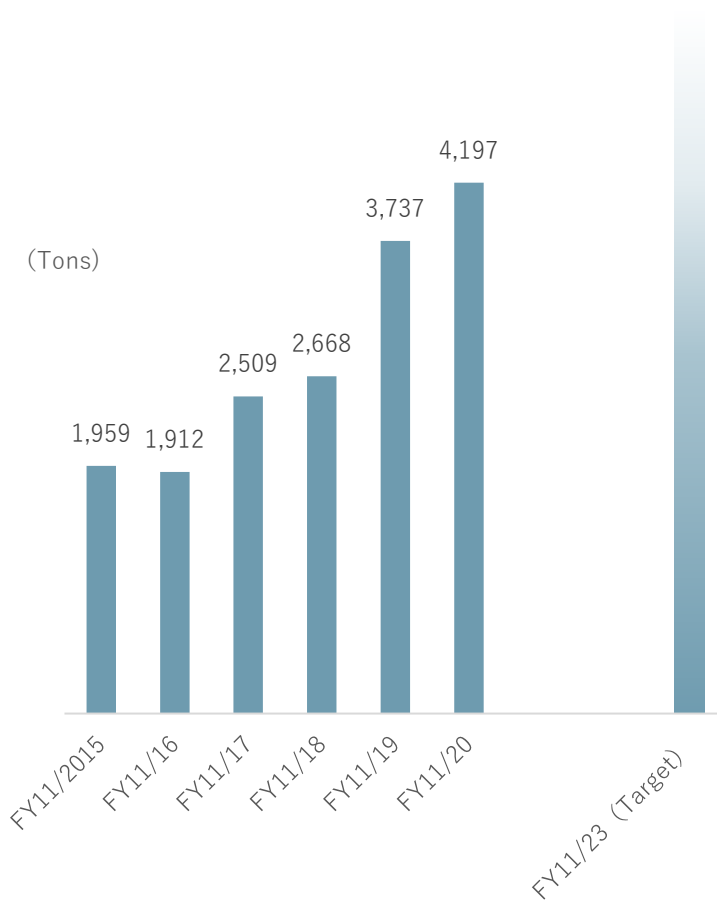
□ Actual exports of agricultural, forestry and fishery products and food products and new export targets



(Source) Based on Ministry of Agriculture, Forestry and Fisheries, "Trends in Administration of Agriculture, Forestry and Fisheries and After With Coronavirus Measures in the Agriculture and Food Industries"

Priority Measure ④ Strengthen Cheese Development and Improve Production System (Asian Cheese)

□ Sales Volume (Asian Cheese Business)



■ Newly developed products



■ Diversification of sources of raw materials

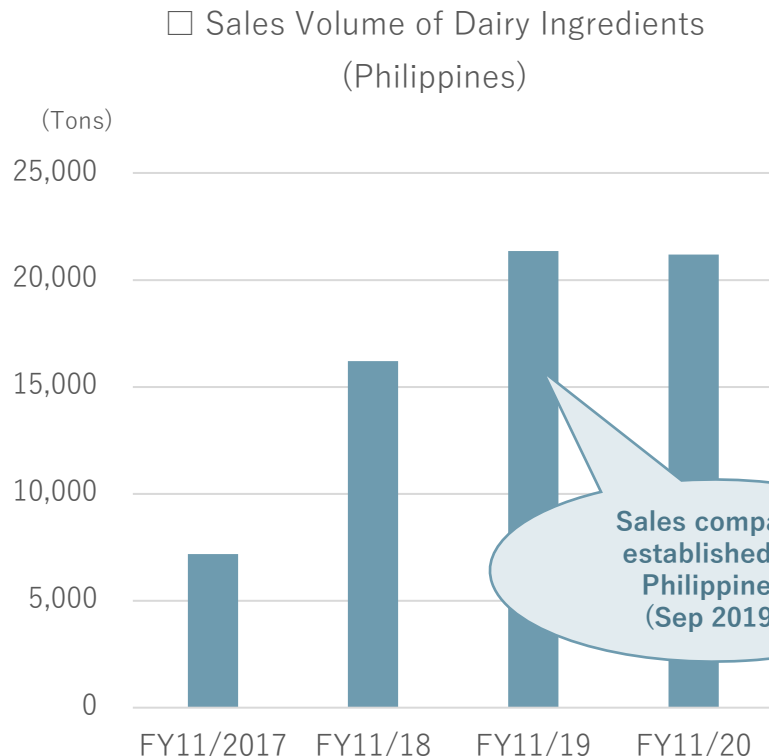
(Reduce raw material costs by leveraging strengths in raw material sourcing capabilities)

■ Review of production system

(Increase production capacity, international certification of production sites)

Priority Measure ⑤ Further Strengthen Marketing Capabilities, Based on "Localization" as Key Word (Asian Dairy Ingredients)

- Sales to the Philippines, where "localization" is progressing through the establishment of a sales subsidiary, remained strong in FY11/2020 as well. Lacto Asia (Singapore) and local staff at its sales subsidiaries are working together to provide detailed customer follow-up even mainly in remote sales.



■ Utilize local personnel

■ Promote Lacto Approach

* Lacto Approach

A marketing style cultivated over many years in the Japanese market that aims to optimize customer needs. Specifically, the provision of information through our global supply network, a system for supplying stable, reliable raw materials, and customer support based on the provision of knowledge and know-how by professional personnel.

Reference Information

Risk of Foreign Exchange Fluctuation



In principle, Lacto Japan's business model does not bear foreign exchange risk.

Lacto Japan enters into sales contracts with domestic customers at the same time as entering into foreign currency purchase contracts with overseas suppliers.

In such cases, Lacto Japan hedges the foreign exchange risk by entering into a forward exchange contract for the amount of foreign currency purchased.

It is of note here that under Japanese accounting standards Lacto Japan applies “separate accounting treatments” to foreign currency exchange accounts.

There is always an impact on the presentation of gross profit and non-operating income/losses (foreign exchange gains/losses.)

Transactions that straddle the end of the financial period (sales during and after the next financial period) will have an impact on the presentation of periodic profit and loss.

Characteristics of presentation

Since the exchange rate used for recording differs depending on the stage of the transaction, foreign exchange gains and losses occur at intermediate stages of the transaction.

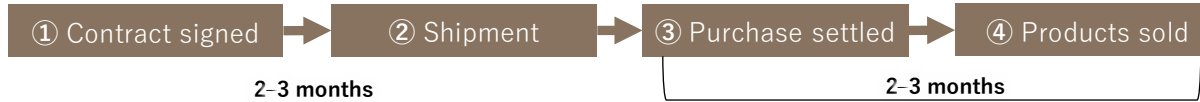
Ultimately, there is no impact on actual profit because sales and cost of sales are recorded based on the original exchange rate.

However, at intermediate stages prior to the recording of sales,

- ① there is an impact on the presentation of gross profit and non-operating income/losses, and
- ② as recording straddles financial periods, there is an impact on periodic profit and loss.

Illustration of Business Flow (Impact of Foreign Exchange Fluctuation)

Foreign exchange fluctuations have no impact on actual profit.



Accounting	Foreign exchange contract is signed (Rate as of ①) * Following treatment at the same time: - Foreign currency contract entered into with suppliers - Contract in yen amount entered into with customer = Actual profit/loss and cost determined	Cost of sales recorded = Actual rate of exchange (Rate as of ②)	Exchange difference resulting from fluctuation between Rate ① and ② is recorded as foreign exchange gain/loss	Sales recorded (Yen amount contracted at ①)
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Completion of transaction (completed up to ④)
When completed up to sale at ④, treatments at time of ① to ④ are aggregated and **the same amount as the actual profit/loss and cost at ① is recorded.**

If the end of the financial period arrives during the transaction
If the end of the financial period (quarter) is between the time of ③ and ④, the foreign exchange difference (non-operating profit/loss) is recorded in advance in the current financial period.

Currency Rate:
No change



Currency Rate:
Weaker yen




Forex gain is recorded in advance as non-operating profit at time of ③.
The purchase price at ② is higher than the amount of the forward exchange contract at ①.

Currency Rate:
Yen appreciation



Forex loss is recorded in advance as non-operating loss at time of ③.
The purchase price at ② is cheaper than the yen amount of the contract at ①.

A wide-angle photograph of a rural landscape at sunset. The sky is filled with soft, wispy clouds, and the sun is low on the horizon, casting a warm, golden glow. In the foreground, a lush green field is dotted with several black cows grazing. In the middle ground, a large, dark barn with a gabled roof sits on a slight rise. The overall atmosphere is peaceful and pastoral.

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.