

COMPANY RESEARCH AND ANALYSIS REPORT

Lacto Japan Co., Ltd.

3139

Tokyo Stock Exchange Prime Market

26-Mar.-2024

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3139 Tokyo Stock Exchange Prime Market

26-Mar.-2024
<https://www.lactojapan.com/en/ir.html>

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Summary

Renewed record high net sales for a second consecutive fiscal year

Lacto Japan Co., Ltd. <3139> (hereinafter, also “the Company”) is an independent specialist food trading company that imports food ingredients such as dairy ingredients and cheese (hereinafter “dairy ingredients”), meat, and processed meat products from overseas. The Company has one of the largest dairy product transaction volumes in the Japanese market. As a business focused on the import and sale of dairy ingredients, the Company has expanded its business domains into the meat and processed meat product import and sale business, the dairy ingredients import and sale business in Asia, the cheese manufacturing and sales business, and also the functional food ingredients import and sale business. In 2023, the Company announced its long-term vision, in which it aims to achieve further growth by changing from a food specialist trading company to a complex food company combining the functions of a global trading company and a manufacturer.

1. Results overview for FY11/23

For FY11/23, the Company posted net sales of ¥158,328mn (up 7.4% year on year (YoY)), operating income of ¥3,184mn (up 7.2%), ordinary income of ¥2,847mn (down 9.1%), and net income attributable to owners of parent of ¥2,048mn (down 10.4%). Sluggish sales volume of dairy ingredients in Japan and Asia was affected by factors including price increases for milk, a slowdown in final consumption due to higher dairy product prices in conjunction with the yen's depreciation, priority use of Japanese produce as a measure to reduce excess inventory of domestically produced skim milk powder, and a slump in the Chinese economy. On the other hand, the unit sales prices were also high due to the impact of high market prices for ingredients and the yen's depreciation, resulting in a second consecutive fiscal year of record high net sales. On the other hand, the ordinary income margin decreased by 0.3pt YoY due to a decrease in profit margins resulting from a rise in purchasing prices associated with the yen's depreciation as well as a decrease in the profit margin of the Cheese Manufacturing & Sales Division in the Asian business due to high prices for raw material cheese. Compared to initial forecasts, net sales were 1.0% lower and ordinary income 11.0% lower due to decreases in sales volume and profit margins.

2. Results forecast for FY11/24

In its consolidated results for FY11/24, the Company is forecasting increases in sales and profits, with net sales of ¥160,000mn (up 1.1% YoY), ordinary income of ¥3,400mn (up 19.4%), and net income attributable to owners of parent of ¥2,400mn (up 17.2%). For 1H, the Company expects sluggish domestic consumption and a slump in the Chinese economy to continue; however, in 2H, food demand is expected to recover with a pause in the rise of prices in Japan, and a correction of inventory levels of domestically produced skim milk powder is expected to drive a recovery in demand for imported powdered milk mixtures. For the full year, the Functional Food Ingredients Business is expected to continue growing, and the profit margins of the Cheese Manufacturing & Sales Division in the Asian business are expected to improve.

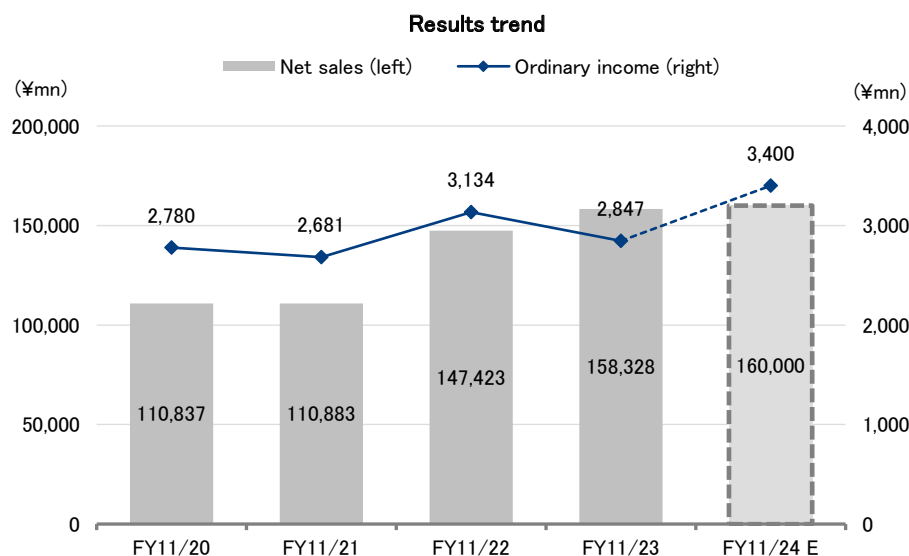
Summary

3. Progress on Corporate Business Plan

In January 2023, the Company announced its new corporate philosophy along with its long-term vision, LACTO VISION 2032, and Corporate Business Plan, NEXT-LJ 2025 (FY11/23 to FY11/25). Under the long-term vision, the Company aims to change into a complex food company having both a global trading company function and manufacturing function, and has set a target for FY11/32 in 10 years' time of consolidated ordinary income of ¥6,000mn with an overseas ratio for ordinary income of 40%. The first step towards this target is the Corporate Business Plan NEXT-LJ 2025, under which the Company aims to achieve FY11/25 net sales of ¥200,000mn, with consolidated ordinary income of ¥4,000mn and net income attributable to owners of parent of ¥2,900mn. At present, the recovery of the business environment is lagging behind the Corporate Business Plan by around one year, with both FY11/23 results and FY11/24 forecasts falling below the plan. Nevertheless, the Company has left its targets for the third year of the Corporate Business Plan unchanged in the expectation that its business in growth areas will expand against a backdrop of increasing demand for imported ingredients as food demand recovers and the domestically produced skim milk powder inventory issue is resolved, expanding cheese consumption in Asia driven by economic growth, and an expanding market for functional foods, such as the domestic protein market.

Key Points

- Functional food ingredient sales to grow rapidly against a background of expansion in the protein market
- Business environment recovery expected in FY11/24 2H, with increased sales and profits forecast for FY11/24
- Under the long-term vision, the Company aims to change from a specialist trading company to a complex food company



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

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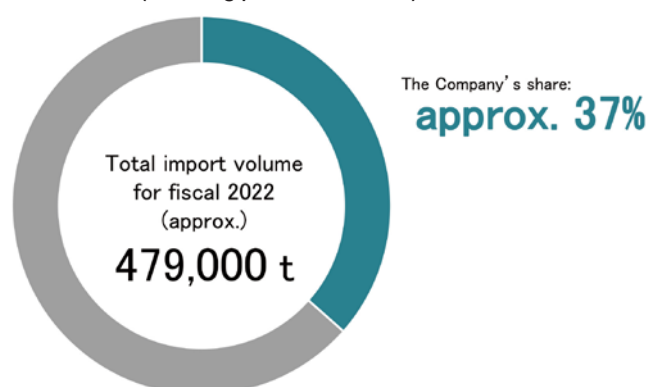
Company overview

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

1. Company overview

The Company is headquartered in Nihonbashi, Chuo Ward, Tokyo. It is an independent food specialist trading company that imports food ingredients such as dairy ingredients, meat, and processed meat products. The Group includes the Company, one domestic consolidated subsidiary, nine overseas consolidated subsidiaries, and one equity-method affiliate. The Company name Lacto is from the Latin word for “milk.” As its name suggests, the Company has grown its business in the food domain, mainly in the business of importing dairy ingredients. Its share of the transaction volume of Japan’s imported dairy products is one of the highest in Japan at around 37%.

Share of transaction volume in imported dairy products
(including products for feed)



Source: Prepared by Lacto Japan with reference to the Food Demand and Supply Table of the Ministry of Agriculture, Forestry and Fisheries
Total import volume estimated by shape conversion (coefficient 0.1) to calculate share

Source: Reprinted from the Company's briefing materials

The Company was formed by a split off of the Dairy Division of Toshoku Ltd. (currently, Cargill Japan Limited), which was conducting an import business at the very dawn of dairy product importing as a food specialist trading company. At the time of the Company's foundation, it already had a certain level of trading base in Japan and overseas. Since its foundation, the Company has established local subsidiaries in key dairy production areas around the world, such as North America, Europe, and Oceania, and has built close relationships with suppliers.

The Company also imports and sells meat and processed meat products in Japan, and is working to diversify its suppliers and the items that it procures, while working in step with the rising demand for health foods to expand its handling of functional food ingredients such as milk-derived protein ingredients. In addition, the Company is expanding beyond the import and sales business in Japan by establishing subsidiaries and affiliates in the rapidly growing markets of Asia, where it is conducting import and sale of dairy products as well as manufacturing and sales of processed cheese and processed natural cheese products with the aim of achieving sustainable growth.

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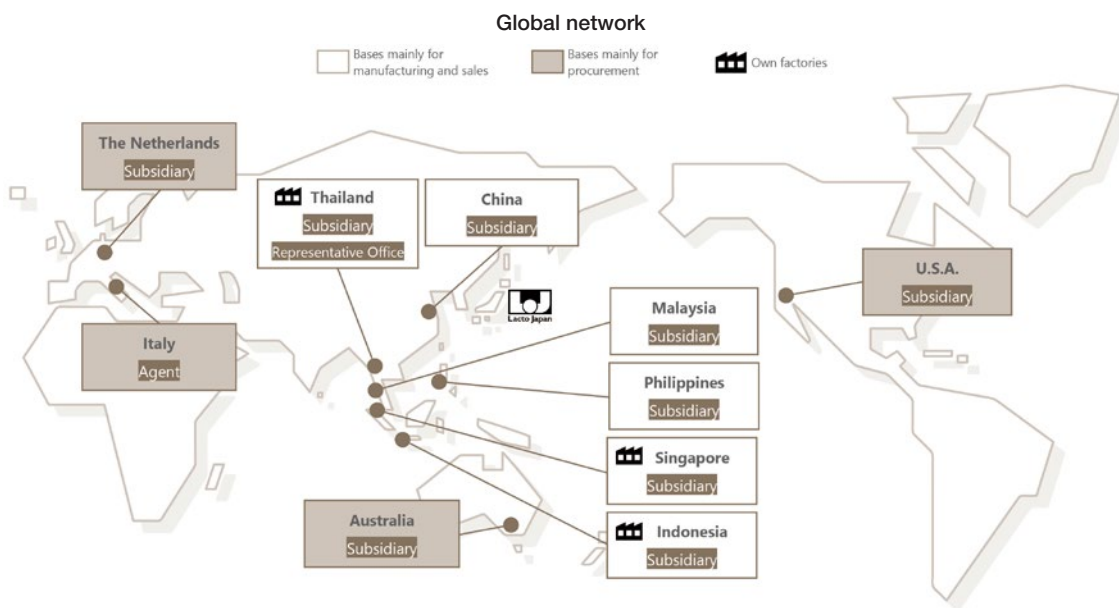
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Company overview

Among the Company's overseas subsidiaries, three are dairy ingredients and cheese procurement bases in raw milk production areas, namely Lacto USA Inc. (hereinafter "Lacto USA") in the United States, Lacto Oceania Pty. Ltd. in Australia (hereinafter "Lacto Oceania") and Lacto Europe B.V. (hereinafter "Lacto Europe") in the Netherlands. Lacto USA conducts exports of dairy ingredients, cheese, and meat to Japan and the Asia region. Lacto Oceania and Lacto Europe are mainly involved in support operations for the Group's Dairy Ingredients and Cheese Business Division, gathering beneficial information for the dairy ingredients and cheese business through the exchange of information with suppliers in Oceania and Europe, conducting price negotiations, and developing new suppliers.

In the Asian markets, the Company's main growth driver is in developing the expanding dairy products market. In Singapore, Lacto Asia Pte. Ltd. (hereinafter "Lacto Asia") conducts wholesaling of dairy ingredients and cheese manufacturing and sales operations. It serves as the core company for the region, where the Company has established five subsidiaries: in Malaysia, Lacto Asia (M) Sdn. Bhd. (hereinafter "Lacto Malaysia"); in Thailand, Foodtech Products (Thailand) Co., Ltd. (hereinafter "FTT"); in China, Lacto Shanghai Co., Ltd. (hereinafter "Lacto Shanghai"); in Indonesia, PT. Lacto Trading Indonesia (hereinafter "LTI"); and in the Philippines, Lacto Philippines Inc. (hereinafter "Lacto Philippines"); as well as one 50% jointly invested affiliate: PT. Pacific Lacto JAYA (hereinafter "PLJ"). Each of the subsidiaries and the affiliate sell dairy ingredients and cheese purchased overseas to Japanese companies, local food product makers, and others in their home countries and the surrounding countries. Lacto Asia, FTT, and PLJ are also engaged in the development, manufacture, and sale of cheese products at their own plants.

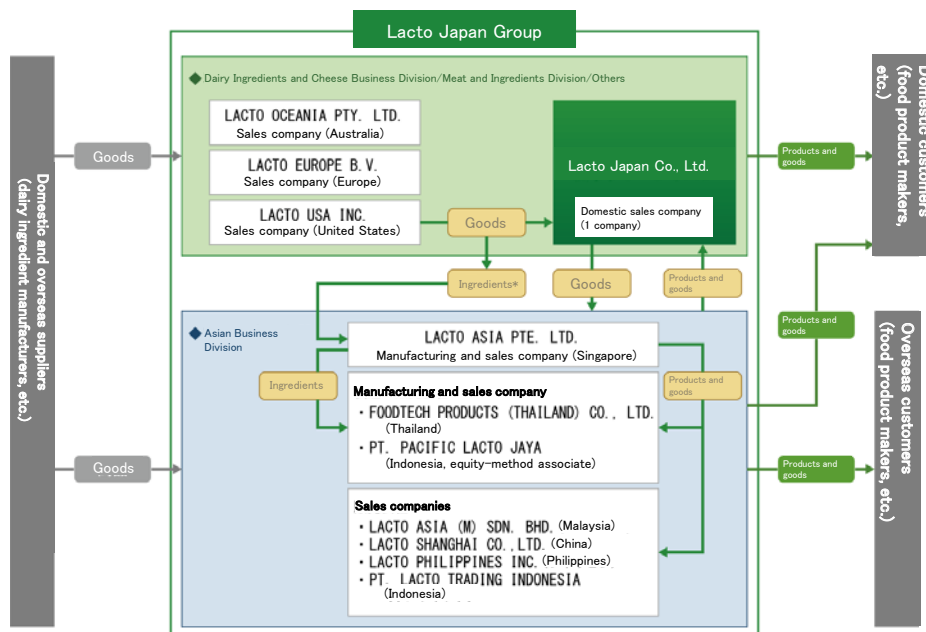


Source: Reprinted from the Company's Introduction Materials

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Company overview

Business schematic diagram



Note: * indicates cheese for use as ingredients purchased from Lacto USA Inc. by Lacto Asia Pte. Ltd. to manufacture cheese products

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

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Company overview

2. History

Company history

Month and year	History
May 1998	Lacto Japan Co., Ltd. established in Asakusa-bashi, Taito Ward, Tokyo. Started import and sales of agricultural products and agricultural processed products
October 1998	Representative office opened in Los Angeles, U.S.A.
November 1998	Representative office opened in Singapore
June 1999	Representative office opened in Melbourne, Australia Subsidiary Lacto Japan (Asia) Pte. Ltd. established in Singapore to conduct wholesaling of dairy ingredients (representative office closed)
February 2000	Representative office opened in Amsterdam, the Netherlands
April 2000	Appointed import agent for the former Agriculture & Livestock Industries Corporation (currently Agriculture & Livestock Industries Corporation (ALIC), an incorporated administrative agency)
December 2003	Local subsidiary Foodtech Products Pte. Ltd. established in Singapore to manufacture and sell cheese
June 2004	Head office moved to Nihonbashi-honcho, Chuo Ward, Tokyo
March 2005	Began sourcing and selling processed meat products
July 2008	Lacto Asia Pte. Ltd. established through the merger of two local subsidiaries in Singapore
November 2008	Invested in U.S. company Kawaguchi Trading & Consulting Inc., making it a subsidiary
September 2009	Local subsidiary Lacto Oceania Pty. Ltd. established in Melbourne, Australia (representative office closed)
October 2009	Changed the name of Kawaguchi Trading & Consulting Inc. to Lacto USA Inc. (Los Angeles representative office closed)
September 2010	Local subsidiary Lacto Asia (M) Sdn. Bhd. established in Malaysia
February 2012	Joint venture PT. Pacific Lacto JAYA established with local capital in Jakarta, Indonesia to manufacture and sell cheese
August 2013	Local subsidiary Foodtech Products (Thailand) Co., Ltd. established in Ayutthaya, Thailand to manufacture and sell cheese
November 2013	Local subsidiary Lacto Shanghai Co., Ltd. established in Shanghai, China to sell processed food products, etc.
August 2015	Listed on the Second Section of the Tokyo Stock Exchange
December 2015	Local subsidiary Lacto Europe B.V. established in Amsterdam, the Netherlands (representative office closed)
September 2017	Designated for the First Section of the Tokyo Stock Exchange
May 2018	Head office moved to Nihonbashi, Chuo Ward, Tokyo
January 2019	Representative office opened in Bangkok, Thailand
September 2019	Local subsidiary Lacto Philippines Inc. established in Manila, the Philippines to purchase and sell dairy ingredients and cheese, etc.
February 2021	Transitioned to a Company with an Audit and Supervisory Committee
March 2021	Consolidated subsidiary LJ Foods Co., Ltd. established in Japan
November 2021	Local subsidiary PT. Lacto Trading Indonesia established in Indonesia to sell dairy ingredients, etc.
April 2022	Transitioned to the Prime Market

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

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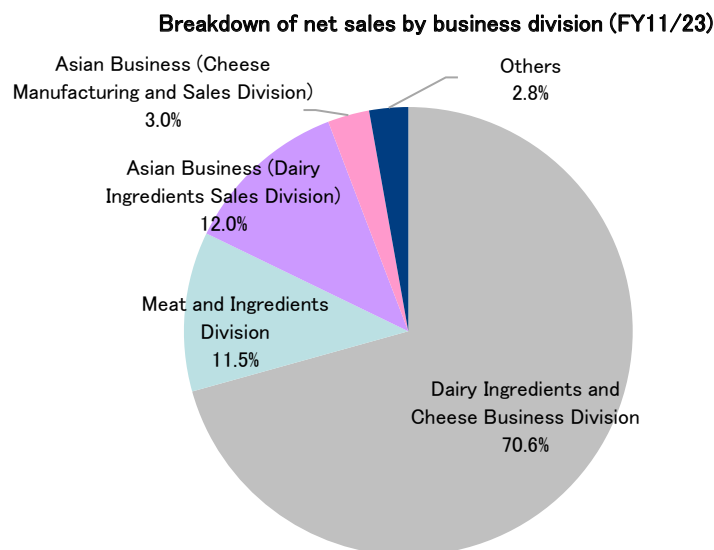
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Business overview

Expanding business domains with hybrid management combining trading company functions and manufacturing functions. Rapid growth in sales of functional food ingredients with handling of milk-derived protein, etc.

The Company is an independent food specialist trading company that imports food ingredients such as dairy ingredients, meat, and processed meat products. It has expanded its business domains based on the import and sales operations of dairy ingredients and has continued to grow steadily. The Company has only one reportable segment, comprising the following business divisions: Dairy Ingredients and Cheese Business Division, Meat and Ingredients Division, Asian Business/Dairy Ingredients Sales Division, Asian Business/Cheese Manufacturing and Sales Division, and Others. Sales of functional food ingredients, which are expected to grow in the future, are included in Others. In a breakdown of FY11/23 consolidated net sales, the Dairy Ingredients and Cheese Business Division contributed 70.6%, the Meat and Ingredients Division 11.5%, the Asian Business/Dairy Ingredients Sales Division 12.0%, the Asian Business/Cheese Manufacturing and Sales Division 3.0%, and Others 2.8%.



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

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Business overview

1. Dairy Ingredients and Cheese Business Division

This division imports dairy ingredients and cheese from overseas and sells them to dairy businesses and manufacturers of food, confectionery, oils and fats, beverages, and feed. In dairy ingredients, the division handles items derived from raw milk, such as whole milk powder, skim milk powder, butter, cream, and whey, as well as primary processed milk preparations made by adding sugar, oils and fats, etc. to these. They are used as ingredients in dairy products such as ice cream, yogurt, and milk beverages, as well as in a wide range of foods, such as raw materials in processed foods, including ingredients for bread and confectionery. The division handles over 500 products, including powdered milk mixtures, prepared butter mixtures, and cocoa preparations. In cheeses, the division primarily imports natural cheeses (mainly gouda, cheddar, mozzarella, and cream cheese), and sells these to dairy manufacturers in Japan and others, mainly as ingredients for processed cheese* and shredded cheese.

* Processed cheese is made by adding an emulsifier to several types of natural cheese and heating them to melting point, then remaking them. The heat treatment destroys lactic acid bacteria and enzymes, making the cheese mold resistant to achieve excellent preservation characteristics. It is also possible to blend several types of natural cheese to create flavors suited to consumer tastes.

There is a significant domestic and foreign price difference for dairy ingredients compared with overseas. With a view to protecting domestic producers, imports have been restricted by non-tariff measures, but in 1988 import volume restrictions were abolished on certain dairy products such as processed cheese and ice cream as a result of negotiations between Japan and the United States. Subsequently, multilateral trade negotiations concluded in 1993 (the GATT Uruguay Round) resulted in an agreement to apply tariffs and reduce the tariff rate to specified dairy products, etc.*, from 1995 onward. Based on this agreement, three modes of import were established: 1) current access import by the Agriculture & Livestock Industries Corporation of the minimum import volume of butter and skim milk powder, etc. promised by Japan to the WTO (137,000 t/year raw milk equivalent), 2) tariff allocation imports, under which a low tariff rate is allocated to a set quota for private sector consumers, etc., and 3) general imports that allow anyone to import specified dairy products, etc., by paying the set tariff. Subsequently, the tariff allocation volume has been expanded and tariffs reduced by the coming into effect of a Japan-Australia EPA (Economic Partnership Agreement), the CPTPP (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, also known as TPP11), and the Trade Agreement between Japan and the United States of America.

* Specified dairy products, etc.: dairy products including skim milk powder, butter, whey, whey preparations, and condensed milk that comply with the standards stipulated in the Act Concerning the Stabilization of Price of Livestock Products, and whose import has now been allowed by the application of tariffs.

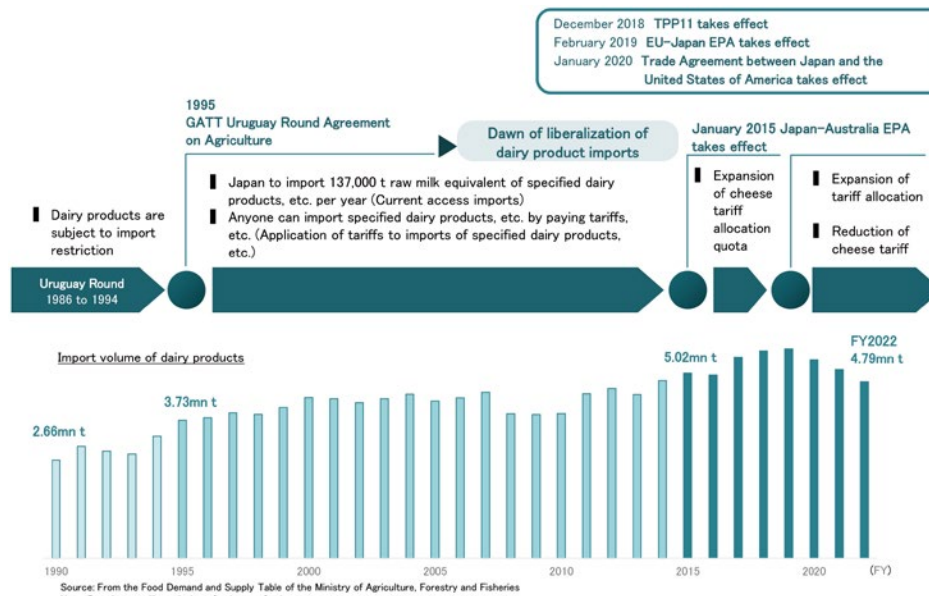
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Business overview

Progress of trade liberalization



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

Domestic raw milk production in Japan is declining over the medium to long term due to dairy farmers withdrawing from the business and so forth. On the other hand, domestic dairy product demand is trending steadily, mainly due to the routine consumption of functional yogurts for health and changes in dietary habits. In FY2022, domestic consumption of 12.54mn t (raw milk equivalent) comprised 7.53mn t from domestic production and 4.79mn t of imports, for an import ratio of approximately 39%. The Company has demonstrated its value as an organizer supporting the smooth procurement of ingredients to fill the demand and supply gap for ingredients as imports of dairy products were liberalized. In addition, by responding to increasingly diverse development needs and the product characteristics of dairy ingredients for customers in Japan, and proposing development and manufacture of high quality, high-added value ingredients to suppliers, the Company has established a unique position as a business partner.

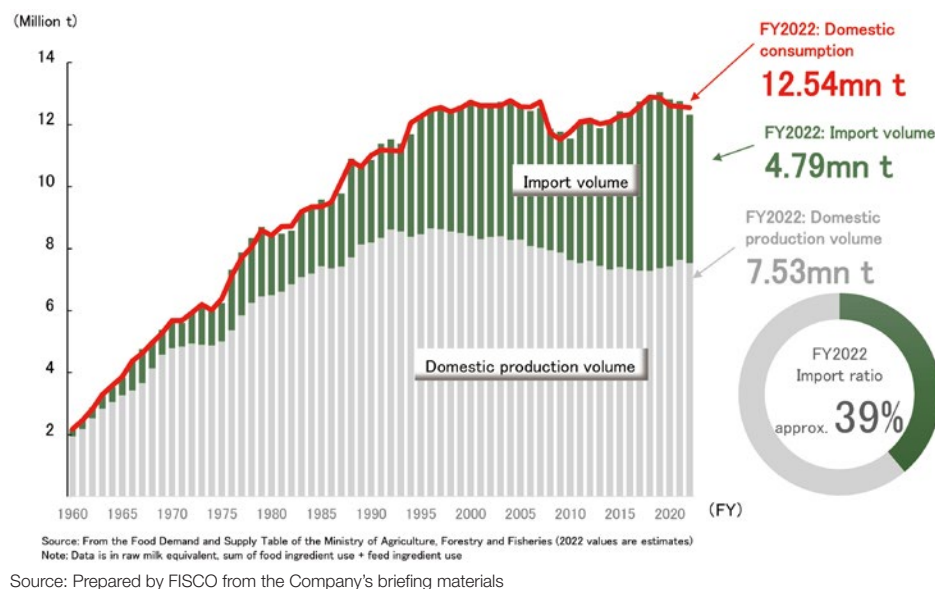
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Business overview

Status of raw milk and dairy product consumption and domestic production and imports



2. Meat and Ingredients Division

The Meat and Ingredients Division imports processed meat products such as fresh ham and salami, primarily pork (chilled and frozen), from around the world and supplies them to food product makers, such as ham and sausage manufacturers, as well as wholesalers and retailers in Japan. For pork, the Company's main supplier is leading U.S. major meat producer Seaboard Foods LLC (hereinafter "Seaboard Foods"), which conducts integrated production from pig raising through to processing with traceability. At the same time, it has also secured supply sources in Canada, Spain, and other countries, in order to diversify its suppliers. In processed meat products such as dry-cured ham and salami, the Company imports high quality products with brand capability from major production areas; namely, Fratelli Galloni S.P.A. for Parma ham, Villani S.P.A for Milano salami (Italy), and Estaban Espuña S.A. for Jamón Serrano (Spain), which it sells to repacking manufacturers with sales channels through major supermarkets, etc. (repacking manufacturers process the dry-cured ham ingredients into shapes and sizes suitable for selling and packaging them). Moreover, to meet the needs of increasingly diverse customers, the Company is diversifying its business by expanding the lines of items handled to include beef and chicken, etc.

3. Asian Business, Others

(1) Dairy Ingredients Sales Division

Targeting the markets of Asia, where the adoption of Western foods is expected to drive expansion of the dairy products market, the Company has established subsidiaries and an affiliate in Malaysia, Thailand, China, Indonesia, and the Philippines with subsidiary Lacto Asia serving as the core company, to promote its business. As with the Dairy Ingredients and Cheese Business Division, the Company sells dairy ingredients imported from overseas to Japanese and local food product makers in countries where it has subsidiaries and neighboring countries. Lacto Asia sells dairy ingredients to companies in Singapore and South Korea, which export milk preparations to Japan, and it also exports processed milk preparations to Japan.

Business overview

(2) Cheese Manufacturing and Sales Division

Lacto Asia in Singapore, FTT in Thailand, and PLJ in Indonesia have their own factories and mainly manufacture and sell commercial-use cheese, for which there is little competition. In Singapore and Thailand, in addition to processed cheese, the Company also manufactures and sells shredded cheese made by processing natural cheese, which is seeing growing demand recently for use on pizzas and so forth. In Indonesia, the Company manufactures and sells only shredded cheese. Commercial-use cheese is being developed as a product under a policy of carefully picking up the needs and issues of customers such as food product makers and restaurant operators, and solving issues together with a market-in approach. These issues include wanting to use cheese as a processed food product but not being successful in processing cheese sold in the market, or wanting to use cheese as a processed food but not knowing the best way to use it. Currently, the Company supplies two original brand products, “FOODTECH” and “CHOOSY.” In addition, in Singapore, the Company is proceeding with a plan to relocate from its current plant to a new plant, aiming to expand its production system with the start of operations in 2025.

With regard to quality, the Company manufacturers under the rigorous quality standards it has developed in the Japanese market and follows a policy of supplying high quality products. In the mainstay Singapore market, it has continuously received the highest “A” grade evaluation from the Singapore Food Agency (SFA), which supervises food factories in the country, since it was founded, which distinguishes it from local companies. Moreover, one of the conditions for the Company to sell products in Asia is that it must have Halal certification to guarantee that Muslims in countries such as Singapore, Malaysia, and Indonesia can eat its products with confidence. The Company obtained Halal certification in FY2004 when it started its manufacturing business, and supplies products that align with local trade practices. In June 2021, the Company obtained the FSSC 22000 international standard for food safety management systems, and its policy is to continue making further quality improvements and manufacturing and supplying products that offer greater security and safety.

(3) Others

The Company is focusing on sales of functional food ingredients as a new growth pillar. Since the start of the Foods with Functional Claims system in 2015, food and health and the functionality of food have been in focus, with many food products appearing with functionality claims, such as yogurt, gum, and chocolate, and a general increase in interest in health among consumers. The Company established a new business development headquarters in April 2020, and started importing and selling functional food ingredients such as whey protein. Demand has been growing, mainly for sports protein ingredients, from the sports nutrition industry, the health and beauty industry, the nursing care industry, and the food industry. The Company is expanding the range of items it handles, including high protein ingredients derived from milk, and food ingredients with various functions, proposing them in combination with whey protein to differentiate them. Moreover, the Company is developing higher-value added businesses, such as collaborations with OEM partner companies, to make planning and development proposals for end products that incorporate the unique qualities of dairy products to brand owners and sports gyms that sell protein products on e-commerce websites and do not have their own plants. Looking ahead, the Company plans to expand its business by widening the range of products that it handles, concentrating on ingredients that can be promoted for their health-contributing functions, such as plant-based foods, gelatin, and collagen, in addition to ingredients derived from milk.

4. Business strengths

The Company's strengths lie first and foremost in its human and intellectual capital. To provide customers with high value in the import of dairy and livestock-related ingredients, it is necessary to have expert knowledge of all factors, including trends in production areas, the international market conditions, product characteristics, complex internal and external agricultural policies and import systems, trade operations, and tariffs. The Company has accumulated knowledge and expertise regarding dairy products and import operations since the early days of dairy product imports, and has highly expert employees who are constantly ascertaining the latest local information and needs while keeping up direct contact with global suppliers and major food product makers. With this human and intellectual capital as a foundation, the Company has established local subsidiaries in Europe, Oceania, and North America, and has considerable strengths in the relationships of trading and trust that it has built up over many years with major dairy manufacturers, who are overseas suppliers. The Company has direct access to its suppliers' advanced technologies and the latest information about ingredients development, enabling it to purchase and supply the optimal ingredients to meet its customers' diverse needs, develop optimal raw materials and products, and provide the latest information. Moreover, the Company is able to combine advanced overseas technologies with domestic dairy ingredients to create new products and stimulate new demand. In addition, the Company has built business relationships with diverse customers, including not only domestic dairy manufacturers, but also food, beverage, and feed manufacturers. This enables it to discover new needs and feed these back to its suppliers to develop new products.

Even amid the supply chain disruption that occurred due to the spread of infection of novel coronavirus disease (hereinafter the "COVID-19 pandemic"), the Company utilized its global procurement network to continue a stable supply of ingredients. To counter the risk of production volume fluctuations due to the impacts of climate change or natural disasters, the Company has another major strength in its ability to procure stably from diverse suppliers in distributed areas. Moreover, having entered the Asian business at an early stage, the Company also has a strength in its network of suppliers and its expert knowledge of Asian markets. Furthermore, in addition to trading company functions, the Company also has manufacturing functions, having its own local cheese factories, and has accumulated successes in realizing the development of products that are carefully tailored to customers' needs and creating markets for them. In the future, the Company could also expand the sale of Japanese dairy products to meet needs in Asia. In fact, the Company has built networks with a wide range of stakeholders, including the dairy and livestock industry and the government of Japan, and in countermeasures to deal with surplus inventories of skim milk powder in Japan, it acted as a bridge for dairy manufacturers and feed manufacturers by selling domestically produced skim milk powder instead of its imported counterpart. It has also been involved in export sales of domestically produced skim milk powder in Asia. Having manufacturing functions in Asia is also a strength in that it offers higher profit margins than wholesaling.

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Results trends

In FY11/23, the Japan business absorbed a downturn in the Asian Business to secure higher overall net sales. The Functional Food Ingredients Business is on a growth trajectory

1. FY11/23 results overview

For FY11/23, the Company posted net sales of ¥158,328mn (up 7.4% YoY), operating income of ¥3,184mn (up 7.2%), ordinary income of ¥2,847mn (down 9.1%), and net income attributable to owners of parent of ¥2,048mn (down 10.4%). In Japan, final consumption of dairy products generally was dampened by increases in the prices of final products driven by price increases for milk and for imported ingredients due to the yen's depreciation. The Dairy Ingredients and Cheese Business Division saw a decrease in sales volume overall. The decrease was partly due to a decrease in the sales volume of imported powdered milk mixtures, its mainstay product, which resulted from the impact of priority use of Japanese produce as a measure to reduce excess inventory of domestically produced skim milk powder, and the yen's depreciation. It was also due to a decrease in sales volume of raw material cheese as demand slumped due to an increase in the price of final products. However, the unit sales prices were also high due to the impact of high market prices for ingredients and the yen's depreciation. As a result, net sales increased 13.2% YoY to ¥111,845mn. In the Meat and Ingredients Division, sales volume increased YoY due to a recovery in demand for commercial-use pork, mainly for restaurants, and the unit sales price also increased due to high market prices and the yen's depreciation. As a result, net sales increased 20.7% YoY to ¥18,268mn. In the Asian Business, the Dairy Ingredients Sales Division saw a decrease in sales volume of powdered milk mixture ingredients. In addition, export sales of domestically produced skim milk powder, which had been growing in the previous fiscal year, decreased following progress in surplus inventory countermeasures, and net sales decreased 29.1% YoY to ¥18,922mn. In the Cheese Manufacturing and Sales Division, sales volume of processed cheese decreased in Asian countries due to a decrease in demand from China as its economy slumped, as well as the impact of price revisions reflecting high ingredients prices. However, shredded cheese made from processed natural cheese performed favorably, particularly in the restaurant sector, so that overall sales volume increased somewhat YoY, and net sales rose 21.2% to ¥4,828mn. Moreover, in sales of functional food ingredients, which are included in Others, protein ingredients sales grew as the scope of protein foods extended beyond sports nutrition to foods for health-oriented general consumers. As a result, net sales in Others increased by 58.9% YoY to ¥4,462mn.

In profit and loss, the profit margin decreased due to factors such as an increase in the purchase price of cheese and meat, and the high price of raw material cheese drove down profit margins in the Cheese Manufacturing and Sales Division in the Asian Business, leading to a 0.1pt YoY decrease in the gross profit margin. Operating income increased due to the impact of higher net sales, but the ordinary income margin decreased by 0.3pt YoY. Ordinary income after adjusting for foreign exchange effects, which do not correspond to the cost of sales during the fiscal year, decreased 3.6% to ¥2,907mn. Compared to the initial forecast, net sales were 1.0% lower, and ordinary income 11.0% lower, reflecting decreases in sales volume and profit margins.

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Results trends

Results for FY11/23

(¥mn)

	FY11/22		FY11/23			
	Results	Vs. sales	Results	Vs. sales	Change rate	Vs. initial plan change rate
Net sales	147,423	100.0%	158,328	100.0%	7.4%	-1.0%
Gross profit	7,461	5.1%	7,909	5.0%	6.0%	-
Operating income	2,971	2.0%	3,184	2.0%	7.2%	-
Ordinary income	3,134	2.1%	2,847	1.8%	-9.1%	-11.0%
(Foreign exchange effects included in ordinary income)	(+117)		(-59)			
Ordinary income after adjustment for foreign exchange effects	3,016	2.0%	2,907	1.8%	-3.6%	-9.2%
Net income attributable to owners of parent	2,286	1.6%	2,048	1.3%	-10.4%	-12.1%
Foreign exchange rate (USD/JPY)	129.67		139.80			
Foreign exchange rate (EUR/JPY)	136.86		150.80			

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

2. Trends by business division

Trend in sales volume and net sales by business division

	Sales volume (t)			Net sales (¥mn)		
	FY11/22	FY11/23	Change rate	FY11/22	FY11/23	Change rate
Dairy Ingredients and Cheese Business Division	182,957	167,421	-8.5%	98,821	111,845	13.2%
Meat and Ingredients Division	24,775	28,125	13.5%	15,135	18,268	20.7%
Asian Business (Dairy Ingredients Sales Division)	50,423	37,251	-26.1%	26,672	18,922	-29.1%
Asian Business (Cheese Manufacturing and Sales Division)	4,786	4,827	0.8%	3,984	4,828	21.2%
Others	-	-	-	2,808	4,462	58.9%

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

(1) Dairy Ingredients and Cheese Business Division

In sales of dairy ingredients, final consumption of dairy products generally was dampened by increases in the prices of final products driven by price increases for milk and for ingredients due to the yen's depreciation. However, sales of dairy products for commercial use were firm due to a recovery in the restaurant and leisure industries. In particular, a recovery in demand associated with tourism, such as souvenir snacks, drove a recovery in sales volume for whole milk powder, lactose, and cocoa preparations, which are ingredients for items such as chocolates and confectionery. Meanwhile, a joint public-private sector effort to implement measures to reduce excess inventory of domestically produced skim milk powder saw an increase in switching to domestic products, resulting in a decrease in sales volume of powdered milk mixtures, the main product handled by the Company. In cheese sales, sales volume decreased due to cooling retail demand following a price increase for final products, despite a recovery in demand for commercial use, such as restaurants. For the business division overall, sales volume decreased by 8.5% YoY to 167,421 t; however, net sales increased by 13.2% YoY to ¥111,845mn as sales prices maintained a high level due to high market prices and the impact of the yen's depreciation.

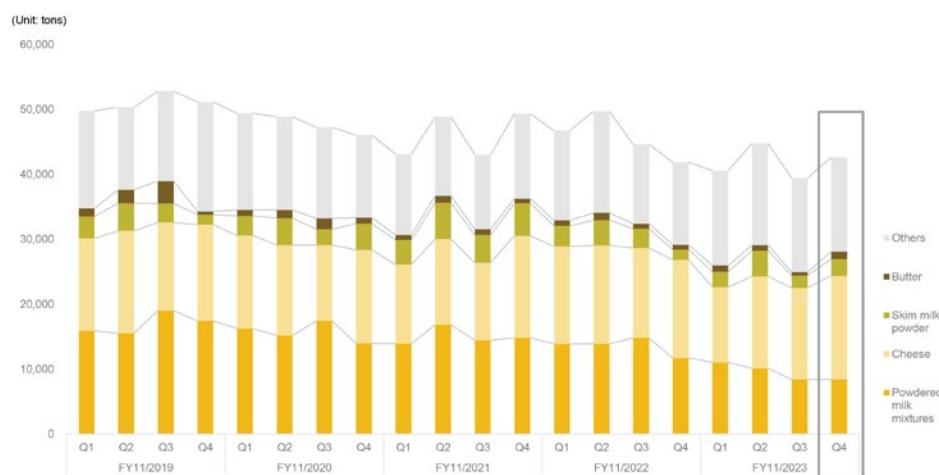
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Results trends

Sales volume of main products in the Dairy Ingredients and Cheese Business Division



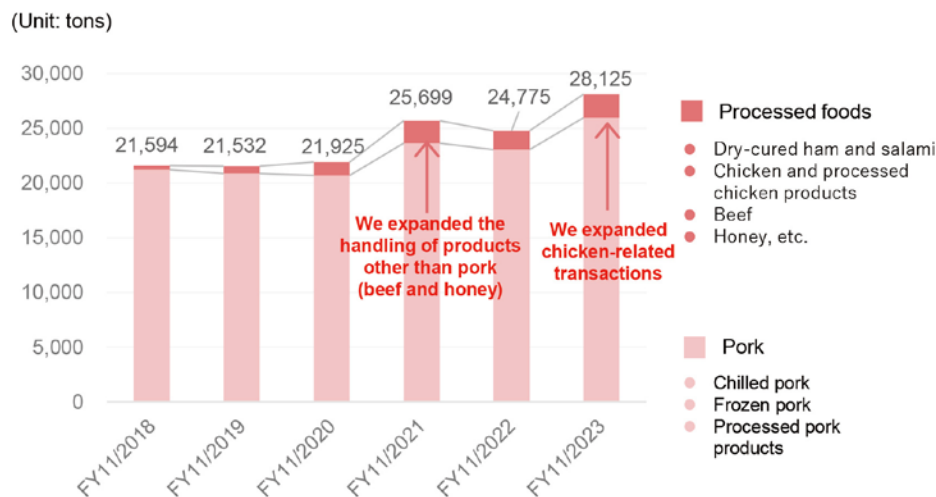
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(2) Meat and Ingredients Division

Sales of the mainstay product chilled frozen pork were favorable, buoyed by a recovery in commercial-use demand centered on the restaurant industry, despite faltering household demand due to rising prices for final products. In the imported pork market, sales remained steady due to the superior price stability of North American pork, which is the main product for the Company, despite rising market prices for European pork. Moreover, while the Company's sales had been affected in the previous fiscal year by production volume restrictions at the Company's main supplier, Seaboard Foods of the United States, due to worker shortages caused by the COVID-19 pandemic, Seaboard Foods made progress in securing human resources, gradually restoring its production system and returning the supply volume of chilled frozen pork to an adequate level. In sales of processed foods, overall sales volume of processed food increased, mainly due to the adoption of chicken and processed chicken products, which the Company has been handling in greater volumes since FY11/23, for ready-made side dishes at supermarkets and ingredients for food court menus nationwide, even as some products such as dry-cured ham and salami saw sales volume decrease as customers reviewed their purchases of products because of increasing purchase costs driven by the yen's depreciation. As a result, sales volume for the entire division increased by 13.5% YoY to 28,125 t. Net sales for the division increased by 20.7% YoY to ¥18,268mn as the unit sales prices also trended higher due to the market price for pork and the impact of the yen's depreciation.

Results trends

Sales volume in the Meat and Ingredients Division

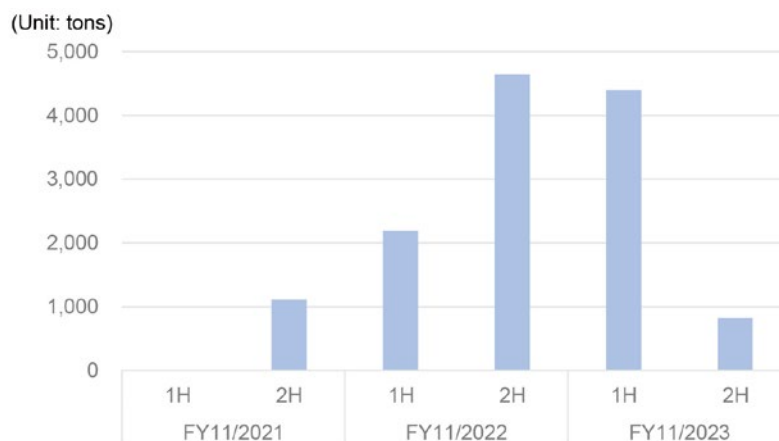


Source: Reprinted from the Company's financial results briefing materials

(3) Asian Business (Dairy Ingredients Sales Division)

Due to the impact of countermeasures for excess skim milk powder inventory in Japan, sales volume of powdered milk mixture ingredients to Japan decreased, and exports of Japanese skim milk powder decreased after expanding in the previous fiscal year. Sales volume for local areas also decreased as food demand grew sluggish due to the slump in the Chinese economy and further inflation. As a result, total sales volume for the division fell sharply by 26.1% YoY to 37,251 t. Net sales decreased by 29.1% YoY to ¥18,922mn, partly reflecting a settling of international market prices for dairy products, which had risen sharply in the previous fiscal year.

Export sales volume of Japanese skim milk powder (Dairy Ingredients Sales Division)



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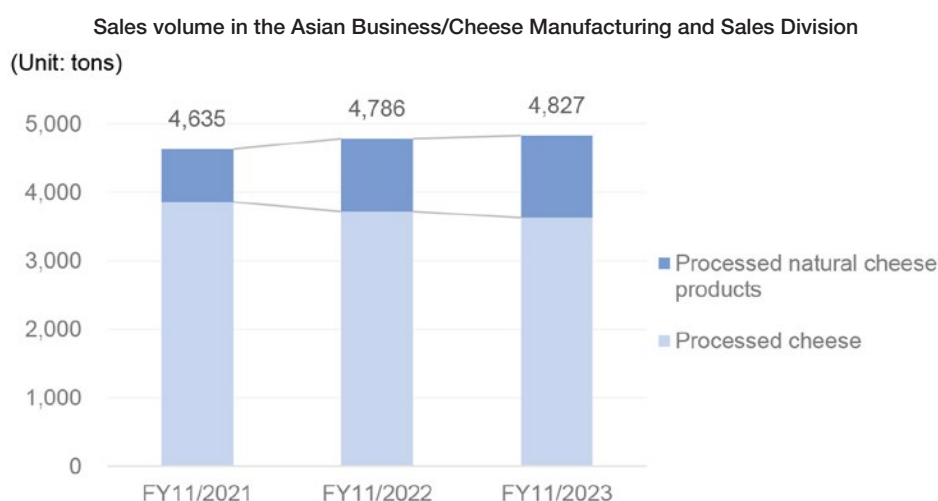
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Results trends

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

Processed cheese sales decreased, reflecting a decline in demand due to the impact of economic slumps in China and Thailand and a revision of prices reflecting high prices for raw material cheese. Meanwhile, sales of shredded cheese processed from natural cheese for restaurants increased, mainly in Singapore and Malaysia. Recently, consumption of natural cheese has been increasing in Southeast Asian countries, and with the full-scale operation of new equipment installed at the Singapore plant, the Company has kept pace with the increase in demand and grown its sales. Sales volume for the entire division increased 0.8% YoY to 4,827 t, and net sales increased 21.2% to ¥4,828mn.



Source: Reprinted from the Company's financial results briefing materials

(5) Others

Sales of functional food ingredients performed favorably. The Company aims to expand this area as a new pillar of growth. In Japan, sales of whey protein have been favorable as an ingredient for protein products, the market for which is expanding beyond sports nutrition to general consumers, such as health-oriented women and seniors. The Company's main customers include brand owners who sell final products through e-commerce websites and sports gyms throughout Japan and protein manufacturers newly entering the market from other industries. For brand owners, who operate fabless businesses without owning factories, the Company not only imports and sells ingredients, but also provides planning and development of products in collaboration with OEM providers. Since there is a growing movement to differentiate products amid an intensely competitive environment, the Company is concentrating on proposing products that combine functional food ingredients other than whey protein. Through such initiatives, net sales in this business division grew 58.9% YoY to ¥4,462mn.

Results trends

3. Financial position

Looking at the Company's assets at the end of FY11/23, current assets stood at ¥67,068mn. Within this, cash and deposits increased by ¥1,399mn as cash inflow from operating activities exceeded cash outflows for investment activities and financing activities, notes and accounts receivable decreased by ¥2,365mn due to securitization of accounts receivable, and inventories decreased by ¥1,576mn as the market price for dairy products settled. Non-current assets stood at ¥4,969mn, mainly reflecting an increase in lease assets of ¥1,253mn due to the acquisition of fixed-term land leasehold rights for a new plant in Singapore. In liabilities, current liabilities stood at ¥37,033mn, mainly due to a decrease of ¥3,315mn in accounts payable. Non-current liabilities stood at ¥10,281mn, mainly reflecting an increase in long-term borrowings. Net assets stood at ¥24,724mn, as a decrease due to payment of dividends of surplus of ¥633mn was offset by net income attributable to owners of parent of ¥2,048mn and foreign currency translation adjustment and total accumulated other comprehensive income of ¥756mn. Total assets decreased ¥1,418mn from the previous fiscal year-end and net assets increased ¥2,242mn, for an increase of 3.7pt in the equity ratio to 34.2%. ROE decreased 2.2pt to 8.7% because profit decreased while net assets increased.

Consolidated balance sheets

	(¥mn)		
	FY11/22	FY11/23	Change
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
Non-current assets	3,389	4,969	1,580
Property, plant and equipment	942	2,185	1,243
Investments and other assets	2,408	2,710	302
Total assets	73,456	72,038	-1,418
Current liabilities	41,101	37,033	-4,068
Accounts payable	17,349	14,033	-3,315
Short-term borrowings	17,909	18,782	872
Non-current liabilities	9,873	10,281	407
Long-term borrowings	8,960	9,125	165
Total liabilities	50,975	47,314	-3,661
Net assets	22,481	24,724	2,242

Note: Short-term borrowings include long-term borrowings that are due for repayment within one year

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

■ Outlook

For FY11/24 the Company is forecasting increases in sales and profits based on expectation of a recovery in the business environment in 2H

1. Results forecast for FY11/24

The Company is projecting increases in sales and profits for FY11/24, with net sales of ¥160,000mn (up 1.1% YoY), ordinary income of ¥3,400mn (up 19.4%), and net income attributable to owners of parent of ¥2,400mn (up 17.2%). In the domestic Dairy Ingredients and Cheese Business Division, the Company is expecting a recovery in demand for imported powdered milk mixture from 2H onward as domestically produced skim milk powder inventory levels normalize, despite lingering concerns over continued high prices for imported ingredients due to the yen's depreciation. However, sales are expected to decrease 5.9% YoY due to a decrease in sales prices. At the same time, the Asian Business/Dairy Ingredients Sales Division is also anticipating a recovery in demand for powdered milk mixture ingredients for Japan, and has forecasted sales volume to surpass the level of FY11/22 prior to their sharp fall, with sales projected to increase by 32.1% YoY. In addition, the Cheese Manufacturing and Sales Division is also expecting demand for cheese to expand in Asia due to Japanese and local restaurant chains and so forth, and its policy is to secure a 20.1% YoY increase in sales by strengthening shredded cheese manufacturing and sales activity. In the Meat and Ingredients Division, sales are expected to decrease by 9.1% YoY due to a settling of market prices, although firm demand for processed food and its ingredients is expected amid a shortage of workers in the restaurant and other industries, and the division therefore intends to expand sales by expanding the range of handled products. In Others, including sales of functional food ingredients, the Company is promoting aggressive sales with an eye on expansion into Asian markets, and plans to see further growth of 65.8% YoY. Ordinary income is expected to increase 19.4% YoY atop expectations of a recovery in profits due to a decrease in ingredient prices in the Cheese Manufacturing and Sales Division.

Results forecast for FY11/24

	FY11/23		FY11/24		
	Results	Vs. sales	Forecast	Vs. sales	YoY
Net sales	158,328	100.0%	160,000	100.0%	1.1%
Ordinary income	2,847	1.8%	3,400	2.1%	19.4%
(Foreign exchange effects included in ordinary income)	(-59)		-		-
Ordinary income after adjustment for foreign exchange effects	2,907	1.8%	3,400	2.1%	17.0%
Net income attributable to owners of parent	2,048	1.3%	2,400	1.5%	17.2%

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

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Outlook

2. Results forecast by business division

Sales volume and net sales forecast by business division

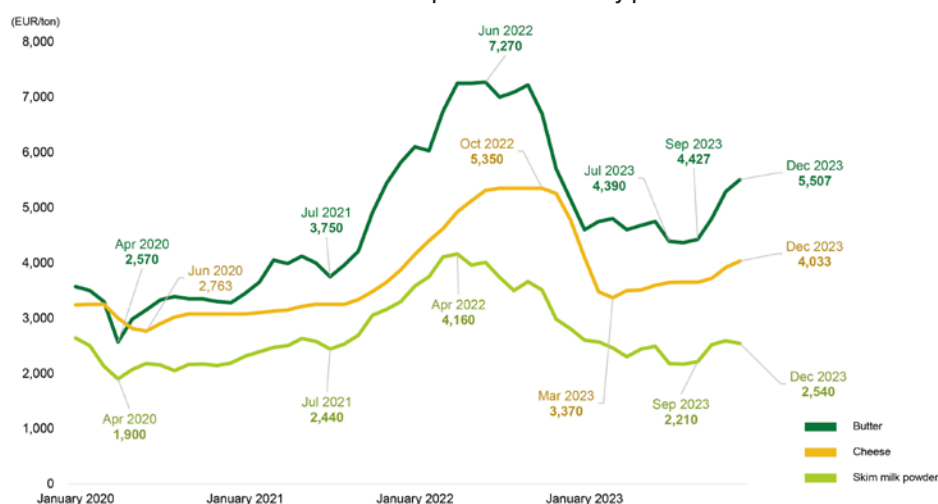
	Sales volume (t)			Net sales (¥mn)		
	FY11/23 Results	FY11/24 Forecast	Change rate	FY11/23 Results	FY11/24 Forecast	Change rate
Dairy Ingredients and Cheese Business Division	167,421	172,900	3.3%	111,845	105,200	-5.9%
Meat and Ingredients Division	28,125	30,000	6.7%	18,268	16,600	-9.1%
Asian Business/Dairy Ingredients Sales Division	37,251	54,300	45.8%	18,922	25,000	32.1%
Asian Business/Cheese Manufacturing and Sales Division	4,827	6,200	28.4%	4,828	5,800	20.1%
Others	-	-	-	4,462	7,400	65.8%

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

(1) Dairy Ingredients and Cheese Business Division

The level of inventory of domestically produced skim milk powder has gradually decreased due to countermeasure efforts to switch to domestic product. Inventories have continued to decrease after peaking at 104,000 t in May 2022, falling to 50,000 t by November 2023. With dairy production costs increasing due to factors such as aging of workers, lack of successors, and high feed costs due to the yen's depreciation, there are concerns over the falling number of dairy farmers, while dairy herd numbers are also on the decline. As a result, it is difficult to anticipate a rapid recovery of raw milk production volume, and the excess inventory of skim milk powder is expected to be eliminated. Furthermore, dairy product prices are soft internationally, with raw milk production increasing overseas in major dairy production areas such as Europe, while demand is sluggish in China, the largest importer of dairy products, due to a delay in its economic recovery. By contrast, Japanese dairy product prices are rising due to increases in milk prices, and despite the uncertainty of the yen's continued depreciation trend, the price competitiveness of imported ingredients is gradually returning and inquiries are increasing. The Company is expecting a full-scale recovery in demand for imported dairy products centered on powdered milk mixtures in 2H. In addition, cheese has also seen a settling of international market prices, and currently inquiries and orders are recovering, so the demand for commercial use is expected to recover in 2H as prices decrease. For this reason, the division is projecting a 3.3% increase in sales volume to 172,900 t, but it is also expecting net sales to decrease by 5.9% to ¥105,200mn.

International market prices of main dairy products



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

Source: Reprinted from the Company's financial results briefing materials

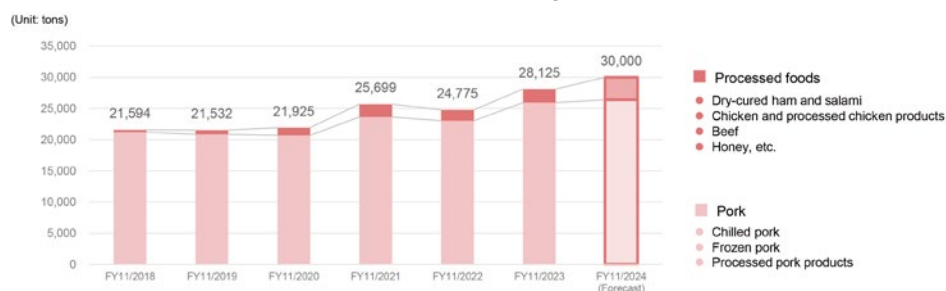
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Outlook

(2) Meat and Ingredients Division

Demand for processed food and its ingredients is firm amid a shortage of workers in the domestic restaurant industry and other industries. The Company plans to expand sales by expanding the range of handled products, centered on processed foods such as dry-cured ham, salami, beef, chicken, and processed chicken products. The production system of the main supplier of pork, Seaboard Foods, in the United States, is also recovering, and the division plans to increase sales volume by 6.7% YoY to 30,000 t. However, due to a settling in the market price, net sales are expected to decrease by 9.1% to ¥16,600mn.

Sales volume of the Meat and Ingredients Division



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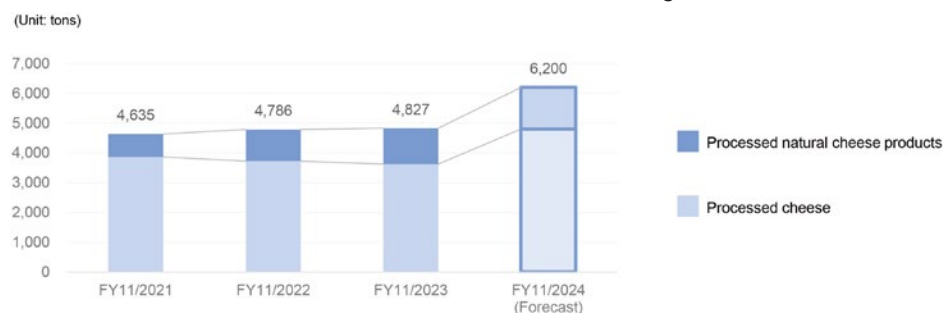
(3) Asian Business (Dairy Ingredients Sales Division)

As inventories of domestically produced skim milk powder normalize in Japan, demand for powdered milk mixture ingredients in Japan is expected to recover in 2H. Moreover, by strengthening the sales structure of local bases in Southeast Asia, the Company aims to expand sales of dairy ingredients to local companies. Looking ahead to spring (Chinese New Year) in February 2024, China and Singapore have implemented mutual exemptions for short-term stay visas, which is expected to drive an increase in tourists visiting between Thailand, Malaysia, and China, which should provide impetus for demand. The division plans to grow sales volume to 54,300 t (up 45.8% YoY), along with a sharp increase in net sales to ¥25,000mn (up 32.1%).

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

Market prices for raw material cheese have settled, and demand for processed cheese is forecast to recover after falling due to a price revision. In addition, while the economic slump in China is having an impact, the flow of people throughout Asia is improving, and demand for cheese at Japanese and local restaurant chains is expected to expand. The division's policy is therefore to strengthen the manufacturing and sales of shredded cheese. Moreover, the division plans to focus on developing new customers with a view to the start of operations at a new plant in Singapore in 2025. Sales volume are forecast to be 6,200 t (up 28.4% YoY), with net sales forecast at ¥5,800mn (up 20.1%). In addition, the profit margin is also expected to improve as the price of raw material cheese falls.

Sales volume in the Asian Business/Cheese Manufacturing and Sales Division



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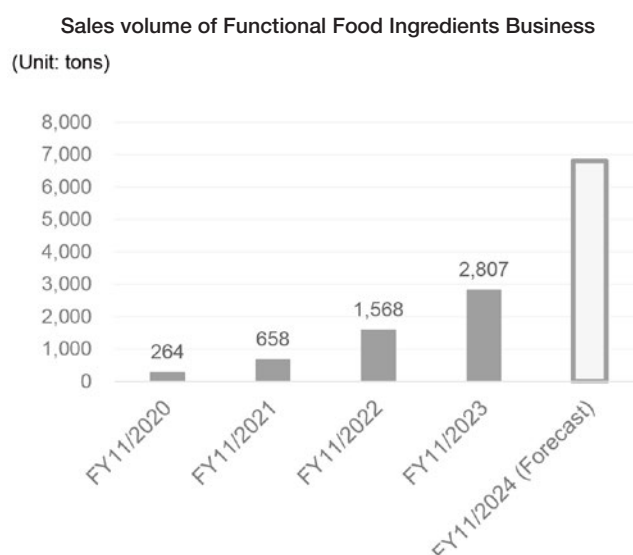
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Outlook

(5) Others

The Company expects to see further growth in protein-related sales in the mainstay Functional Food Ingredients Business. As the protein market expands, players are moving increasingly to differentiate their products, and the Company plans to supply distinctive products, such as whey protein that dissolves easily in high temperature liquid, and to promote proposals for new products that use these as ingredients. The Company also intends to strengthen complex proposals combining functional ingredients that offer health functions, such as gelatin and collagen, with protein. Furthermore, it will expand sales of functional products that include functional ingredients. At “SPORTEC 2023,” which was held at Tokyo Big Sight in August 2023, the Company exhibited “Hot Protein” for drinking with hot water and “Refreshing Protein” for drinking with ice coffee. A health food boom is currently sweeping Asia as well, and Japanese protein products and functional foods are currently in focus. Looking ahead, the Company’s policy is to engage in trilateral trade, using imported powdered milk mixtures to develop and manufacture products in Japan, for sale in Asian markets. The Company’s forecast for Others is for significant growth, with net sales of ¥7,400mn (up 65.8%).



Source: Reprinted from the Company's financial results briefing materials

Medium- to long-term growth strategies

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

To mark its 25th founding anniversary in May 2023, the Company has positioned the next 25 years as a “second founding period” towards the next major anniversary, and announced a new management philosophy, long-term vision, and corporate business plan, NEXT-LJ 2025 (FY11/23 to FY11/25) in January 2023. The Company’s corporate business plan up to now has been a rolling plan that was revised every year. However, from NEXT-LJ 2025, the Company has changed to a fixed approach, disclosing earnings targets for each fiscal year and revising the plan every three years. By clarifying the targets for each fiscal year, the validity of the plan is enhanced, making it a driving force for steady growth while also facilitating dialogue with shareholders and other investors.

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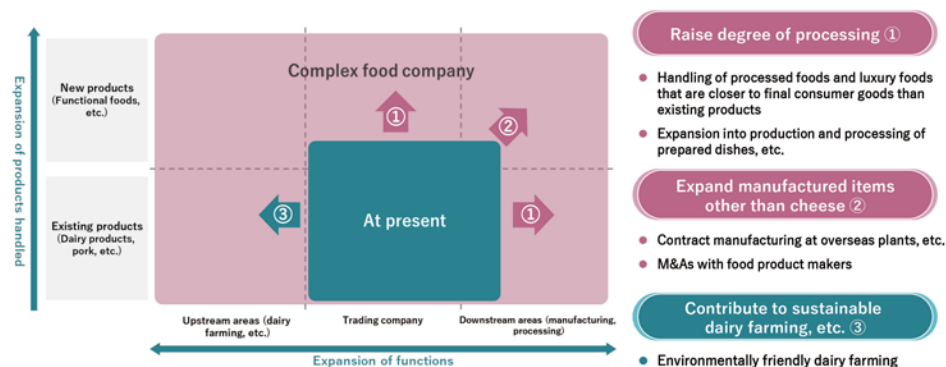
Medium- to long-term growth strategies

1. Management philosophy and long-term vision

Under the new management philosophy, the Company has identified its Purpose as “bring health and happiness to people by connecting the world through food.” Its Mission for realizing this is stated as “Contribute to the future of the primary food industries, create new demand for dairy products, enrich the lives of all stakeholders.” And the Company’s foundation, its Value, has been stated as “Fairness.” The collective name for this management philosophy and corporate business plan is “Nurture the future,” which has been adopted as a corporate brand. It encapsulates the Company’s aspirations to contribute to the healthy future of people through food, to contribute to the future of the primary industry, which is the foundation of that, and to work together to nurture a prosperous future for all stakeholders, including employees, shareholders, and business partners.

The Company has established its long-term vision, LACTO VISION 2032, for 10 years in the future, and adopted the slogans: “Change from a trading company specializing in dairy products to a complex food company,” “Become No. 1 in Japan and the world in dairy product transaction volume,” and “Create demand through best matching and contribute to the development of the dairy and livestock farming industries.” To change to a complex food company, the Company aims to expand its business domains by further expanding its trading company functions. Initiatives will include expanding the range of new handled products from existing products such as dairy products and pork to items that are close to goods for final consumption, such as processed food, ready-made side dishes, and functional foods, providing technology and expertise to the frontlines of production upstream, including improvement of feed ingredients and personnel exchanges with dairy farmers in Asia, and entering downstream domains such as manufacturing and processing of products other than cheese. The word “complex” incorporates three meanings, “increase complexity of products,” “increase complexity of business,” and “increase complexity of trading business.” The Company aims to increase the complexity of products by proposing new solutions combining dairy products as a base with other materials such as meat and functional food ingredients. It intends to increase the complexity of business by promoting product development and business development leveraging both its trading company functions and its manufacturing functions. Finally, it will increase the complexity of the trading business by not only importing but also exporting from Japan to adjust the demand and supply balance of dairy products in Japan.

Correspondence with business domains



The Company's numerical targets for FY11/32 are consolidated ordinary income of ¥6,000mn (FY11/22 ¥3,134mn), an overseas ratio for ordinary income of 40% (27%), and total Group dairy product trading volume of 450,000 t (240,000 t). Furthermore, it has set the following six materialities, individual strategies, and certain quantitative targets as its ESG targets.

Medium- to long-term growth strategies

ESG targets and materialities

- 1) Supplying safe and reliable food (thorough quality control, selection of suppliers, reinforcement of processed cheese manufacturing system)
- 2) Contributing to a healthy and enriched life (sourcing dairy products that contribute to nutrition and health from around the world, expansion of plant-based food ingredients: transaction volume in three years: 1,900 t (FY11/22: 131 t), proposal of foods and raw materials that match diverse lifestyles)
- 3) Stable supply through sustainable dairy and livestock farming (diversification of supply sources, best matching, dairy farmer development, improving efficiency and labor saving in procurement and supply through promotion of digitalization)
- 4) Adaptation to climate change and reduction of environmental impact (diversification of supply sources, contributing to reduction of greenhouse gases, reduction of food loss, waste reduction, optimization of logistics, reduction of environmental impact at own offices and factories)
- 5) Creating workplaces where diverse human resources can work with pride (promotion of diversity: ratio of female managers at least 20% in three years, at least 30% in 10 years (FY11/22: 19.7%), development of good working environment: male childcare leave (parental leave) acquisition rate of 100% in three years (FY11/22: 66.7%), strengthening of human resource development: education costs per person to triple in three years)
- 6) Enhance governance (responsible supply chain management, full compliance in corporate governance, risk management)

2. Progress on Corporate Business Plan NEXT-LJ 2025

(1) Basic policies and major measures

During the three-year period from FY11/23 to FY11/25, the Company plans to focus on solidifying its foundation for growth as the first step toward achieving its long-term vision. The three basic policies for business growth are: Base (Existing business “evolution”), Growth (Expansion of Asian Business), and Challenges (Build next-generation businesses). For each basic policy, the Company has established measures to achieve business growth and strengthen the management base that supports it.

Basic policies of the corporate business plan

	Base 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		

Source: Reprinted from the Company's “Long-term Vision and Corporate Business Plan”

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Medium- to long-term growth strategies

For existing business “evolution,” the Company’s policy is to achieve business growth through stable supply based on diversification of supply sources, consulting sales that create best matching, and export of Japanese foodstuffs. The most important priority measure is the diversification of supply sources. To avoid regional fluctuations in production due to climate change, viruses, and geopolitical supply risks, the Company will further expand its global procurement network to ensure stable supply, not only in the Dairy Ingredients and Cheese Business Division but also in the Meat and Ingredients Division. Regarding the export of Japanese foodstuffs, the Company is considering the export of health foods and other products based on its track record of exporting domestically produced skim milk powder.

For the expansion of Asian Business, the Company’s policy is to achieve business growth by expanding the cheese manufacturing and sales business, reinforcing the local sales system and expanding sales areas, and developing high value-added products that meet the needs of religions and diverse food cultures. The most important priority measure is the expansion of the cheese manufacturing and sales business. The new plant in Singapore, which is slated to enter operation in 2025, will leave room for the expansion of plants and facilities, and with this new plant as a starting point, the Company aims to raise the manufacturing and sales volume of its three Asian plants to a total of 15,000 t, or nearly triple the current amount. Until the new plant is completed, the Company faces the challenge of maintaining its supply structure in Asia, where demand is growing, by strengthening the functions and improving the productivity of the Thai plant, balancing both current and new plants to alleviate the burden on current plants. The Company will also expand sales of processed natural cheese products such as shredded cheese, which is seeing increased demand. Processed cheese is processed and manufactured by heating the natural cheese used as a raw material, so the Company can leverage its strength of combining processed cheese production and natural cheese processing lines in the same plant. The Company also plans to develop and manufacture high-value-added products such as vegan cheese and other new products for the retail market in order to meet religious dietary restrictions and cater to diverse user needs.

For building next-generation businesses, the Company’s policy is to achieve business growth by developing new products, starting with functional foods, expanding downstream areas of manufacturing and processing, and participating in dairy farming and other upstream areas. The most important priority measure is the development of new products, starting with functional foods. In the Functional Food Ingredients Business, the Company plans to further expand sales of whey protein used as a raw material in the protein food market which is seeing growing consumption for sports nutrition and health-oriented functional foods. The Company’s strategy for developing products is to differentiate itself by proposing combinations of whey protein and food ingredients with various functions. In developing this business, the Company has already established a business model in which it plans, develops, and proposes products through alliances and collaboration with OEM partner companies to target brand owners primarily selling through e-commerce websites and sports gyms. In the future, it plans to expand its business domains through alliances and collaboration with general food product makers that are entering the market. As Japanese functional foods are also attracting attention in Asia, the Company is looking into trilateral trade including exports to Asia in the future. With regard to expanding downstream areas of manufacturing and processing, the Company intends to contribute to sustainable dairy and livestock farming industries by developing and producing feed ingredients in collaboration with overseas suppliers and through human resource exchanges between Japanese and Asian dairy farmers.

Medium- to long-term growth strategies

Under these three basic policies, the Company is considering a wide range of measures to achieve business growth, such as M&A and other business alliances. It is also enhancing its sustainability efforts to strengthen its management base. The Sustainability Promotion Task Team, which is responsible for sustainability activities, has been reorganized into a cross-divisional team to promote and manage progress in promoting the Company's six materialities. In addition, as part of its efforts for adaptation to climate change and reduction of environmental impact, the Company will continue to disclose climate change-related information, calculate Scope 1, 2, and 3 emissions, and set reduction targets based on the TCFD (Task Force on Climate-related Financial Disclosures) Recommendations. Furthermore, the Company also intends to strengthen human resource development, enhance governance, and develop information systems, and it has already made progress in preparing for the full-fledged operation of a new human resource system and updating core systems at its head office.

(2) Numerical targets

The Corporate Business Plan aims for consolidated net sales of ¥200,000mn, consolidated ordinary income of ¥4,000mn, and net income attributable to owners of parent of ¥2,900mn in FY11/25, while simultaneously targeting ROE of 10% or more, a payout ratio of 20-25%, and a consolidated shareholders' equity ratio of 30-35%. The Company had planned for net sales of ¥160,000mn in FY11/23 and ¥180,000mn in FY11/24, but the actual results in FY11/23 were ¥158,328mn, slightly lower than planned, and forecasts for FY11/24 were also lower than planned at ¥160,000mn. The Company had planned for ordinary income of ¥3,200mn in FY11/23 and ¥3,600mn in FY11/24, but the actual results in FY11/23 and the forecast for FY11/24 were both lower than planned at ¥2,847mn and ¥3,400mn, respectively. The Corporate Business Plan assumes a business environment in which the current megatrends remain unchanged, such as solid domestic demand for imported dairy ingredients, cheese and meat, further aging of the population and increasing health awareness, Asia's economic growth, and westernization of food. However, the Company believes that it is impossible to avoid certain negative factors in the business environment such as higher milk prices due to soaring prices for feed and other products driven up by the yen's depreciation, lower consumption of dairy products in general due to price hikes, decreased sales of imported powdered milk mixtures due to the extension of measures to reduce excess inventory of domestically produced skim milk powder, and factors in Asia including decreased sales of powdered milk mixture ingredients to Japan, slowdown of the Chinese economy, and decreased demand for dairy ingredients in Asia due to the downturn. The recovery projected in the Corporate Business Plan is expected to occur in FY11/24 2H, and at present, the Company has left its targets unchanged for FY11/25, the final year of the plan.

From a management perspective, the Company is aiming not only for top-line growth but also to strengthen efficient management with an awareness of capital efficiency while also improving profitability to increase corporate value. To this end, the Company has set three financial targets for profitability (ROE), shareholder return (payout ratio), and financial security (consolidated shareholders' equity ratio). In FY11/25, it aims to achieve ROE of 10% or more, payout ratio of 20-25%, and consolidated shareholders' equity ratio of 30-35%. Currently, the Company has introduced ROIC* on a trial basis for each of its business divisions and intends to implement it in the allocation of management resources and human resources throughout the entire Company. In doing so, it is taking care not to make uniform decisions on business positioning based on ROIC alone.

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

Medium- to long-term growth strategies

Performance targets and financial targets of the Corporate Business Plan

(¥mn)

	FY11/22 Results	FY11/23		FY11/24		FY11/25 Plan
		Plan	Results	Plan	Forecast	
[Performance targets]						
Consolidated net sales	147,423	160,000	158,328	180,000	160,000	200,000
Consolidated ordinary income	3,134	3,200	2,847	3,600	3,400	4,000
Net income attributable to owners of parent	2,286	2,300	2,048	2,600	2,400	2,900
[Financial targets]						
ROE	10.9%		8.7%			10% or more
Payout ratio	17.3%		23.2%			20~25%
Consolidated shareholders' equity ratio	30.5%		34.2%			30~35%

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

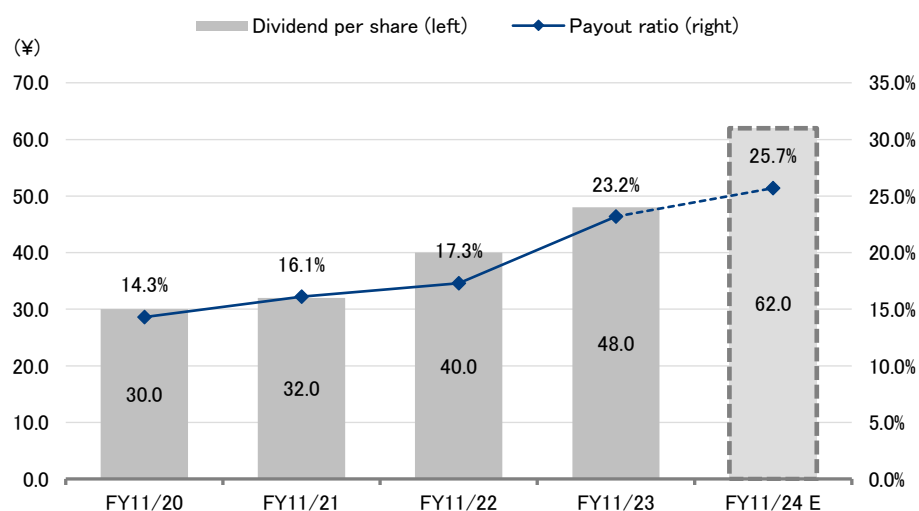
Shareholder return policy

Aiming to increase dividends by ¥14.0 per share annually in FY11/24 in line with growth investments

Positioning the return of profits to shareholders as a key management issue, the Company aims to increase dividends and improve the payout ratio based on stable dividends while combining investment in the Asian Business with the reinforcement of its financial position to achieve medium- to long-term growth. Until FY11/22, the Company's basic policy had been to pay dividends once a year at the end of the term, but from FY11/23, it decided to pay dividends twice a year to expand opportunities to return profits to shareholders in line with its business performance. In FY11/23, the Company paid an interim dividend and a year-end dividend of ¥24.0 per share, respectively, for a total of ¥48.0 per share annually, an increase of ¥8.0 YoY. The payout ratio was 23.2%, an increase of 5.9pt YoY. For FY11/24, the Company plans to pay an annual dividend of ¥62.0 per share (interim dividend of ¥31.0 and year-end dividend of ¥31.0), an increase of ¥14.0 per share. The payout ratio is also planned to be 25.7%, an increase of 2.5pt YoY. In addition to dividends, the Company has a shareholder benefits program in which QUO cards or catalog gifts are given once a year based on the number of years of continuous stock ownership.

Shareholder return policy

Trends in dividend per share and payout ratio



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

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