

Long-term Vision and Corporate Business Plan

January 13, 2023



Lacto Japan Co., Ltd.

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Lacto Japan will celebrate the 25th anniversary of its foundation in 2023. We see this as our "second founding period" and have formulated a new management philosophy for the next 25 years.

Founded as a trading company specializing in dairy products, we have continued to expand our business domain and achieve profitable growth, including the launch of our processed cheese manufacturing and sales business in Southeast Asia in 2003.

Under our new management philosophy, we will continue to create demand for food that meets the needs of the coming era and provide diverse and abundant value to our various stakeholders, thereby achieving sustainable growth.

As specific efforts to achieve this goal, we have formulated a long-term vision for the next 10 years and a three-year corporate business plan. As in the past, our basic policies are organized into three categories: "Base," "Growth," and "Challenges." In the existing businesses which are our "Base," we will continue to evolve with ingenuity while appropriately assessing the business environment. Next, with regard to "Growth," we will expand our Asian business with processed cheese manufacturing and sales at its core. And then, under "Challenge," we plan to build next-generation businesses, including the development of functional food businesses that lead to better health.

Finally, we have established "Nurture the future" as our corporate brand to collectively refer to this new management philosophy and corporate business plan. It expresses our desire to contribute to a healthy future for people through food, to contribute to the future of the primary industry, which is the foundation of that, and to work together to nurture a prosperous future for all stakeholders, including employees, shareholders, and business partners.

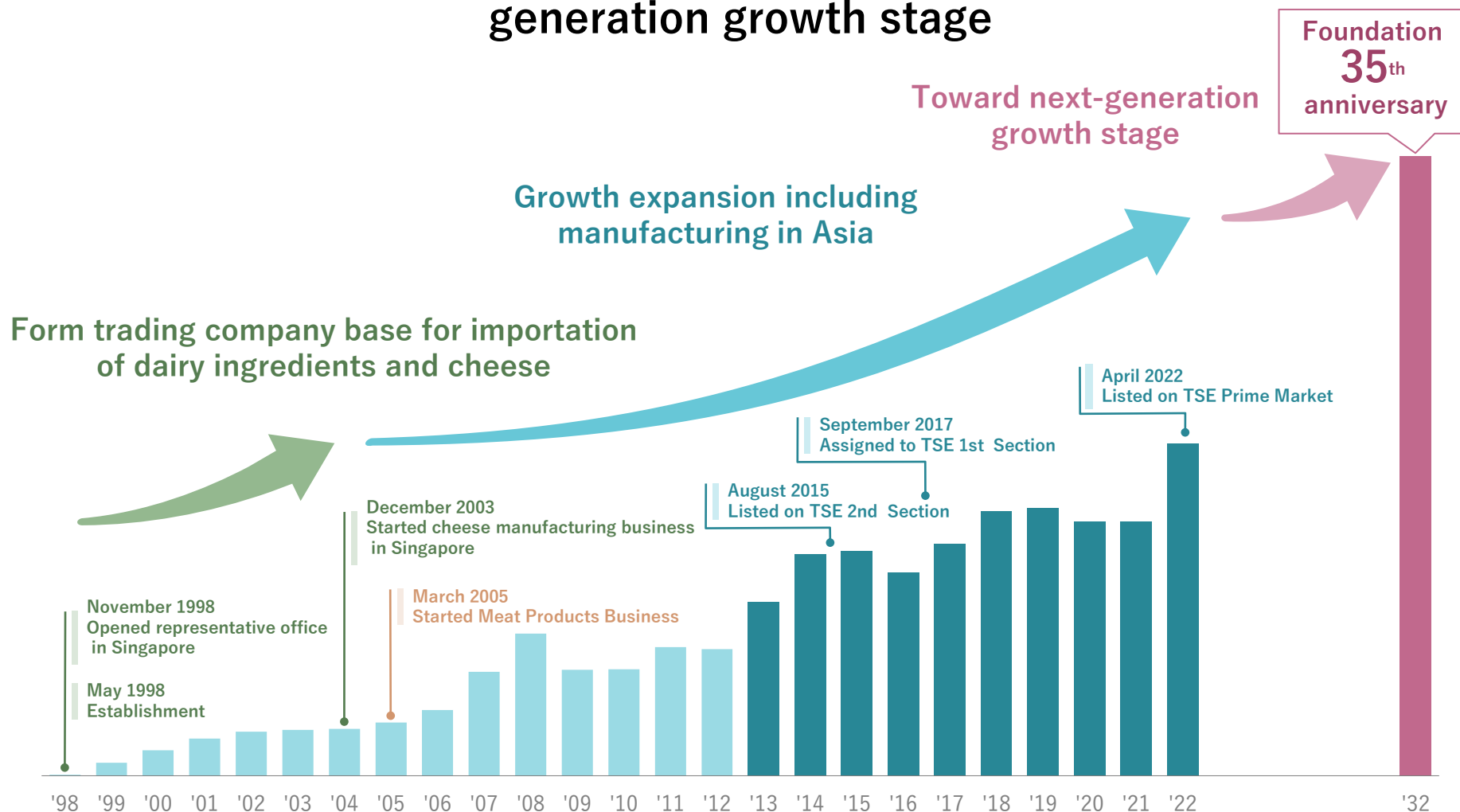
Motohisa Miura
President
Lacto Japan Co., Ltd.





Management Philosophy

Further expand our business domain and aim for the next-generation growth stage



Formulated a new management philosophy as our “second founding period”

Management Philosophy

Our Purpose

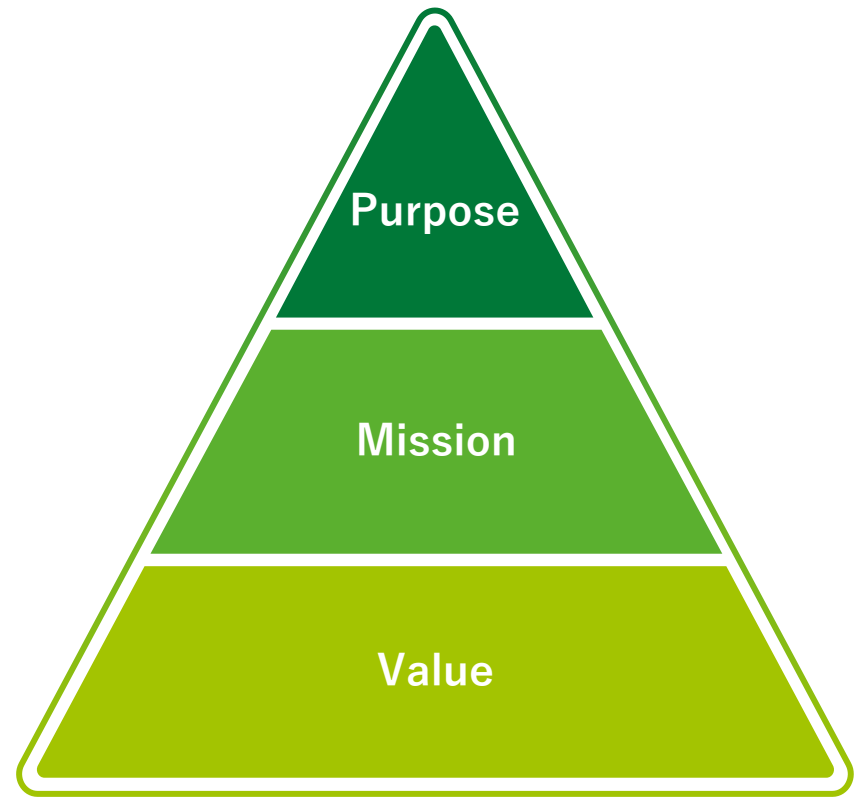
Bring health and happiness to people by connecting the world through food

Our Mission

Contribute to the future of the primary food industries
Create new demand for dairy products
Enrich the lives of all stakeholders

Our Value

Fairness



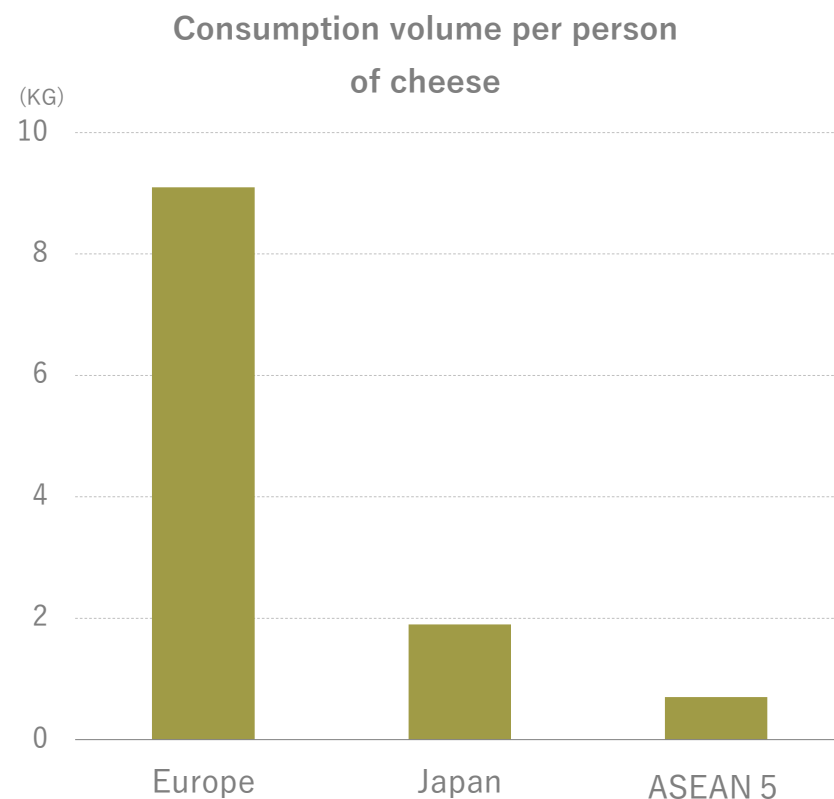
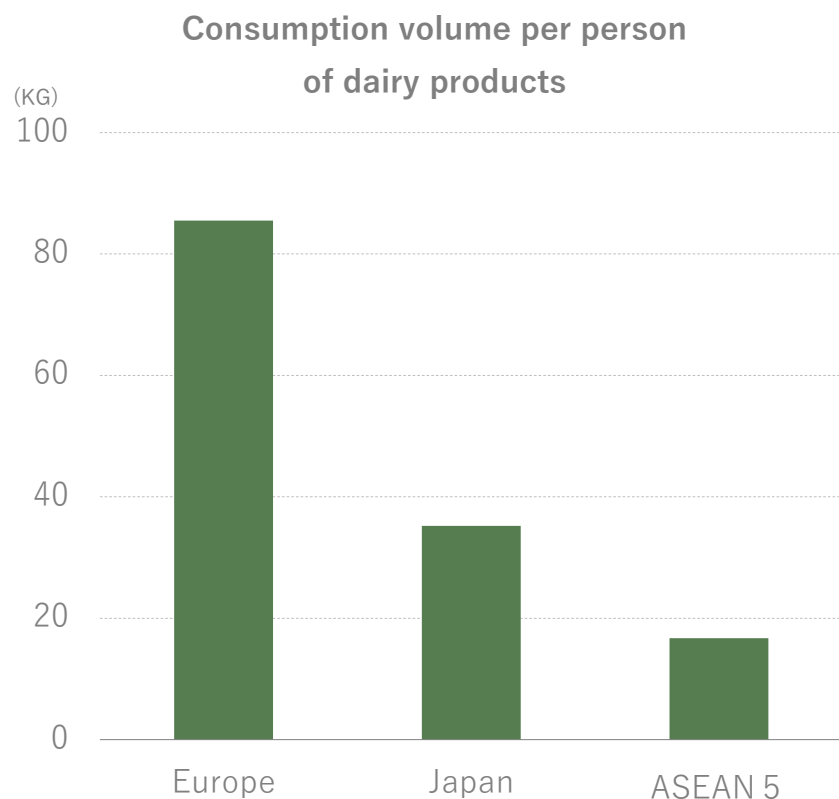


Business Environment

	Megatrends	Projected impact	Directions to be addressed
World	Global food struggles, growing environmental awareness <ul style="list-style-type: none"> • Manifestation of food problems due to world population growth • Changes in dairy and livestock farming industries due to climate change issues • Increasing demand for plant-based foods 	<ul style="list-style-type: none"> • Supply risks • Regional risks • Rises in market prices 	<ul style="list-style-type: none"> • Diversification of procurement routes for raw materials and imported processed products • Addressing environmental problems
Asia	Asia's economic growth, Westernization of food <ul style="list-style-type: none"> • Market expansion due to population growth and economic development • Increase in consumption volume per person of dairy products and cheese • Entry of global companies 	<ul style="list-style-type: none"> • Market expansion • Increased purchasing power • Intensification of competition 	<ul style="list-style-type: none"> • Expansion of market share through aggressive investment • Creation of higher value-added products • Export of Japanese foodstuffs
Japan	Solid demand for imported dairy ingredients, cheese and meat <ul style="list-style-type: none"> • Domestic market is mature, but imports are increasing due to declining number of dairy and livestock farmers and free trade agreements • Increase in consumption volume per person of cheese Further aging of population and increasing health awareness <ul style="list-style-type: none"> • Expanding markets for health foods, supplements, functional foods, and sports nutrition Lifestyle changes, labor shortages <ul style="list-style-type: none"> • Labor-saving cooking at home due to dual-income households, individual meals, etc. • Retail and food service companies trying to save labor due to labor shortages 	<ul style="list-style-type: none"> • Imported goods market is strong • Expansion of cheese demand • Opportunities to create new demand 	<ul style="list-style-type: none"> • Market share expansion • Build next-generation businesses while existing businesses are strong • Best matching including product development and diversification of products handled • Entering the field of prepared dishes and other highly processed foods

Key Factor: Consumption volume per person of dairy products

**Consumption volume per person in Asia is low and room for expansion is very high
In Japan, as well, cheese consumption volume is about 20% that of Europe, which is
low, so there is plenty of room for expansion**



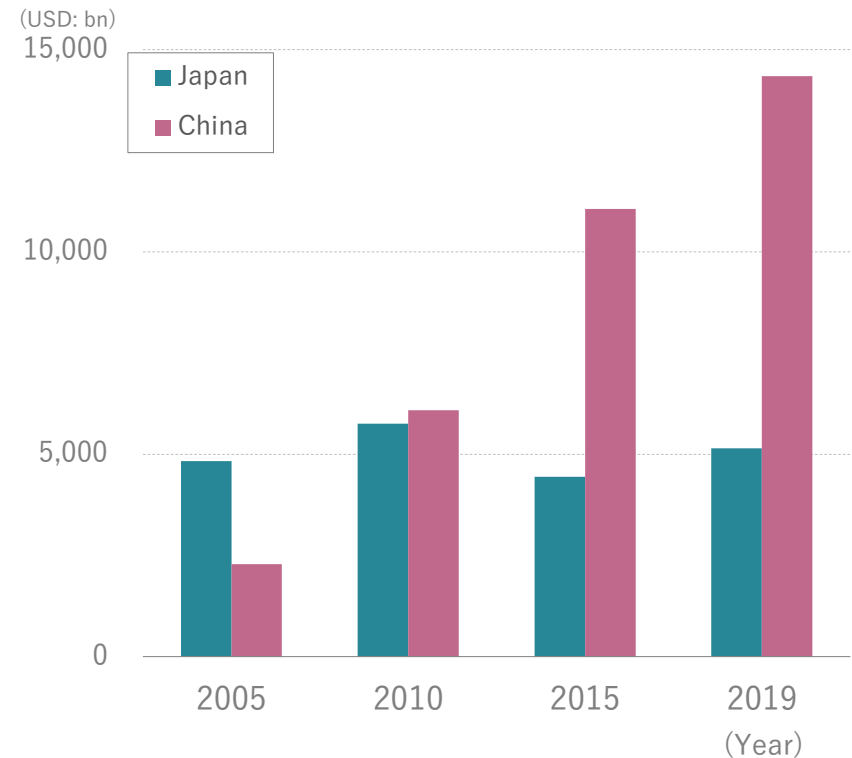
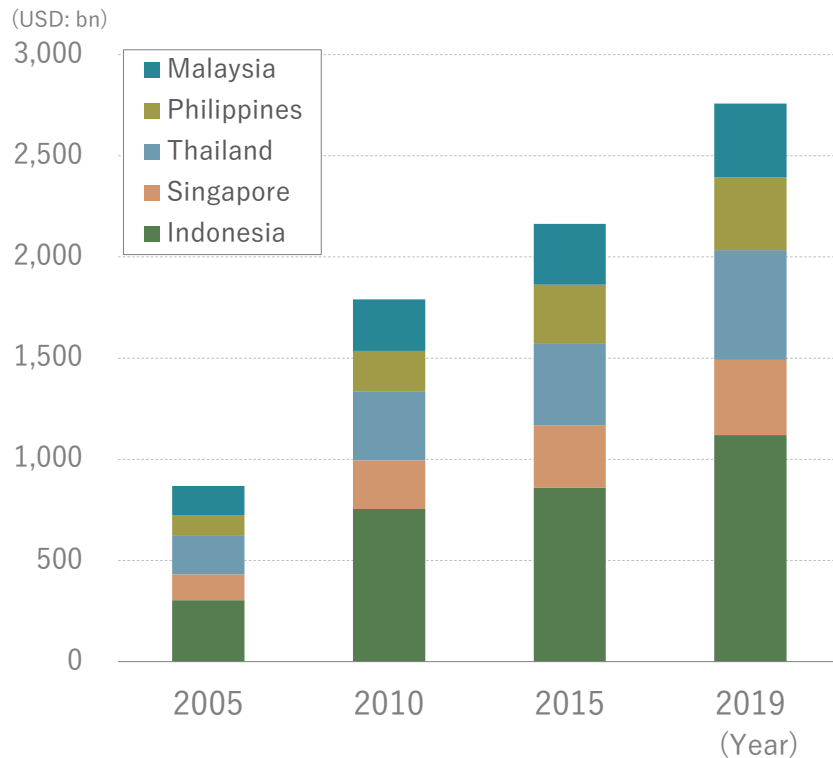
Note: ASEAN 5 comprises Indonesia, The Philippines, Malaysia, Thailand and Vietnam.
Consumption volume is annual amount

Source: Euromonitor International Limited, FY2021

Key Factor: Asia's economic growth - GDP

GDP in the five major ASEAN countries where we have bases roughly tripled in the 15 years prior to the COVID-19 pandemic
China's GDP increased more than six times, marking very high economic growth

Trends in nominal GDP

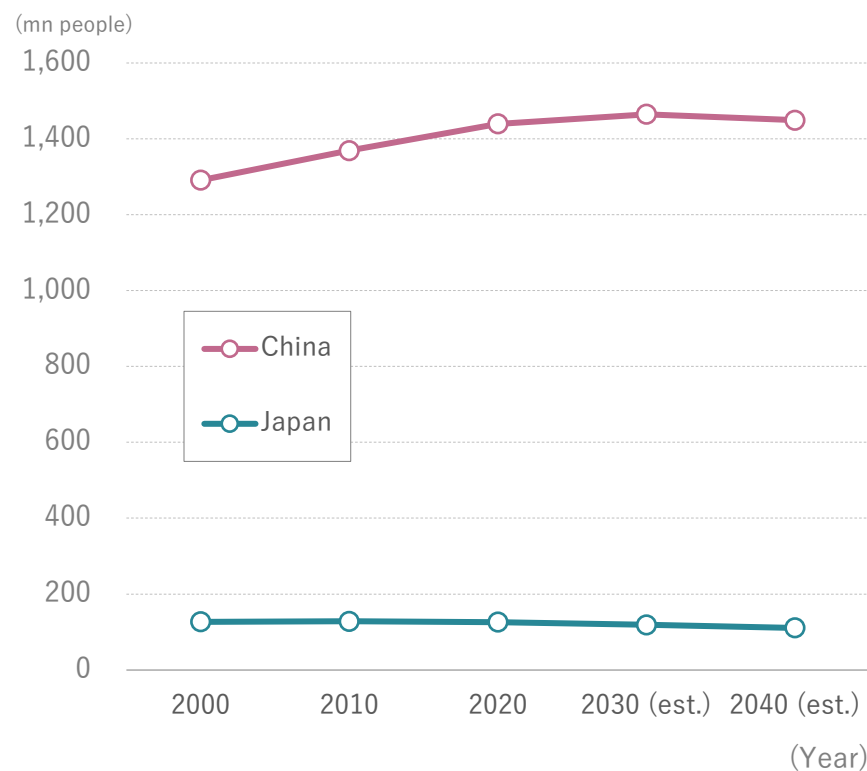
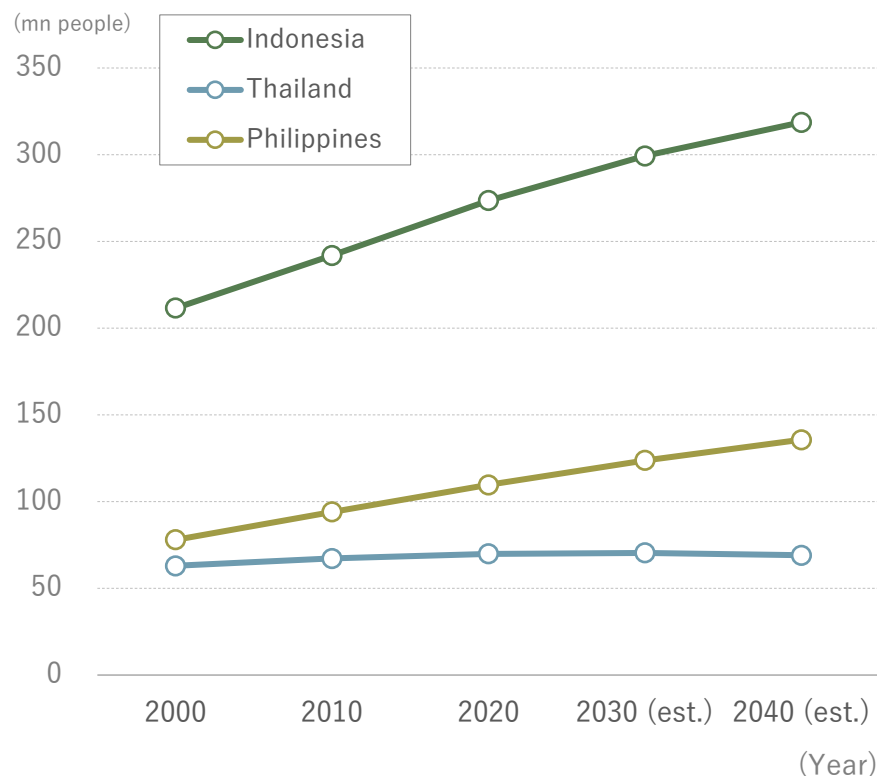


Source: Based on "World Statistics 2022," Statistics Bureau, Ministry of Internal Affairs and Communications

Key Factor: Asia's economic growth - population

Indonesia and the Philippines have great potential for economic growth as per capita GDP will increase in addition to continued population growth through 2040
In China and Thailand, as well, population growth is forecast to continue until 2030

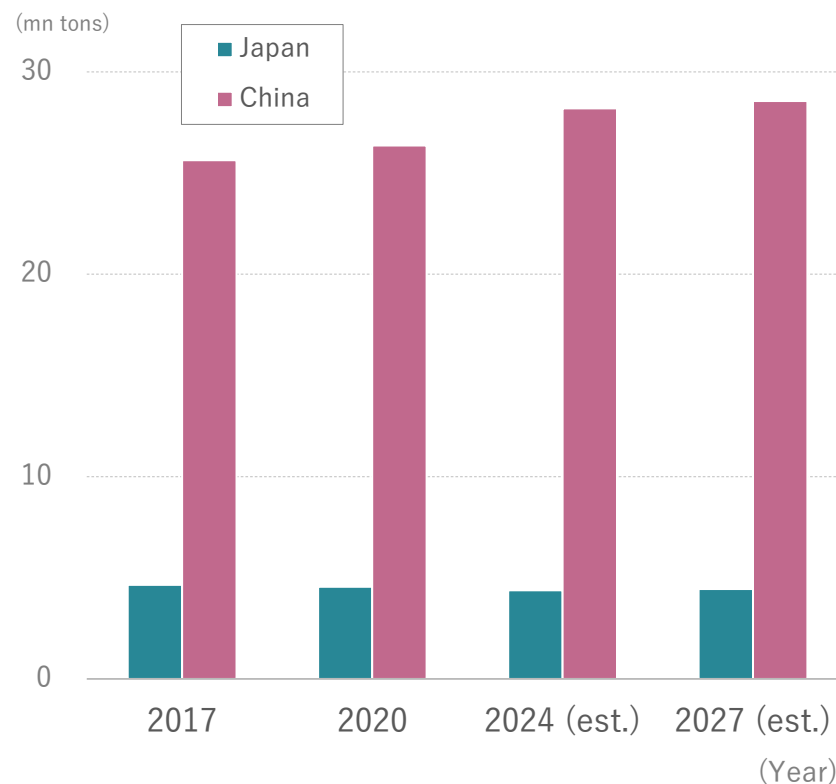
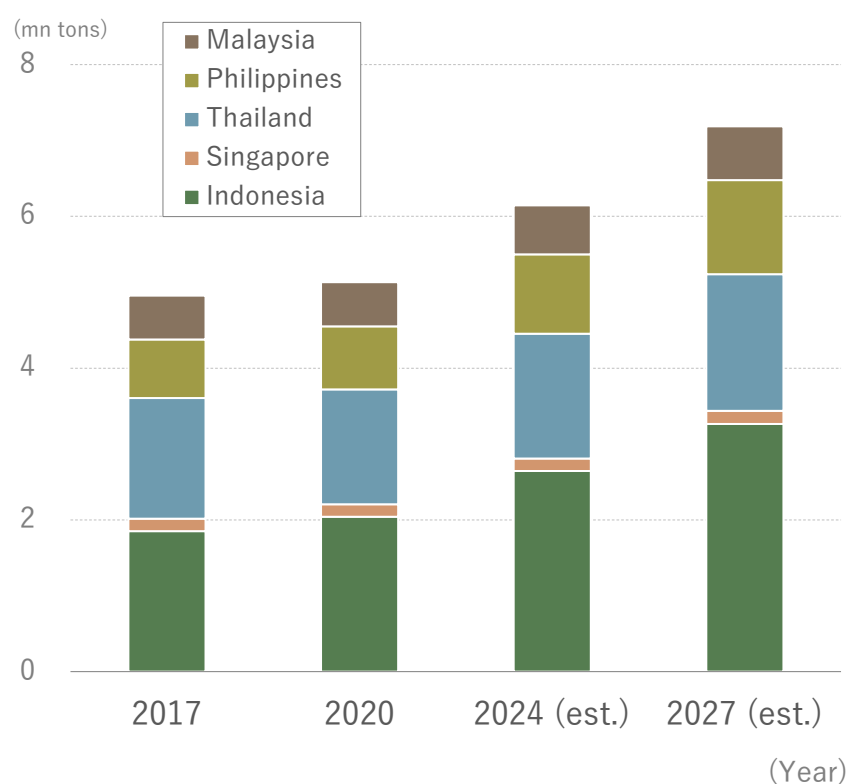
Population trends and estimates



Source: Based on "World Statistics 2022," Statistics Bureau, Ministry of Internal Affairs and Communications

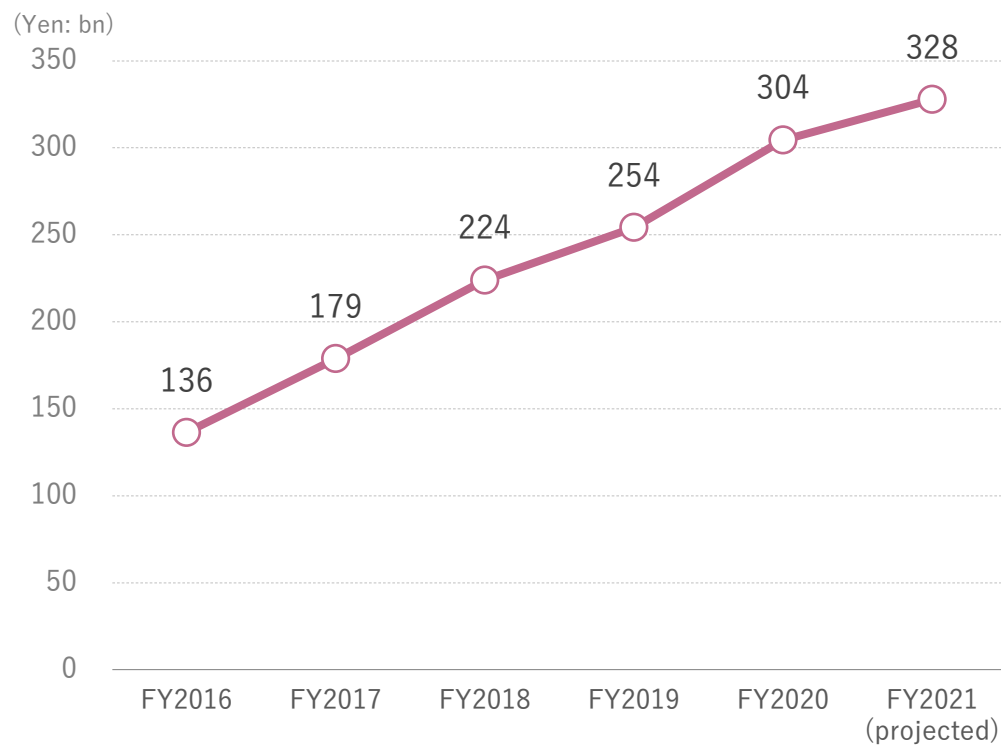
Dairy product consumption volume in the five major ASEAN countries is expected to increase steadily as a result of the synergies with economic growth as people's diets become more Westernized

Dairy product consumption volume trends and estimates

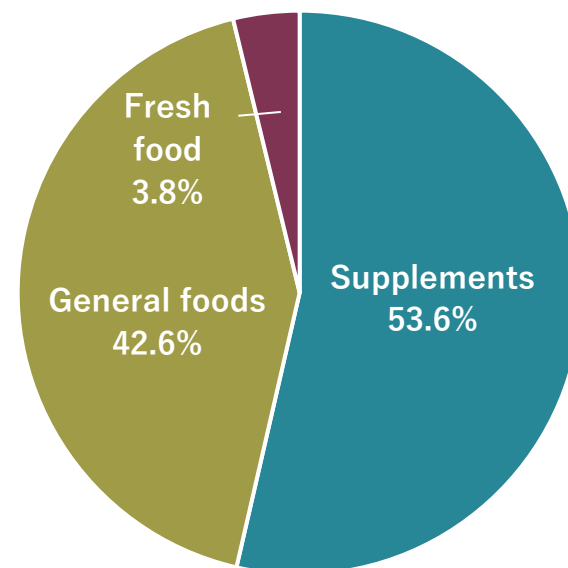


The health food market is robust due to the aging population and growing health consciousness. In this market, the growth of functional foods is remarkable; not only supplements but also many general foods

Size of functional food market



Breakdown of FY2020



Note 1: Based on manufacturers' shipment value

Note 2: Only functional food products in the form of pills, capsules, powders, and mini-drinks for which notification has been accepted by the Consumer Affairs Agency

Note 3: Projected figure for FY2021

Source: Compiled by Yano Research Institute Ltd. based on "Health Food Market 2022 - Market Analysis"



Long-term Vision “LACTO VISION 2032”

Lacto Japan has established the following long-term vision in 10 years (35th term: FY11/2032)

Slogans

Change from a trading company specializing in dairy products to a complex food company

Become No. 1 in Japan and the world in dairy product transaction volume

Create demand through best matching and contribute to the development of the dairy and livestock farming industries

Numerical targets

Consolidated
ordinary income

¥6.0 bn

Overseas ratio
(Based on consolidated
ordinary income)

40%

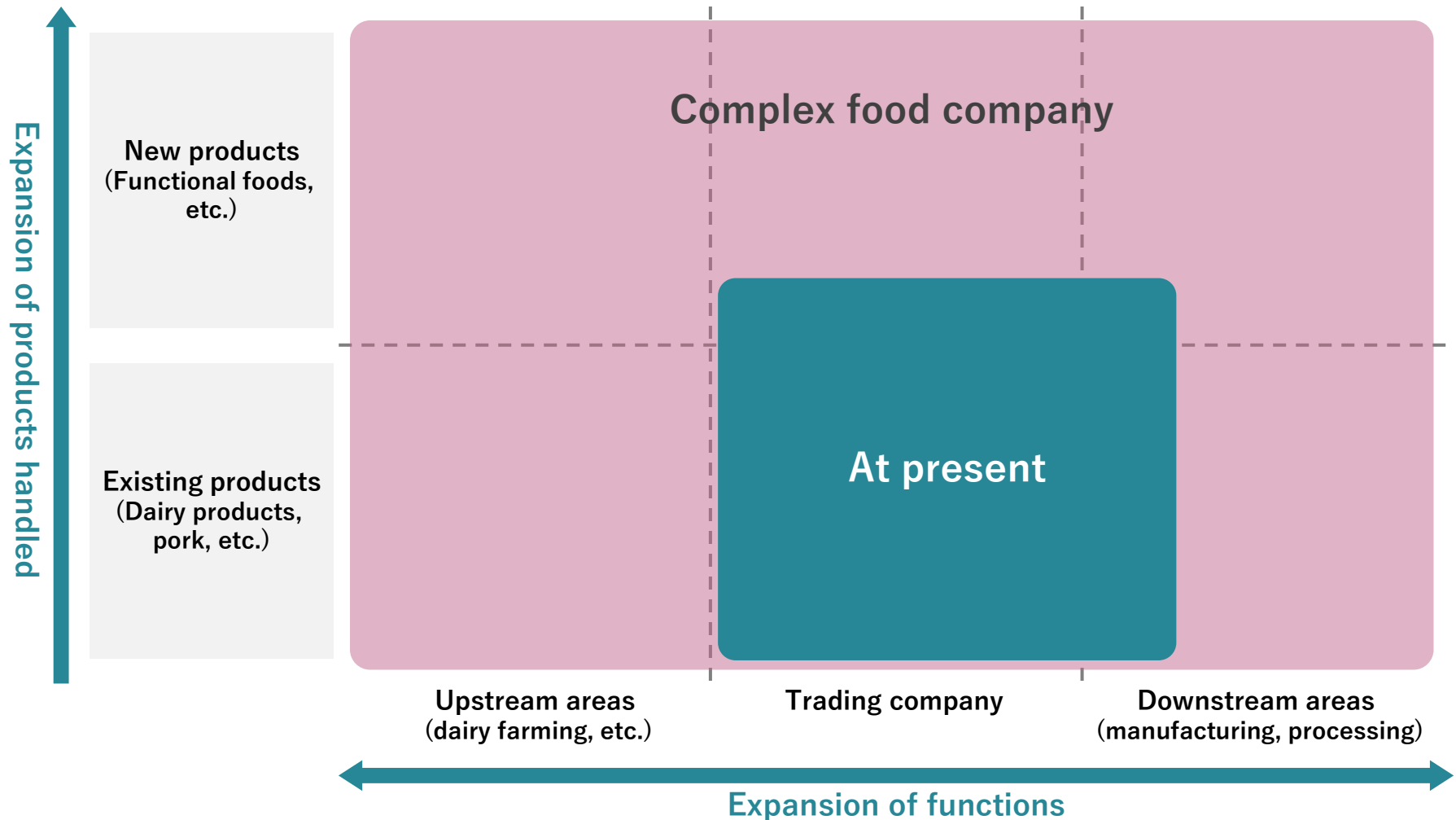
Dairy product
transaction volume
(Group total)

450,000
tons

ESG targets

We have identified six materialities and set individual measures and quantitative targets (in part)

Complex means a combination of "broadening the range of products" and "expanding functions"



25th term : FY11/2022 35th term : FY11/2032

**Consolidated ordinary
income**

¥3.1 bn

 **¥6.0 bn**

Overseas ratio
(Based on consolidated
ordinary income)

27%

 **40%**
















**Dairy product
transaction volume**
(Group total)


**240,000
tons**

 **450,000
tons**

ESG Targets: Materialities and Individual Measures

Related SDGs

Supplying safe and reliable food	<ul style="list-style-type: none"> ● Thorough quality control (traceability, food defense, temperature control, etc.) ● Selection of suppliers (audit, inspection, sample testing) ● Reinforcement of processed cheese manufacturing system (review of physical and non-physical aspects, employee training) 	 
Contributing to a healthy and enriched life	<ul style="list-style-type: none"> ● Sourcing dairy products that contribute to nutrition and health from around the world ● Expansion of plant-based food ingredients (to accommodate veganism, dairy allergies, etc.) - Transaction volume in 3 years: 1,900 tons (at present: 131 tons) ● Proposal of foods and raw materials that match diverse lifestyles 	  
Stable supply through sustainable dairy and livestock farming	<ul style="list-style-type: none"> ● Diversification of supply sources (quality, origin characteristics, price, etc.) ● Best matching (customers: proposing and procuring optimal raw materials / business partners: proposing sales opportunities and creating new demand) ● Dairy farmer development (supporting international human resource exchange, considering entering the dairy industry, etc.) ● Improving efficiency and labor saving in procurement and supply through promotion of digitalization 	   
Adaptation to climate change and reduction of environmental impact	<ul style="list-style-type: none"> ● Diversification of supply sources (mainly diversifying climate change risks, prioritizing and supporting environmentally conscious dairy farmers) ● Contributing to reduction of greenhouse gases (collaboration with dairy and livestock industries, provision of information and services to suppliers) ● Reduction of food loss (efforts to extend product life, setting appropriate expiration dates, reducing waste loss) ● Waste reduction (review of packaging materials) ● Optimization of logistics (best matching of logistics to reduce environmental impact) ● Reduction of environmental impact at our own offices and factories 	   
Creating workplaces where diverse human resources can work with pride	<ul style="list-style-type: none"> ● Promotion of diversity (women, localization/globalization, employment of people with disabilities, etc.) - Ratio of female managers: at least 20% in 3 years, at least 30% in 10 years (at present: 19.7%) ● Development of good working environment (childcare leave and other systems, telework, etc.) - Male childcare leave (parental leave) acquisition rate of 100% in 3 years (at present: 66.7%) ● Strengthening of human resource development (enhancement of education and training) - Education costs per person to triple in 2 years 	   
Enhance governance	<ul style="list-style-type: none"> ● Responsible supply chain management ● Full compliance in corporate governance ● Risk management (BCP, information security, compliance) 	  



Corporate Business Plan “NEXT-LJ 2025” (FY11/2023~FY11/2025)

	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 products	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**

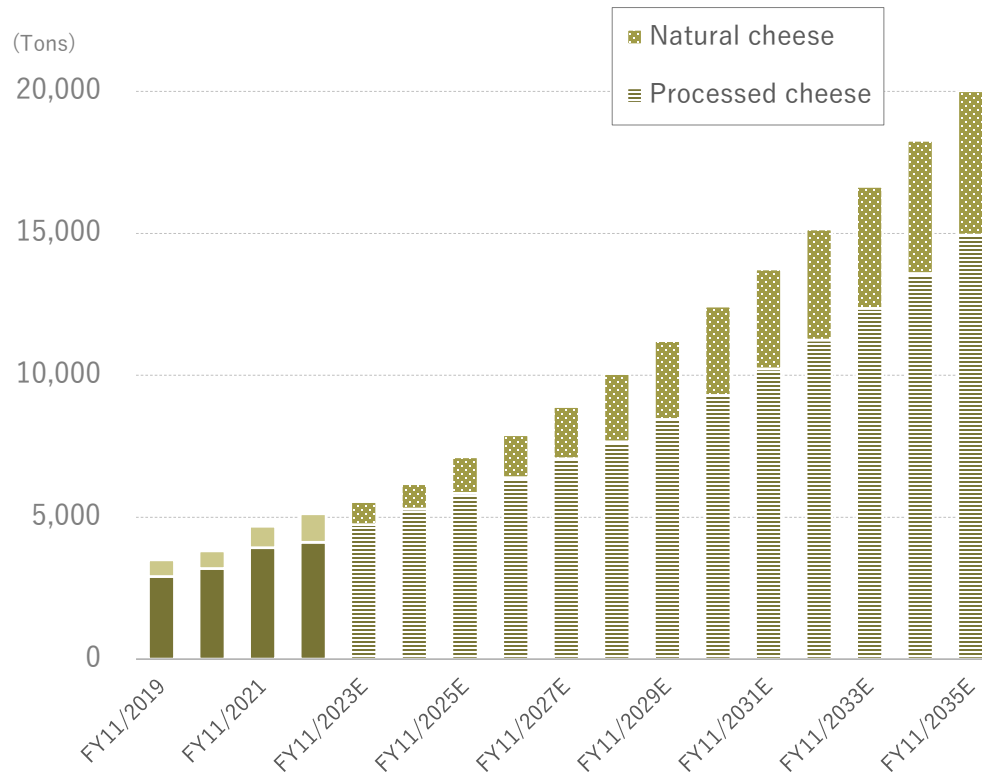
Business segment	Business policy	Major measures	Relationship to Basic Policy			
			Base	Growth	Challenges	Management base
Dairy Ingredients (Asia)	Strengthen local systems to capture robust market growth and increase market share	<ul style="list-style-type: none"> ● Diversification of supply sources ● 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 			●	●

Priority Measure: Expand cheese manufacturing and sales business

Raise cheese manufacturing sales volume to 15,000 tons in Asia

Sales volume of cheese manufacturing and sales business

*Excluding Indonesian factory



Note: Estimated planned values from 2023 onward

Expand production capacity - Triple group production capacity

- Relocate new factory in Singapore (move from current factory)
- Promote automation of manufacturing processes

Expand sales of natural cheese products

- Expand manufacturing (processing) capacity
- Leverage synergies with processed cheese production and sales

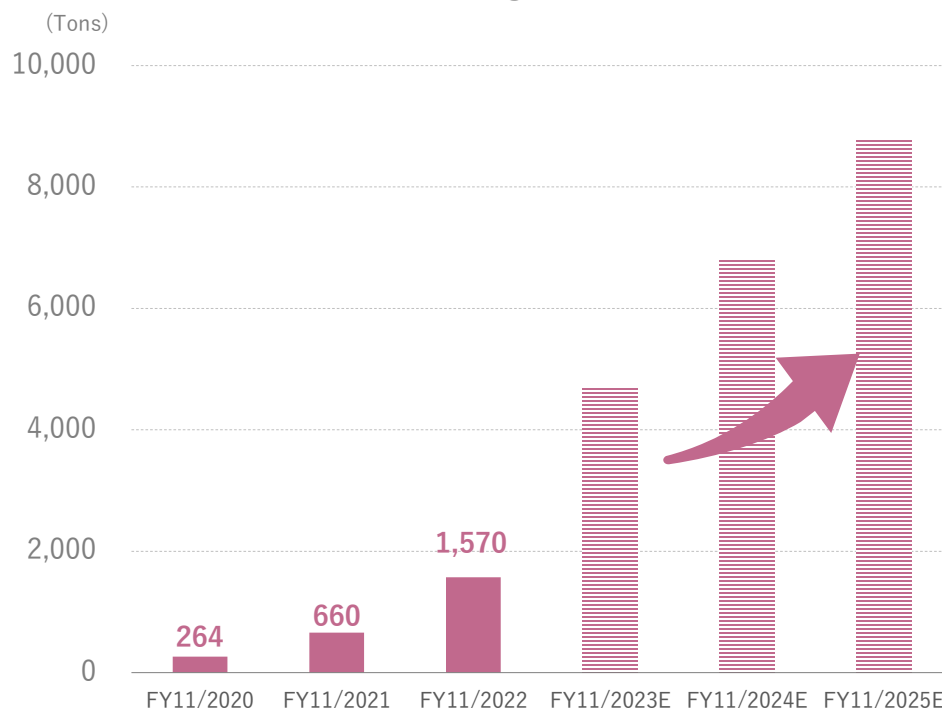
(Leverage strength of combining processed cheese production and natural cheese processing lines in same factory)

Develop and manufacture new products

- High-value-added products such as vegan cheese
- Products for retail market

Make functional food business a pillar of next-generation business and a “new growth engine”
In addition, accelerate expansion including alliances & collaboration and exports

Functional food ingredients sales volume



Continue aggressive development of marketing activities

- Strengthen sports nutrition
- Propose and sell functional foods containing gelatin and collagen

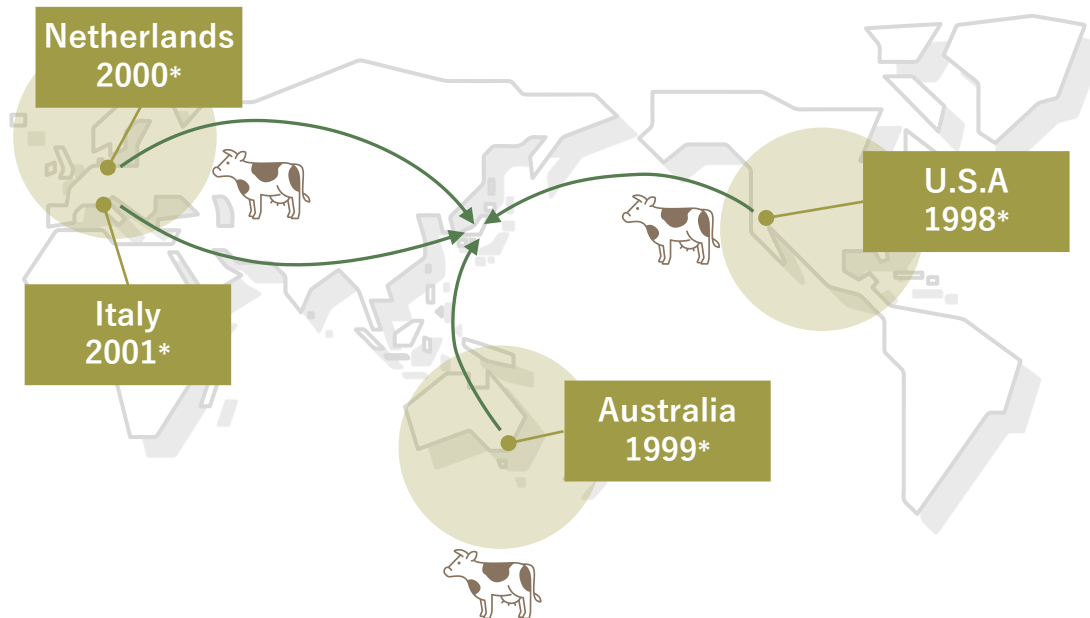
Acceleration through new development

- Expand business domains through alliances and collaboration
- Exports and trilateral trade of functional foods in cooperation with overseas bases, etc.

Diversify supply sources to ensure stable supply and address climate change issues

Diversify meat business by diversifying suppliers and procurement items

Major production areas and procurement bases



... Major production areas for dairy Ingredients

... Our procurement bases
*Year is the year of establishment of the base or local subsidiary.

Diversify procurement of dairy ingredients and cheese

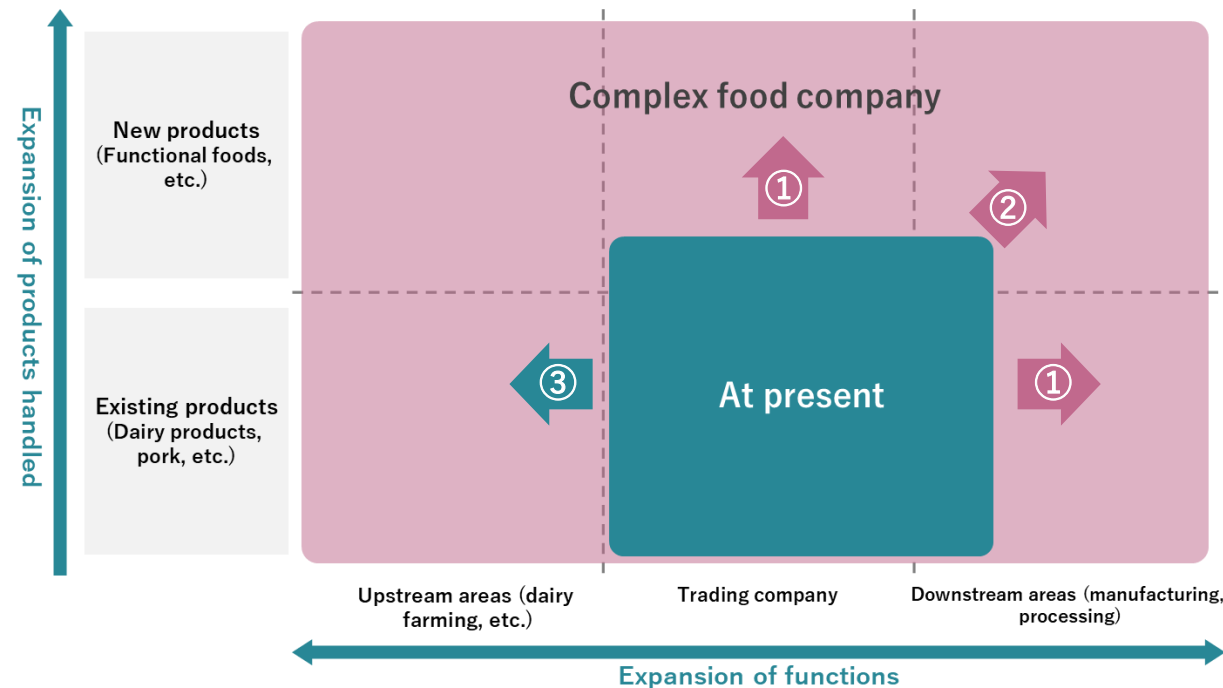
- Evolve global procurement network to ensure stable supply and address climate change issues
- Diversify forms of contracts

Diversify procurement of meat products

- Expand handling of not only pork, but also beef and chicken
- Diversify in terms of sources and items of processed products and processed foodstuffs

Evolve into a complex food company by expanding product lineup and functions
Raise profit margins by increasing highly processed products

Correspondence with business domains



Raise degree of processing ①

- Handling of processed foods and luxury foods that are closer to final consumer goods than existing products
- Expansion into production and processing of prepared dishes, etc.

Expand manufactured items other than cheese ②

- Contract manufacturing at overseas plants, etc.
- M&As with food product makers

Contribute to sustainable dairy farming, etc. ③

- Environmentally friendly dairy farming

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)
Consolidated net sales	¥147.4 bn	¥160.0 bn	¥180.0 bn	¥200.0 bn
Consolidated 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

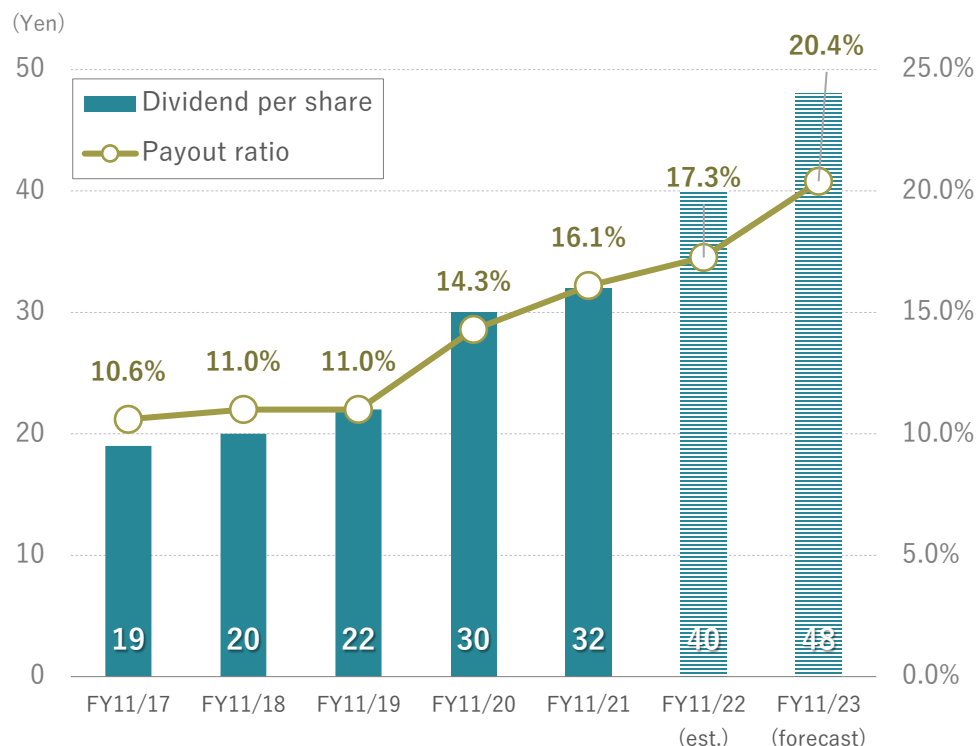
Item	FY11/2022 (Actual)	FY11/2025 (Plans)
ROE	10.9%	10% or more
Payout ratio	17.3%	20-25%
Consolidated shareholders' equity ratio	30.5%	30-35%

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

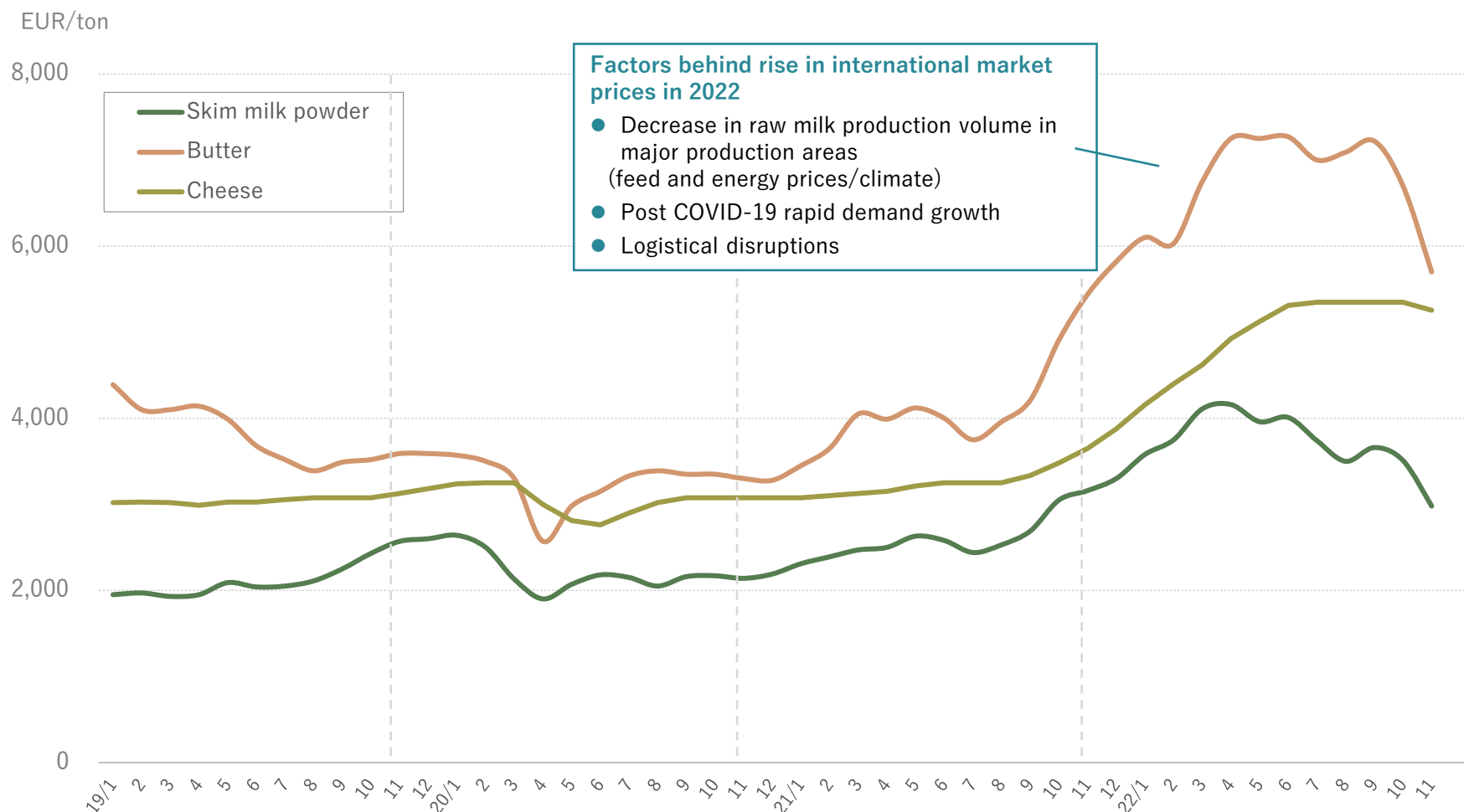
- We aim to further improve the dividend payout ratio from 20% in FY11/2023, the 25th anniversary of the company's founding, to a target of 20-25% in three years' time.

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



Reference Materials

Trends in international prices of dairy products



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

Domestic consumption, production and import trends for dairy products

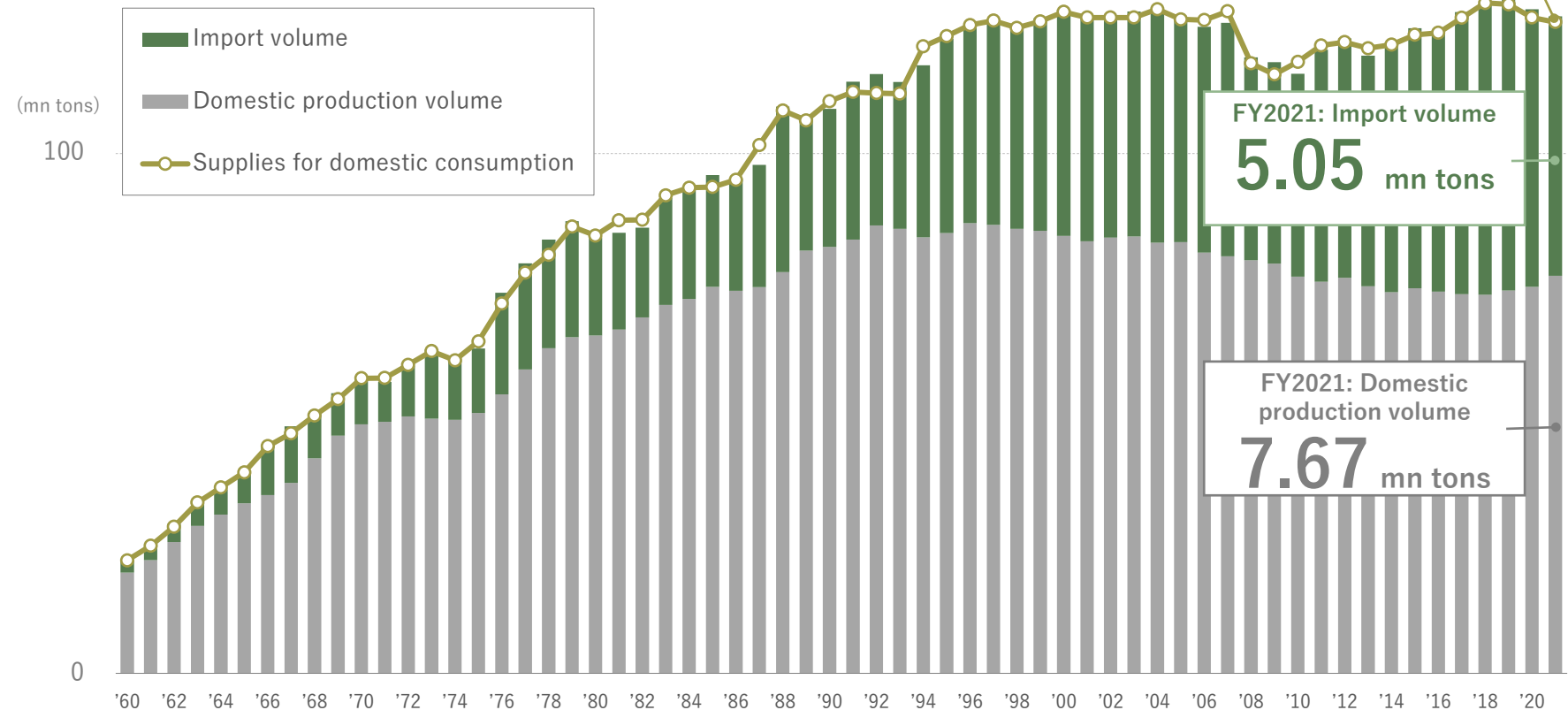
Domestic consumption, production and import trends for dairy products

FY2021: Import ratio
40% approx.

FY2021: Domestic
consumption volume
12.53 mn tons

FY2021: Import volume
5.05 mn tons

FY2021: Domestic
production volume
7.67 mn tons



(Source) Based on MAFF, "Food Balance Sheets" (approx. estimates for FY2021)

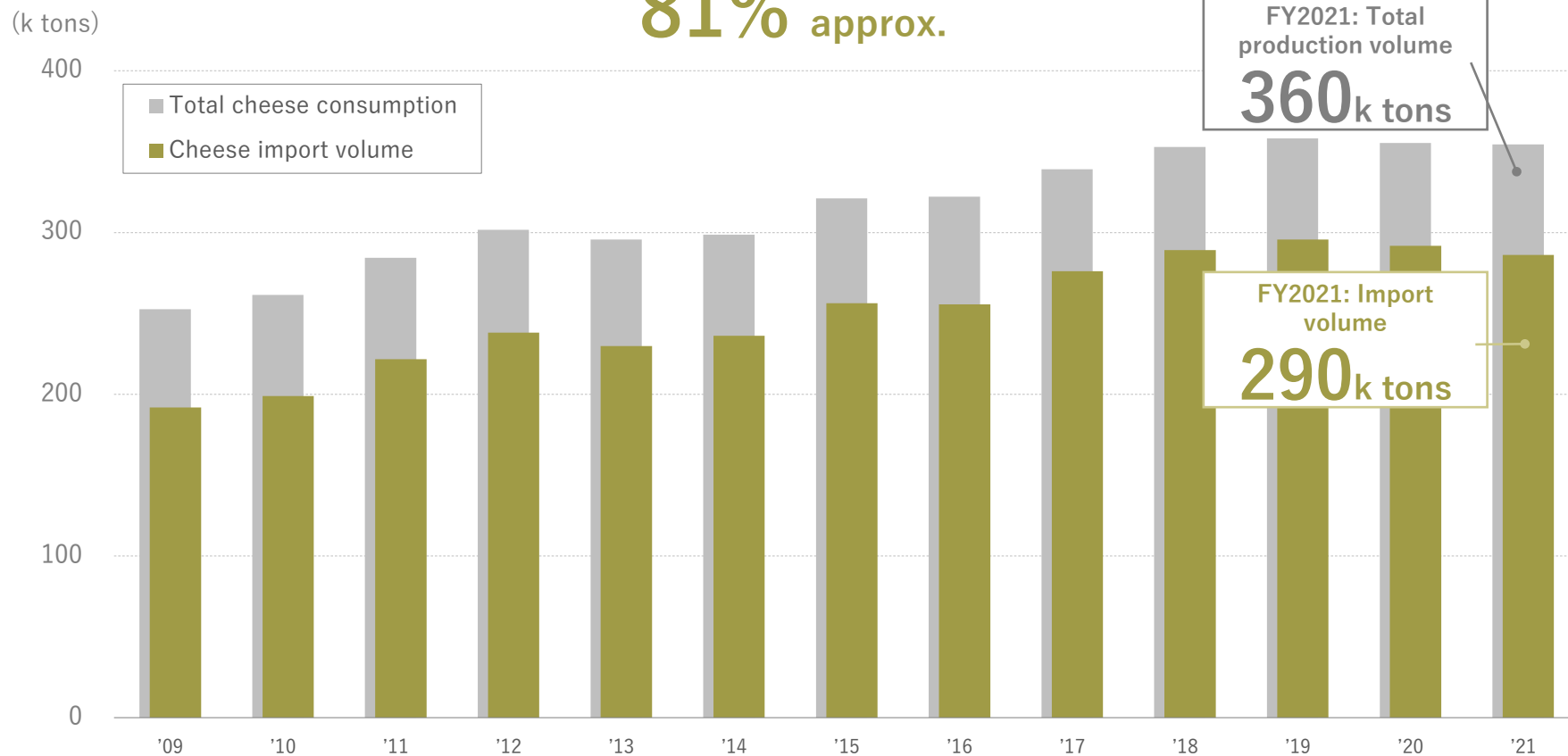
(Note) Data are on a raw milk equivalent basis, and show total of food + feed use

Domestic consumption, production and import trends for cheese

Domestic consumption, production and import trends for cheese

FY2021: Import ratio

81% approx.

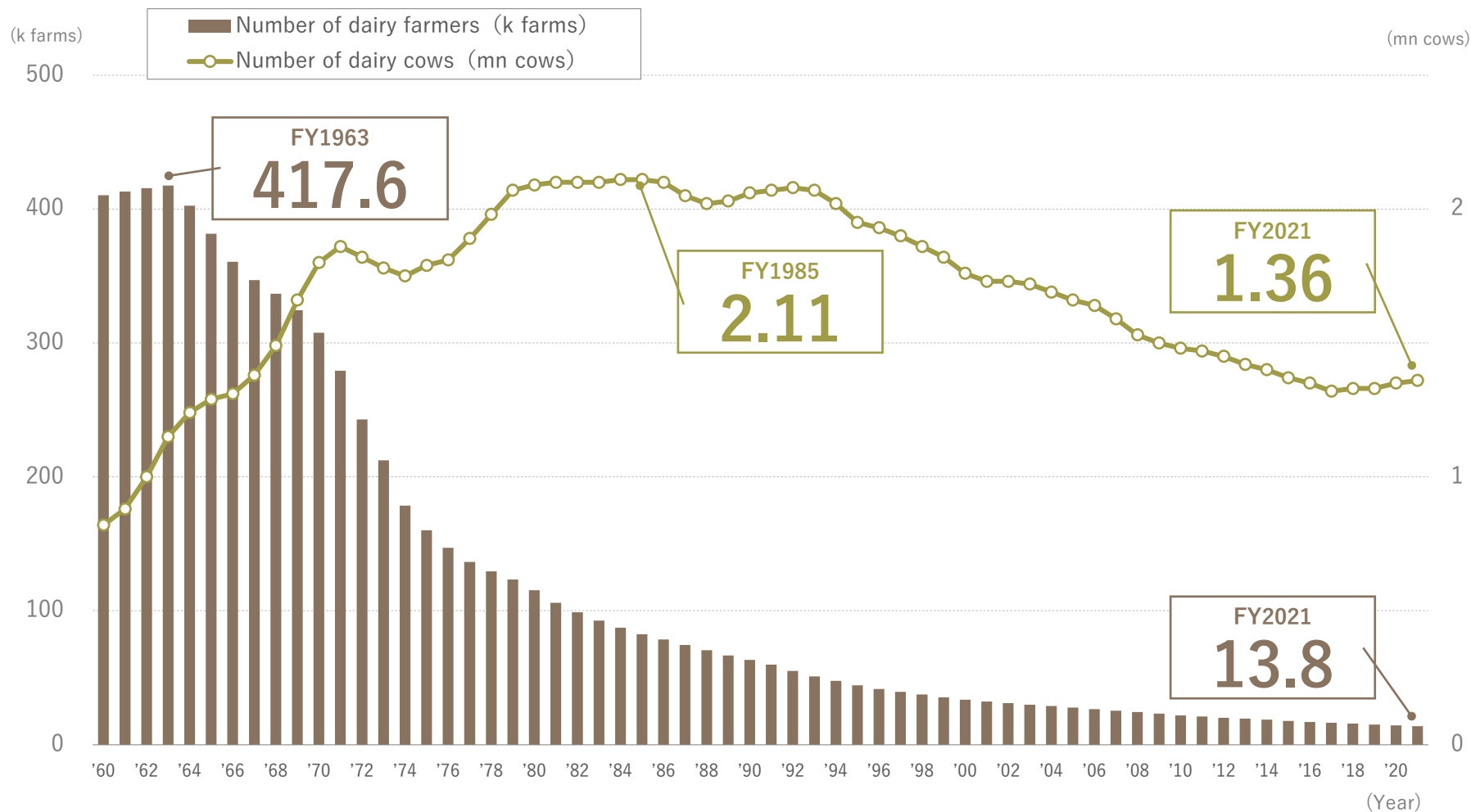


(Source) Based on MAFF, "Cheese Balance Table"

(Note) Import ratio is the ratio of cheese imports (natural cheese + processed cheese) to total cheese consumption.

Trends in domestic dairy farming industry

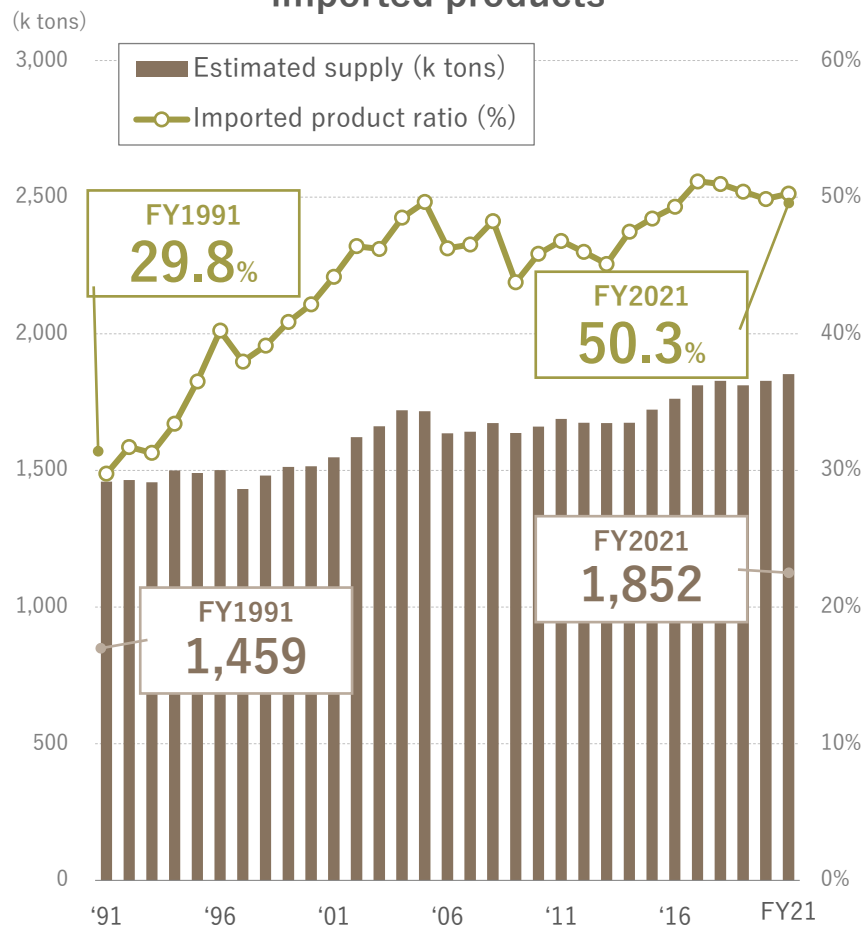
Number of dairy farmers and number of dairy cows raised



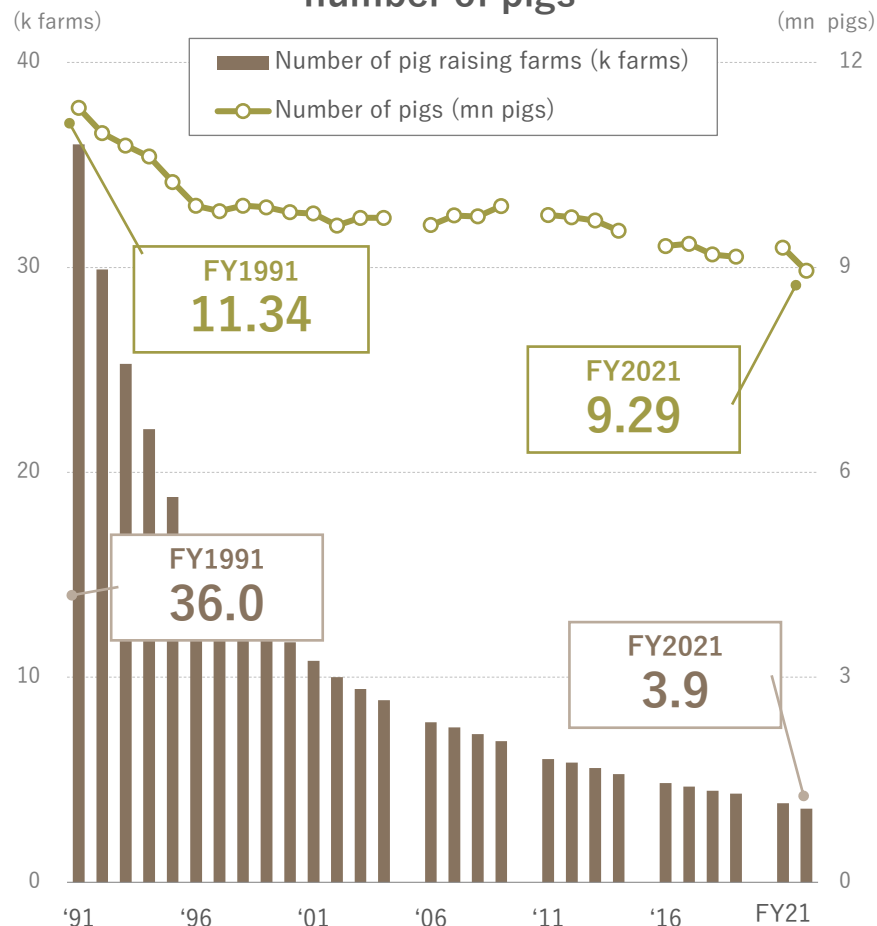
Source: Livestock Statistics, "Continuous yearly statistics for number of dairy cattle feeding households and heads,"
Ministry of Agriculture, Forestry and Fisheries

Trends in domestic consumption and imports of pork; trends in domestic livestock farming industry

Pork demand (supply) and ratio of imported products



Number of pig raising farms and number of pigs



Source: Based on Agriculture & Livestock Industries Corporation (ALIC), "Pork Supply and Demand"

Source: Based on ALIC, "Pig Raising Trends"

A wide-angle photograph of a rural landscape at sunset. In the foreground, a lush green field is dotted with several black cows. In the middle ground, a large, weathered barn with a dark roof stands on a slight rise. The background shows a line of trees and utility poles under a vast sky filled with soft, wispy clouds. The sun is a bright, glowing orb on the right side of the frame, casting long, golden shadows across the field.

Please note

This report contains projections of business 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 economic environment and other risks and uncertainties.



Lacto Japan

Nurture the future