

Lacto Japan

Independent trading company handling dairy ingredients: progress ongoing in excess domestic inventory adjustments, backed by recovery in dairy ingredient imports and continued rise in prices

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Business

One of Japan's leading independent trading companies focused on dairy products; expanding into meat products and the Asia market

Company with a top share in dairy ingredients, cheese imports: Lacto Japan is the nation's biggest independent specialist trading company of dairy ingredients and cheese (over 30% import share in FY2021). It imports dairy ingredients and cheese from milk-producing nations globally, for wholesale mostly to leading domestic food manufacturers. The company handles about 40 general-purpose ingredients and over 500 customized (primary processed) products. With no corporate affiliations, it has more than 100 suppliers and a diverse range of customers. The company's sales and profit come mainly from the fees (commissions) on these imports. Adjusted for forex gains and losses, its operating profit margin is about 3%. In FY11/22, its dairy ingredients and cheese handling volume was 182,957 tons (-0.8% YoY).

New business domains: Aside from Dairy Ingredients and Cheese (67.0% of sales in FY11/22), Lacto Japan has imported Meat Products (10.3%) since FY11/05. It also has the Asia Business centered in Singapore, engaged in dairy ingredients sales (18.1%) and the manufacture and sale of cheese (2.7%). The Other business (1.9%) conducts sales of functional food ingredients (including whey protein ingredients and gelatin) mainly in Japan (launched in FY11/20).

Earnings performance

FY11/23: Prices expected to remain high, mainly in 1H, despite a decline in sales volume due to weak consumer sentiment caused by inflation. Company projects dairy ingredient imports to rebound as domestic skim milk powder inventory normalizes

FY11/22 results: Sales of JPY147.4bn (+33.0% YoY), ordinary income of JPY3.1bn (+16.9%), and net income of JPY2.3bn (+16.7% YoY). Sales volume held firm despite the impact of the COVID-19 pandemic, as the economy recovered prompted by the easing of pandemic-related activity restrictions. Selling prices increased due to a surge in international market prices of dairy products and a rapid depreciation of the yen, leading to higher sales and record profits.

FY11/23 forecast: Lacto Japan forecasts sales of JPY160.0bn (+8.5% YoY), ordinary income of JPY3.2bn (+2.1% YoY), and net income of JPY2.3bn (+1.9% YoY). The company expects demand for dairy ingredients, cheese, and meat to be sluggish in 1H due to a weak consumer sentiment caused by rising prices. In 2H, however, it anticipates dairy ingredient import volume to rebound as the domestic skim milk powder inventory normalizes. The company expects that Asia (cheese) profitability will deteriorate in 1H due to a rise in cheese ingredient prices, but will gradually improve in 2H. By business, sales are forecast to increase 7.7% YoY in Dairy Ingredients and Cheese, 0.4% in Meat Products, 0.5% in Asia (dairy ingredients), and 15.5% in Asia (cheese), and expand to about 2.4x the year-ago figure in Other, which includes the sales of functional food products.

Medium-term strategy

Aiming for sustainable growth by evolving existing businesses, expanding the Asia Business, and building next-generation businesses

Medium-term plan: Switched from rolling to fixed plans. Under its NEXT-LJ2025 medium-term business plan, Lacto Japan targets FY11/25 sales of JPY200.0bn (three-year CAGR of 10.7%), ordinary income of JPY4.0bn (8.7%), net income of JPY2.9bn (8.2%), ROE of 10% or higher, dividend payout ratio of 20%–25%, and equity ratio of 30%. The company intends to focus on the sale of dairy ingredients and cheese in response to a recovery in dairy product import volumes as the domestic skim milk powder inventory returns to an optimal level and the pandemic subsides. It will also develop an export business of domestically produced dairy products, expand the cheese business in Asia, and accelerate development of the functional foods business.

Strengths and weaknesses

Strengths

Wealth of information, ability to offer solutions and respond to customer needs:

Lacto Japan is a leading specialist trading company with a share of over 30% in dairy ingredients and cheese imports. Over the years (including the Toshoku era), it has amassed a wealth of specialist expertise and know-how.

Independence: Being free of capital alliances or complex trading relationships is the key difference vs. rival general trading companies; diversity of suppliers (more than 100) and customers.

Presence in Asia and manufacturing

function: Lacto Japan has been in Singapore for over 20 years. It set up plants and added manufacturer to its trading company identity before general trading companies invested in manufacturing dairy products in Asia.

Weaknesses

Heavy reliance on domestic market

(constraint on growth): Although the import ratio has increased, dairy product consumption in Japan remains flat.

Limits on potential for adding value: Lacto Japan's stable supply of ingredients is a source of value-added, as are the above information resources and ability to offer solutions and respond to customer needs. Still, in comparison with suppliers and customers, potential for adding value is limited.

Profit growth drivers

To Date: Importing dairy ingredients and cheese into Japan (and sales)

Medium term: Manufacture and sale of cheese in Asia, and expansion of functional food product lineup

Indices	
Market capitalization	JPY19.5 bn
Stock price (2023/2/22)	JPY1,969
Issued shares	9,915,200 shares
Foreign stockholding ratio	9.7 %
BPS (FY11/22)	JPY2,265.51
PBR (FY11/22)	0.87 x
PER (FY11/23 Est.)	9.9 x
Dividend (FY11/23 Est.)	JPY48.00
Dividend yield (FY11/23 Est.)	2.44 %
ROE (FY11/23 Est.)	10.4 %
Net debt / Equity ratio (FY11/22)	91.1 %

		Sales (JPYmn)	YoY	Operating profit (JPYmn)	YoY	Ordinary income (JPYmn)	YoY	Net income (JPYmn)	YoY	EPS (JPY)	BPS (JPY)	ROA (OI-based)	ROE
FY11/14	Cons.	96,550	27.1%	1,532	118.8%	1,653	-1.0%	988	-1.9%	127.79	1,165.58	4.5%	12.2%
FY11/15	Cons.	98,001	1.5%	720	-53.0%	1,343	-18.8%	831	-15.9%	98.94	1,062.54	3.3%	8.5%
FY11/16	Cons.	88,679	-9.5%	3,349	365.1%	1,434	6.8%	946	13.8%	96.79	1,167.72	3.7%	8.7%
FY11/17	Cons.	101,335	14.3%	1,924	-42.6%	2,523	75.9%	1,755	85.5%	179.48	1,302.98	6.0%	14.5%
FY11/18	Cons.	115,441	13.9%	3,009	56.4%	2,613	3.6%	1,784	1.7%	182.31	1,462.35	5.5%	13.2%
FY11/19	Cons.	116,794	1.2%	3,144	4.5%	2,747	5.1%	1,963	10.0%	200.11	1,618.31	5.7%	13.0%
FY11/20	Cons.	110,838	-5.1%	2,959	-5.9%	2,781	1.2%	2,062	5.1%	209.47	1,774.58	6.1%	12.3%
FY11/21	Cons.	110,884	0.0%	2,787	-5.8%	2,682	-3.6%	1,959	-5.0%	198.73	1,978.42	5.6%	10.6%
FY11/22	Cons.	147,423	33.0%	2,959	6.2%	3,135	16.9%	2,287	16.7%	231.64	1,774.58	6.1%	12.3%
FY11/23	Est. Cons.	160,000	8.5%	-	-	3,200	2.1%	2,330	1.9%	235.52	-	-	-

Source: Shared Research based on company data

Note: Figures rounded to the nearest million yen (amounts less than JPY1mn are rounded down in materials released by the company).

Business

One of Japan's leading trading companies of dairy products (over 30% import share); expanding into meat products and the Asia market

Company overview

Among Japan's leading independent food trading company focused on dairy products

Lacto Japan is the nation's biggest independent specialist trading company of dairy ingredients and cheese (over 30% share of imports in FY2021, company estimate). The company imports dairy ingredients—which includes customized (primary processed) products and products that are extracted from concentrated raw milk, including whole milk powder, skim milk powder, whey (liquid separated out from milk solids during the manufacture of yogurt and cheese), and sweetened condensed milk—and cheese from milk-producing nations around the world. It then wholesales these imported dairy ingredients to leading domestic food manufacturers, the Agriculture Livestock Industries Corporation (ALIC), and other entities. In all, Lacto Japan handles around 40 general-purpose ingredients and over 500 customized (primary processed) products. With no corporate affiliations, the company has more than 100 suppliers. Fees (commissions) for wholesaling (importing) serve as the main source of sales and profit. In real terms (adjusted for exchange gains and losses), the operating profit margin is about 3%.

Background to establishment

Lacto Japan celebrated the 25th anniversary of its founding in May 2023. The company was founded by a team previously engaged in importing for the dairy product division of Toshoku*, in response to strong pleas from Toshoku suppliers and customers after that company filed for bankruptcy, reportedly because of a subsidiary's excessive investments. President Motohisa Miura was one of Lacto Japan's founding members; over his many years at Toshoku and Lacto Japan, he has acquired a wealth of experience in selling dairy ingredients and cheese.

*Toshoku: a leading specialist food trading company, which filed for bankruptcy in 1997. Formerly a part of Mitsui and Co., it was founded in 1946 in line with the dissolution of conglomerates in postwar Japan.

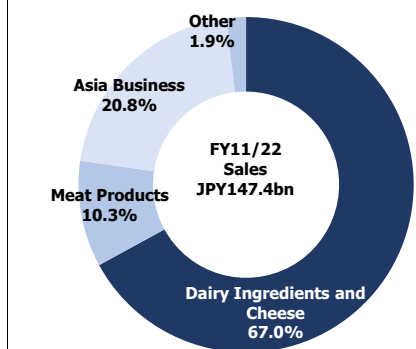
Lacto Japan's defining characteristics

- Independent specialist trading company:** Aside from the relevant business units of large general trading companies such as Mitsubishi Corporation, Mitsui & Co., and Itochu Corporation, other dairy product trading companies tend to be small or mid-sized. Lacto Japan is distinguished by its full lineup of dairy ingredients and its lack of capital ties to other companies. According to management, Lacto Japan is the only company in the industry with 68 personnel running its Dairy Ingredients and Cheese business (as of November 30, 2022). Even the large general trading companies devote just five to ten people to this area. Other trading companies specializing in dairy ingredients usually are small in scale and focus on particular product categories.
- Long-standing relationships with suppliers and customers:** Lacto Japan plays the role of business partner both for dairy ingredient manufacturers (its suppliers) and for domestic dairy product, confectionery, oil & fats, beverage, and animal feed manufacturers (its customers). The company conveys information from overseas to customers, whose specific demands it relays to suppliers who then undertake primary processing, with Lacto Japan subsequently delivering the processed products to customers.

Among Japan's leading independent trading companies of dairy products

- ▶ Leading company with over 30% share
- ▶ Imports dairy ingredients and cheese from milk-producing nations around the world (more than 100 suppliers)
- ▶ Handles around 40 general-purpose ingredients and over 500 customized (primary processed) products
- ▶ Customers include leading domestic dairy product, confectionery, oil & fats, beverage, and animal feed manufacturers
- ▶ Employees number 364 (as of November 30, 2022)

Sales by segment



Source: Shared Research based on company data

Expansion into new business domains

Aside from its dairy ingredients and cheese business, Lacto Japan also has run a business importing meat and processed meat products since FY11/05. In addition, it has an Asian regional headquarter in Singapore-based subsidiary Lacto Asia Pte. Ltd., with subsidiaries, second-tier subsidiaries, and affiliates in Malaysia, Thailand, Indonesia, the Philippines, and China. These companies are engaged in dairy ingredient wholesaling and in the manufacturing and sale of cheese (company plants in Singapore and Thailand manufacture processed cheese, and the Indonesia plant manufactures shredded cheese).

Products handled and their respective sales weightings (in FY11/22)

- ▶ Dairy Ingredients and Cheese (67.0%): handles around 40 general-purpose ingredients and over 500 customized (primary processed) products

Dairy ingredients: Dairy ingredients are the raw materials for milk products (collective term for products made by processing raw milk). Raw milk can be converted into solids, powders, and so forth, and with the exception of cheese, these products can be reconstituted as milk and other types of dairy product.

Whole milk powder: Whole milk powder is made by drying raw milk to remove water. In comparison with skim milk powder, whole milk powder has higher fat content. It therefore is not suited to long-term storage, as fat oxidation can cause the taste to deteriorate quickly. Whole milk powder primarily is used as an ingredient in cafe au lait and other canned coffee blends (coffee drinks), and in milk tea-type tea drinks.

Skim milk powder: Skim milk powder is made by removing water from skim milk (raw milk that has had the milk fat removed). It also is widely used in the food industry, as in comparison with whole milk powder it has a longer shelf life.

Curd: Curd is a dairy product obtained by coagulating raw milk through the addition of acids or enzymes such as chymosin. When the curd is molded and then heated, the result is natural cheese.

Whey: Whey is the liquid remaining when raw milk is treated to remove milk fat, casein, and so forth.

Casein: Casein is a family of phosphoproteins found in raw milk and cheese (roughly 80% of all protein in cows' milk is casein, and 20% is whey).

Source: Shared Research based on Ministry of Agriculture, Forestry and Fisheries data

- ▶ Meat Products (10.3%): pork (chilled and frozen), beef, chicken, dry-cured ham, salami, bacon, etc.
- ▶ Asia Business (20.8%): dairy ingredients and cheese, own-brand cheese (processed cheese* brand Foodtech, natural cheese** brand Choosy)
- ▶ Other (1.9%): functional food ingredients (including whey protein ingredients and

- Expansion into new business domains
- ▶ Dairy Ingredients and Cheese (67.0% of sales in FY11/22)
 - ▶ Meat Products (10.3%)
 - ▶ Asia Business (20.8%)
 - ▶ Other (1.9%)
- (1) Identifying business opportunities in the westernizing Asia market (sale of dairy ingredients)
- (2) Constructing new business model through addition of manufacturer function (cheese manufacturing and sale)
- ▶ Manufacture of own-brand cheese in Singapore and Thailand
 - ▶ Establishment of cheese processing company in Indonesia, as joint venture with local manufacturer
 - ▶ Establishment by Philippines subsidiary of a dairy ingredient sales subsidiary (Lacto Japan's second-tier subsidiary)

gelatin)

* Processed cheese: To make processed cheese, one or more varieties of natural cheese are shredded and heated, and then reshaped after addition of an emulsifier and other ingredients.

** Natural cheese: Natural cheese is raw milk that has been coagulated to form a solid, before undergoing fermentation.

Suppliers

- ▶ Dairy Ingredients and Cheese: Suppliers include dairy ingredient manufacturers from key milk-producing areas: Europe, Oceania, and North America (over 100 suppliers across some 20 countries). Over 13 years, Lacto Japan's dairy ingredients and cheese import volume rose to 2.7x, from 76,868 tons in FY11/06 to 204,105 tons in FY11/19. However, the pandemic caused import volume to fall back to 191,575 tons (-6.1% YoY) in FY11/20, 184,358 tons (-3.8% YoY) in FY11/21, and 182,957 tons (-0.8% YoY) in FY11/22.
- ▶ Meat Products: In pork products, the chief supplier is US-based Seaboard Foods. Lacto Japan also imports from companies that repackage dry-cured ham and salami into different shapes and sizes, primarily Italy's Fratelli Galloni S.P.A. (Parma prosciutto) and Villani S.P.A. (Milano salami), and Spain's Esteban Espuna S.A. (Serrano ham).

Global network

- ▶ Overseas bases charged mainly with procurement: US, Australia, Netherlands, Italy
- ▶ Overseas bases responsible principally for manufacturing and sales: Singapore, Malaysia, Indonesia, Thailand, Philippines, and China

Customers

- ▶ Dairy Ingredients and Cheese: Customers include domestic dairy product, confectionery, oil & fats, beverage, and animal feed manufacturers, among them Meiji, Morinaga Milk Industry, Yotsuba Milk Products, Megmilk Snow Brand, Ezaki Glico, and Lotte, as well as the Agriculture Livestock Industries Corporation (ALIC; see later section on "state trading system").
- ▶ Meat Products: Customers are domestic food manufacturers, particularly ham and sausage manufacturers.

Note: For dairy product, confectionery, oil & fats, beverage, and animal feed manufacturers, trading companies like Lacto Japan fulfill functions including ensuring a stable supply of ingredients (decentralization of procurement routes) and improving production efficiency (outsourcing the processing of raw materials).

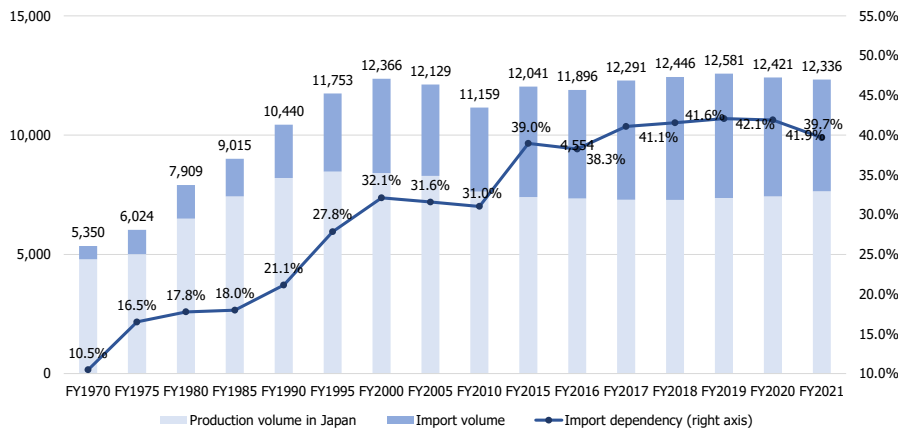
Market environment

Business climate largely stable at present

Japan's dairy product consumption (milk equivalent basis) has remained stable since FY2000, at about 12 million tons per year. With domestic production (milk equivalent basis) contracting from 7.5 million tons in FY2011 to 7.4 million tons in FY2020, at a CAGR of -0.1%*, Japan has become increasingly reliant on imports (import weighting of 42.7% in FY2020, up from 34.6% in FY2011) in order to meet consistently high demand. Japan's dairy product import volume (milk equivalent basis) has risen from 4.0 million tons in FY2011 to 5.0 million tons in FY2020, at a CAGR of 3.5%. That being said, import quotas for dairy products from FY2021 onward were set at the minimum level pledged under the WTO agreements (137,000 tons, milk equivalent basis), due to there being sufficient domestic inventory of butter and skim milk powder.

* The number of dairy farming households in Japan peaked at 418,000 in 1963, and by 2022 had dropped to 13,300 (-3.6% YoY), largely due to aging dairy farmers exiting the industry without successors. Similarly, the total number of dairy cows in Japan declined from 2,111,000 in 1985 to 1,323,000 in 2017, and since then has gradually increased to 1,328,000 in 2018, 1,332,000 in 2019, 1,352,000 in 2020, 1,356,000 in 2021, and 1,371,000 in 2022. (Source: *Statistics on Livestock*, Ministry of Agriculture, Forestry and Fisheries.)

Japan's dairy product consumption ('000 tons, milk equivalent basis)



Source: Shared Research based on Ministry of Agriculture, Forestry and Fisheries' Food Balance Sheet
 Note: For the sake of convenience, consumption is defined as the total of domestic production and import volume. In reality, domestic consumption is this sum less export volume, also taking into account changes in inventory. However, the difference is negligible.

Countries of origin for Japan's dairy product imports

According to the Ministry of Finance's Trade Statistics of Japan, in 2022 the nation's dairy product import volume (solid content basis) rose 7.7% YoY to 362,884 tons (0.09 of milk equivalent), while the value of dairy product imports rose 48.2% to JPY220,193mn (see table below). While whey imports were up 25.4% YoY and cheese and curd imports were up 7.0% on a volume basis, there were declines of 31.4% YoY for fermented dairy products, 12.5% YoY for butter, 24.6% YoY for milk and cream, and 6.4% for powdered milk. The three main countries of origin for dairy imports are Australia (source of the largest volume of cheese), New Zealand (source of the largest volume of butter), and the US (source of the largest volume of whey and powdered milk). Japan also imports dairy products from European nations including the Netherlands, Germany, Denmark, France, and Italy. According to the company, the above list also covers the main countries of origin for Lacto Japan's imports.

Volumes and prices of Japan's dairy product imports (2022)

(tons)	Imports	By category					
		Milk and cream	Powdered milk	Fermented dairy products	Whey	Butter	Cheese and curd
Total	362,884	100	24,152	12	55,722	10,030	272,869
Value (JPYmn)	220,193	55	12,248	18	20,284	8,963	178,624
Unit price (JPY/kg)	607	551	507	1,522	364	894	655
Three main countries	217,679	1	19,904	4	30,323	6,698	160,749
Australia	69,719	-	4,423	-	6,177	170	58,950
New Zealand	84,843	1	12,206	4	6,176	6,431	60,025
US	63,117	-	3,275	0	17,971	97	41,774
Share of the three	60.0%	1.1%	82.4%	36.1%	54.4%	66.8%	58.9%
Europe	137,713	69	4,218	7	20,866	3,241	109,312
Netherlands	17,253	-	236	1	2,776	409	28,612
Germany	12,615	55	615	-	5,450	345	20,247
Denmark	32,035	-	25	-	30	7	16,404
France	16,466	2	2,405	0	1,890	2,101	10,855
Italy	26,712	-	179	-	1,415	2	11,020
South America	5,892	30	30	-	3,195	56	2,581
Argentina	4,905	-	-	-	2,447	-	2,459
Brazil	34	30	5	-	-	-	-

Source: Shared Research based on Ministry of Finance's Trade Statistics of Japan (figures rounded to the nearest millions of yen).

Note: Figures above show sums for items covered under HS codes 0401 to 0406

International market

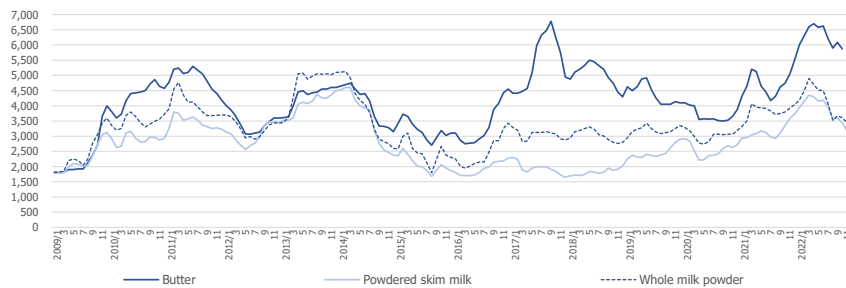
The international market for dairy products was bearish until the first half of 2016, but market prices began trending upward in the latter half of 2016 as an adjustment to global supply and demand came to an end. Prices fell again during the latter half of 2017, but were generally stable at low levels from 2018 to 2020, making for a favorable environment from the perspective of buyers. Prices rose again in 2021 due to lower milk production in

major producing nations, a sharp increase in demand as the impact of the pandemic began to subside, and disruption in global logistics. The rapid rise in market prices came to a halt and began falling in 2022, but nevertheless remained high against a backdrop of global inflation caused by the Russia-Ukraine war and soaring energy prices.

Butter prices rose sharply between 2016 and the middle of 2017 in response to growing worldwide demand for natural foods, but dropped afterwards. The prices fell in spring 2022 due to the impact of the outbreak of COVID-19, but shot up again in 2021. In 2022, the sharp increase in market prices came to an end, and the prices were on a downtrend as of the beginning of 2023.

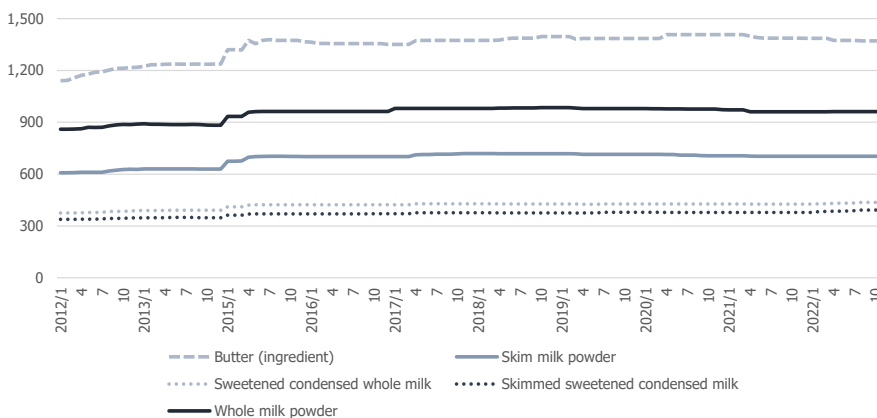
Skim milk powder prices have been on an uptrend since the second half of 2018 and especially in 2019 following the elimination of Europe’s skim milk powder inventory. In the beginning of 2020, the prices fell due to the impact of the spread of COVID-19 as was the case for butter, but rose sharply between 2021 and spring 2022 backed by a sharp increase in demand as society began to accept living with COVID-19 as the new norm. Since then, the market prices have stabilized.

International dairy product prices (USD/ton)



Source: Shared Research based on Japan Dairy Association (J-Milk) data (referencing original data from ALIC)
 Note: Prices are simple averages of highs and lows (FOB, Western European ports)

Domestic selling prices of designated dairy products for big users (JPY/kg)

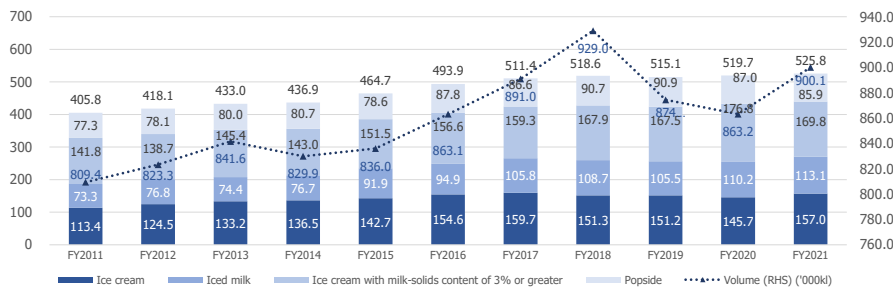


Source: Ministry of Agriculture, Forestry and Fisheries’ data on Price Survey on Major Foods

Demand for main users’ products

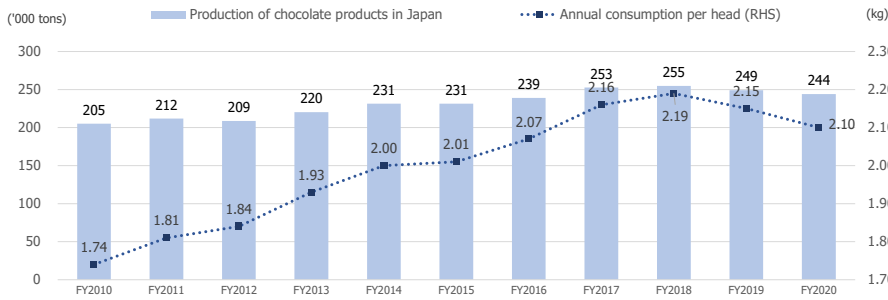
Through late 2019 before COVID-19 first reared its head, domestic demand for dairy ingredients continued to rise thanks to generally steady growth in sales of major products made by dairy product and confectionery manufacturers. Domestic consumption of cheese continued to grow, rising from 204,535 tons in 1995 to 354,517 tons in 2021 at a CAGR of 2.1%. Imported cheese accounted for roughly 80% of that, rising from 159,345 tons in 1995 to 286,099 tons (-1.9% YoY) in 2021 at a CAGR of 2.3%.

Sales of ice cream and popsicles (JPYbn)



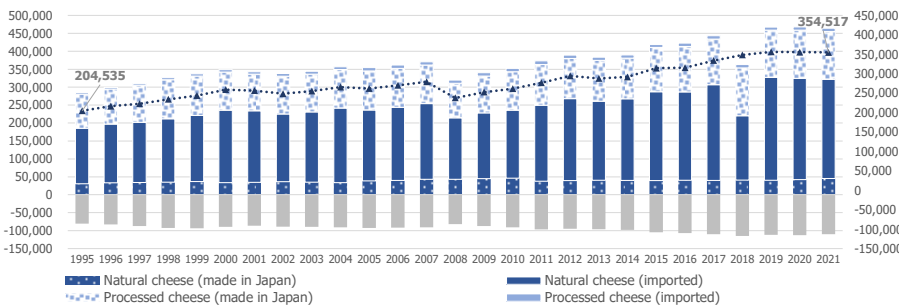
Source: Shared Research based on Japan Ice Cream Association

Domestic production of chocolate products ('000 tons)



Source: Shared Research based on Chocolate & Cocoa Association of Japan

Cheese consumption in Japan (Unit: tons)



Source: Shared Research, based on statistics from the Japan Dairy Association (J-Milk), as compiled in the Survey of Cow Milk and Dairy Product Production conducted by the Livestock Industry Department of the Agricultural Production Bureau of the Ministry of Agriculture, Forestry and Fisheries

State trading system and tariff rate quota for dairy products

State trading system

In Japan, designated dairy products,* such as skim milk powder, butter, and whey, are subject to a state trading system and tariff rate quota, with the Agriculture and Livestock Industries Corporation (ALIC) controlling imports. The difference between the import price and the wholesale price is retained by ALIC to fund subsidies for domestic dairy farmers. Butter and skim milk powder can be easily reconstituted to manufacture virtually all milk and dairy products. The government took the big-picture view that unregulated imports of butter and skim milk powder could adversely affect domestic supply-demand for all dairy products, including drinking milk, and accordingly opted for a state trading system. In conducting its state trading activities, ALIC uses two systems of tendering: general tender** and SBS (simultaneous buy and sell) tender.***

*In the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), Japan committed to import purchases for designated dairy products of up to 137,000 tons annually (in milk equivalent calculation).

** The state (ALIC) buys products in an import tender, then temporarily holds these products as stockpile before offering them to users via sell tender.

***Under this system, shortlisted import agents (sellers) and domestic users (buyers) can pair up and make a joint bid. The state (ALIC) chooses the bids that have the biggest difference between the

purchase price (from the import agent) and the sales price (to internal markets), retaining the difference between the prices as a mark-up (e.g., JPY949/kg for butter as of April 1, 2018). The state (ALIC) enters into a contract of sale with the seller and the buyer, simultaneously buying from the former and selling to the latter.

* While there is some variation between fiscal years, Lacto Japan more often participates in SBS tenders (in roughly 60% of cases). In FY11/19, wholesaling to ALIC accounted for 7.3% of total sales in the dairy ingredients and cheese business.

Tariff rate quota system

Under the tariff rate quota system, no tariff or a reduced tariff (the primary tariff rate) is applied to imports of below a certain quantity, to ensure that imported products are available to users at lower prices. Imports above that quota limit are subject to a higher tariff (the secondary tariff rate),* in order to protect domestic producers.

The in-quota tariff rate (primary tariff rate) is 25% for skim milk powder, 35% for butter, 25% for whey (35% for whey containing added sugar), and 25% for unsweetened condensed milk. The out-of-quota tariff (secondary tariff rate) is 21.3% + JPY396/kg for skim milk powder, 29.8% + JPY985/kg for butter, 29.8% + JPY425/kg (or JPY687/kg) for whey, and 21.3% + JPY254/kg (or 25.5% + JPY509/kg) for unsweetened condensed milk. Tariffs of zero within the quota apply for whey and skim milk powder for use in animal feed. There are no quotas for imported cheese, where the tariff rate is 29.8% for natural cheese (in some cases 26.3% or 22.4%), and 40% for processed cheese.

Impact of new trade agreements

Due to the enactment of new trade agreements, namely Trans-Pacific Partnership Agreement (“TPP 11”) which came into effect in December 2018 and Japan-EU Economic Partnership Agreement (“Japan-EU EPA”) which came into force in February 2019, import tariffs on dairy products have gradually decreased. For instance, tariffs on cheddar cheese and gouda cheese, products the company handles in large quantities, were high at 29.8% before the trade agreements came into effect, but have fallen by about 1.9% annually since the agreements came into effect, and will eventually hit 0% in 2033. Further, although skim milk powder and butter, which are subject to state-controlled trade, will remain under the bidding system run by Agriculture and Livestock Industries Corporation (ALIC), tariff rate quotas (low tariffs are assigned to imports up to a certain volume) were established for countries participating in TPP 11 and Japan-EU EPA. Due to the reduction in tariffs on dairy products in phases and the establishment of tariff rate quotas following the enactment of the trade agreements, the company expects demand for dairy products it handles to rebound and import volumes to continue growing going forward.

Japan-foreign price gap for dairy products

Whereas in the main milk-producing nations a kilogram of butter retails for approximately USD8, in Japan the price is about USD20. In large part, this is because the producer’s price for a kilogram of raw milk is around USD35–40 in the main milk-producing nations, but in Japan it is a much higher USD96 or so (source: Japan Dairy Industry Association, “Japan Dairy Yearbook 2021 Edition”).

Competitive landscape

Aside from the relevant business units of large general trading companies, other dairy product trading companies tend to be small or midsized (see the earlier section on “Lacto Japan’s defining characteristics” for a discussion of how the company differs from its competition).

- ▀ Large general trading companies (relevant business units): Mitsubishi Corporation (TSE Prime: 8058), Mitsui & Co. (TSE Prime: 8031), and Itochu Corporation (TSE Prime: 8001)

Specialist food trading company: Shoei Foods (TSE Prime: 8079)

Comparison with competitors (listed companies)

Ticker	Company	Fiscal year		Sales (revenue) (JPYmn)	Ordinary income (pre-tax profit) (JPYmn)	% of sales (revenue)	ROA (based on OI or pre-tax profit)	ROE	Equity ratio
8058	Mitsubishi Corp.	FY03/22	IFRS	17,264,828	1,293,116	7.5%	6.4%	15.0%	31.4%
8001	Itochu Corp.	FY03/22	IFRS	12,293,348	1,150,029	9.4%	7.0%	21.8%	34.6%
8031	Mitsui & Co.	FY03/22	IFRS	11,757,559	1,164,480	9.9%	8.5%	18.0%	37.6%
3139	Lacto Japan	FY11/22	Cons.	147,423	3,135	2.1%	5.0%	10.9%	30.5%
8079	Shoei Foods	FY10/22	Cons.	103,188	3,749	3.6%	5.0%	6.0%	58.2%
Average				8,313,269	722,902	6.5%	6.4%	14.3%	38.5%

Source: Shared Research based on company data

Impact of exchange rates

To understand how forex affects revenue and profit at Lacto Japan, it is necessary first to gain an understanding of accounting standards for foreign currency transactions and accounting standards for financial instruments (hedge accounting rules). We use the following hypothetical transaction to illustrate the effects of forex.

Hypothetical transaction: On October 31, 20XX, Lacto Japan inks a USD10,400 sales contract (sales: USD10,400 x USD/JPY98 = JPY1,019,200) with Japanese dairy company A. At the same time, it enters into a USD10,000 forward exchange contract (settlement date: February 28, 20X1) with a bank to hedge the forex risk associated with the USD-denominated import transaction (scheduled for December 31, 20XX), for which the settlement of accounts payable is slated for February 28, 20X1. Lacto Japan applies separate accounting treatment* for the foreign currency-denominated transaction. The forward exchange contract satisfies the accounting standards for financial instruments (hedge accounting). The effective tax rate is 40%.

*Separate accounting treatment of the foreign currency-denominated transaction that is being hedged, and the forward exchange contract used as a hedging device. Hedge accounting is an exceptional accounting treatment to recognize the gains or losses on a hedging instrument in the same period as the gains or losses on the hedged exposure.

[Forward exchange contract]

Buy USD10,000 (contract date October 31, 20XX; settlement date February 28, 20X1)

[Forex assumptions] (yen depreciation)

JPY per USD		Spot rate (SR)	Forward rate (FR)
As of transaction contract	(Oct. 31, 20xx)	98	95
= at foreign exchange forward contract			
As of settlement	(Nov. 30, 20xx)	99	96
As of shipping	(Dec. 31, 20xx)	100	97
= at booking of purchase			
As of payment for the purchase	(Feb. 28, 20x1)	104	-

Note: Difference between SR and FR set at JPY3/USD for the sake of convenience (not on the basis of detailed calculations)

[Transaction in foreign currency (deferred hedging): rundown of accounting process]

Transaction in foreign currency (deferred hedging): accounting process			
Forward exchange contract date (Oct. 31, 20xx)	No journal entry		
Settlement (Nov. 30, 20xx)	< Market-value evaluation of forward exchange contract >		
	Debit: Forward exchange contract	10,000 (*1)	Credit: Deferred tax liability
			Deferred hedge gain (loss)
			4,000 (*2)
			6,000
	*1 (FR on settlement date [96] - FR on contract date [95]) x USD10,000		
	*2 USD10,000 x effective tax rate [40%]		
	Trial balance after settlement		
	Forward exchange contract	10,000	Deferred tax liability
			Deferred hedge gain (loss)
			4,000
			6,000
Purchase (Dec. 31, 20xx)	① Debit: Purchase	1,000,000	Credit: Accounts payable
	② Debit: Forward exchange contract	10,000 (*4)	Credit: Deferred tax liability
			Deferred hedge gain (loss)
			4,000
			6,000
	③ Debit: Deferred tax liability	8,000	Credit: Forward exchange contract
	Deferred hedge gain (loss)	12,000	
			20,000
	*3 SR on purchase date [100] x USD10,000		
	*4 (FR on purchase date [97] - FR on settlement date [96]) x USD10,000		
Payment for the purchase (Feb. 28, 20x1)	① Debit: Accounts payable	1,000,000	Credit: Cash and deposits
	Gain (loss) on forex	40,000	
			104,000 (*5)
	② Debit: Cash and deposits	90,000 (*6)	Credit: Gain (loss) on forex
			90,000
	*5 SR on date of payment for the purchase [104] x USD10,000		
	*6 (SR on forward contract settlement date [104] - FR on contract date [95]) x USD10,000		
Sales (Mar. 15, 20x1)	Debit: Accounts receivable	1,019,200	Credit: Sales
			1,019,200
Summary of a series of transaction (Income statement assuming the whole process took place within the same fiscal year)	Sales	1,019,200	
	CoGS	1,000,000	
	Gross profit	19,200	
	Gain (loss) on forex	50,000	
	Profit	69,200	
* SG&A expenses are ignored in this example	* CoGS [950,000] is excluded from sales (based on contract date FR) The profit above equals the actual profit of JPY69,200		
Summary of a series of transaction (Cash out from the purchase)	Settlement of accounts payable	-1,040,000	
	Net settlement on foreign exchange	90,000	
	Balance	-950,000	

Source: Shared Research

Note: journal entry ③ at time of transaction (account item on credit side) is based on Lacto Japan's actual practice.

[Main point]

In the simulation above, the forward exchange contract ensures that actual profit (gross profit adjusted for forex gains/losses) remains fixed at JPY69,200, regardless of exchange rate movements. In short, the actual cost of sales remains fixed at JPY950,000 (based on the forward rate agreed upon for the settlement date).

By thus entering into a forward exchange contract with a financial institution* whenever it signs a sales contract, Lacto Japan determines the actual profit (gross profit adjusted for forex gains/losses) at the time of the sales contract. In other words, foreign exchange movements have no impact on an actual profit basis once the sales contract is signed. That said, yen depreciation is preferable from the standpoint of the sales amount determined at the time the sales contract is signed, and the commission on that amount (while this is disadvantageous from the perspective of price competition with domestically produced ingredients, the reality is that customers are being forced to import because domestic production is insufficient to meet their needs). There is usually a four- to six-month lag between the signing of the sales contract and the booking of sales.

* Lacto Japan's policy is not to bet on currency markets. Even when the yen is expected to strengthen it enters into forward exchange contracts to buy US dollars, etc. (in short, every sales contract is accompanied by a forward exchange contract, without exception).

Earnings

FY11/23 forecast: Despite weak consumer sentiment due to inflation, prices are expected to remain high mainly in 1H. Expects dairy ingredient imports to recover as domestic skim milk powder inventory normalizes

FY11/22 results

Summary

For FY11/22, Lacto Japan reported sales of JPY147.4bn (+33.0% YoY), ordinary income of JPY3.1bn (+16.9% YoY), and net income of JPY2.3bn (+16.7% YoY). Despite the impact of the COVID-19 pandemic, sales volume held firm on the back of economic recovery prompted by the easing of various pandemic-related activity restrictions. Prices of dairy products increased due to soaring international market prices and a sharp depreciation of the yen, leading to substantial sales growth and record-high profits at all levels.

- ▶ FY11/22 results: Sales up 33.0% YoY, ordinary income up 16.9%
- ▶ Achievement rates versus forecast: Sales 105.3%, ordinary income 101.1%, and net income 101.6%
- ▶ Forex rate: JPY129.67/USD (JPY108.97/USD in FY11/21), JPY136.86/EUR (JPY129.68)

Business environment

In the beginning of 2022, the number of COVID-19 cases reached a record-high due to a resurgence of infections caused by the Omicron variant. Leisure demand recovered as various activity restrictions imposed to prevent the spread of COVID-19 were eased in March, and as the national government, in collaboration with local governments, rolled out nationwide travel support campaigns and eased border restrictions in the latter half of the year. However, the outlook remained uncertain due to soaring energy prices caused by the protracted Russia–Ukraine conflict, inflation, and a sharp depreciation of the yen.

In Japan's food industry, demand for commercial food ingredients was robust supported by a recovery in eating-out and leisure demand. In the dairy sector, ice cream production volume increased YoY in July and August due to an extended period of extremely hot days during the summer months. In 2H, consumers began refraining from spending due to a series of price hikes on final consumer products prompted by a surge in raw material prices against a backdrop of a weak yen and global inflation. Meanwhile, Japan's skim milk powder inventory remained at a high level due to robust domestic milk production volume.

Factors contributing to sales and profit growth

Lacto Japan strove to secure stable supply of raw materials by taking full advantage of its global procurement network, and focused on making product proposals that met customer needs. Further, in response to the large inventory of domestically produced skim milk powder, which continued to be in excess, the company exported dairy ingredients to Asia in addition to selling them in Japan. As a result, sales of dairy ingredients and cheese were strong in Japan and other parts of Asia.

Sales volume fell slightly short of plan, but sales (in value terms) reached a record high due to higher selling prices driven by a surge in international market prices for dairy products and a weak yen. Sales growth was attributed to higher sales volume (contributing JPY1.1bn), a rise in selling prices (+JPY30.5bn), and forex impact (JPY4.9bn).

GPM fell 0.9pp YoY to 5.1%, due to a rise in cheese ingredient prices for the cheese manufacture and sales business in Asia and a sharp drop in the value of yen, pushing down profits by JPY943mn. SG&A expenses rose 16.5% YoY due to higher personnel expenses on an increased headcount at the head office and in Asia, as well as higher shipping and travel expenses. The increase here, however, was offset by sales growth, and the SG&A ratio fell 0.5pp YoY to 3.0%.

Forex fluctuations had a positive impact of JPY117mn on ordinary income during FY11/22.

Adjusting for this impact, ordinary income was JPY3.0bn, an increase of 9.3% YoY versus similarly adjusted ordinary income in FY11/21.

Earnings by business

➤ **Dairy Ingredients and Cheese:** Sales of JPY98.8bn were up 29.2% YoY. Sales volume fell 0.8% YoY to 182,957 tons, but the unit price jumped 30.2% YoY to JPY540/kg.

Selling prices increased due to soaring international market prices of dairy products and the depreciation of the yen, resulting in a 29.2% YoY increase in sales. Sales volume rose substantially in 1H on the back of a recovery in demand for commercial use, but in 2H, sales volume was affected by progress in replacement of powdered milk with domestically produced dairy ingredients primarily for general-use products, in addition to a weak consumer sentiment caused by price hikes for final consumer products. As a result, sales volume for the full-year was unchanged YoY.

Domestic skim milk powder inventory remained at a high level, exceeding 100,000 tons in May 2022. As a result, the import volumes of skim milk powder and butter by ALIC was limited.

➤ **Meat Products:** Sales of JPY15.1bn were up 6.0% YoY. Sales volume fell 3.6% YoY to 24,775 tons, but the unit price rose 10.0% YoY to JPY611/kg.

Sales grew thanks to higher selling prices on the back of an increase in international market prices and yen depreciation. Sales volume fell slightly YoY. This was primarily attributed to ongoing constraints on the production of some products that require processing, due to labor shortages at the production plant of a key US supplier. Lacto Japan is looking for other suppliers to replace this supplier.

For processed meat products such as dry cured ham and salami, the company changed its supplier to one based in Spain due to the impact of African swine flu (ASF) that broke out in Italy, and as a result, saw a YoY increase in sale volume.

➤ Asia Business

- Sales in the dairy ingredient sales business were JPY26.7bn (+69.3% YoY), sales volume was 50,423 tons (+5.5% YoY), and the unit price was JPY529/kg (+60.6% YoY). Sales grew sharply due to an increase in selling prices driven by higher international market prices and a weak yen. Local sales in Singapore, Thailand, and Indonesia among other regions were brisk. While milk production in Oceania, a main supplier, slumped, the company was able to secure a stable supply of dairy ingredients from Europe and the US. Further, overseas sales of skim milk powder produced in Japan (an export business launched in response to excess domestic inventory) also contributed to the growth in sales volume. Meanwhile, sales of powdered milk ingredients in Japan were sluggish due in part to the shift to using domestically produced dairy ingredients.
- Sales in the cheese manufacture and sales business were JPY4.0bn (+19.9% YoY), sales volume was 4,786 tons (+3.3% YoY), and the unit price was JPY832/kg (+16.1% YoY). Selling prices increased as the company implemented several price revisions during the fiscal year to pass through the rise in raw material prices, leading to higher sales. Price revisions were introduced largely in line with plan, but sales to some customers in volume terms declined. Sales to China struggled due to the impact of lockdowns, but sales to Malaysia and Singapore, where the economy steadily recovered, were strong. Sales of processed natural cheese products, demand for which is growing, were up sharply thanks to revamped

production facilities.

➤ **Other:** Sales were JPY2.8bn, up 169.0% YoY.

Sales of functional food ingredients, a growth business the company is focusing on, held firm. For dairy-derived whey protein ingredients, for which the company has a competitive edge in procurement, it collaborated with a renowned supplier in the US, the world's largest supplier, in manufacturing the final protein product.

Meanwhile, sales of plant-based ingredients were sluggish as the market was slow to grow in Japan.

Company forecast for FY11/23

Summary

For FY11/23, Lacto Japan forecasts sales of JPY160.0bn (+8.5% YoY), ordinary income of JPY3.2bn (+2.1% YoY), and net income of JPY2.3bn (+1.9% YoY). The company expects demand for dairy ingredients, cheese, and meat to be sluggish in 1H due to price increases. For 2H, however, it anticipates a recovery in dairy ingredient imports as the inventory of domestically produced skim milk powder normalizes. For the Asia Business (cheese), higher prices of cheese ingredients are expected to weigh on profitability in 1H, with the situation gradually recovering in 2H. By business, sales are forecast to increase 7.7% YoY in Dairy Ingredients and Cheese, 0.4% for Meat Products, 0.5% for Asia (dairy ingredients), and 15.5% for Asia (cheese), and rise to about 2.4x the year-ago figure in Other, including sales of functional food products.

Company forecasts for FY11/23: Sales up 8.5%, ordinary income up 2.1%

Forecast by business

- ▶ Dairy Ingredients and Cheese: Sales of JPY106.4bn (+7.7% YoY), sales volume of 172,000 tons (-6.0% YoY)
- ▶ Meat Products: Sales of JPY15.2bn (+0.4% YoY), sales volume of 28,000 tons (+13.0% YoY)
- ▶ Asia Business (dairy ingredients): Sales of JPY26.8bn (+0.5% YoY), sales volume of 56,500 tons (+12.1% YoY)
- ▶ Asia Business (cheese): Sales of JPY4.6bn (+15.5% YoY), sales volume of 5,900 tons (+23.3% YoY)
- ▶ Other: Sales of JPY7.0bn (+149.3% YoY)

Outlook and assumptions for the business environment

Dairy Ingredients and Cheese

- ▶ The excess inventory of domestically produced skim milk powder is expected to continue having an impact on performance. However, Lacto Japan expects domestic milk production volume to decline and domestic skim milk powder inventory to normalize, driven by a recovery in demand and the government-led measures to restore the optimal balance of supply and demand and curb production. Measures to optimize the supply and demand of domestically produced dairy ingredients included in the FY2022 budget are currently ongoing.
- ▶ In Japan, demand for commercial-use dairy products is projected to recover thanks to the transition to the new era of living with COVID-19 and return of inbound tourists. The demand-supply condition may change drastically depending on progress made in adjusting domestic milk production volume. That being said, the outlook for consumer sentiment is clouded due to price increases for food products that are expected to continue going forward.

- ▶ Sharp increases in international market prices for dairy products are expected to come to a halt but nevertheless remain high due to global inflation and soaring energy prices. The company will continue to pay close attention to demand in China and forex trends as factors affecting the market.

Meat Products

- ▶ The shortage of shipping containers and port congestion which had caused the international supply chain disruptions that had attracted much attention are being resolved. Freight rates are on a downtrend, and shipping and logistics are normalizing.
- ▶ In terms of product supply, labor shortages at the key US supplier of pork are gradually being resolved, and the production of key products which had declined is recovering. The company is making progress in cultivating new suppliers, procuring more products from Canada, Spain, and Belgium. It has already begun looking for suppliers in Mexico and other regions as well. Due to the African swine flu (ASF) outbreak in Italy, it became difficult to procure dry cured ham, salami, and other processed meat products produced in that country, and so the company plans to procure Spain-made products.
- ▶ Regarding demand for meat and processed meat products in Japan, the company expects demand from the commercial sector to rebound prompted by a recovery in eating-out and leisure-related demand. However, it remains uncertain how the food price increases going forward will affect the consumer sentiment.

Asia and Other

- ▶ Demand in the ASEAN region is robust, and the handling volumes of dairy products and cheese may expand going forward. The China market is bearish due to economic stagnation caused by lockdowns.
- ▶ Powdered milk ingredient sales to Japan will continue facing a difficult business environment due to the replacement of imported products with domestically produced skim milk powder, mainly for general-use products, in FY11/22.
- ▶ In terms of costs in the cheese manufacture and sales business, the company expects cheese ingredient prices to remain high, but expects costs to gradually improve in 2H. It plans to revise selling prices appropriately to better reflect the increase in raw material prices and further cut costs.

Earnings by business category

Earnings by business category											
	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22	FY11/23 Est.
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	75,943	96,550	98,001	88,679	101,335	115,441	116,794	110,838	110,884	147,423	160,000
YoY	37.6%	27.1%	1.5%	-9.5%	14.3%	13.9%	1.2%	-5.1%	0.0%	33.0%	8.5%
Dairy Ingredients and Cheese	47,899	63,978	69,047	60,543	70,019	85,290	85,206	78,330	76,481	98,821	106,400
YoY	-	33.6%	7.9%	-12.3%	15.7%	21.8%	-0.1%	-8.1%	-2.4%	29.2%	7.7%
% of sales	63.1%	66.3%	70.5%	68.3%	69.1%	73.9%	73.0%	70.7%	69.0%	67.0%	66.5%
Meat Products	14,971	15,673	15,449	16,338	15,253	12,576	12,280	11,895	14,278	15,135	15,200
YoY	-	4.7%	-1.4%	5.8%	-6.6%	-17.6%	-2.4%	-3.1%	20.0%	6.0%	0.4%
% of sales	19.7%	16.2%	15.8%	18.4%	15.1%	10.9%	10.5%	10.7%	12.9%	10.3%	9.5%
Asia Business and Other	13,073	16,899	13,503	11,797	-	-	-	-	-	-	-
YoY	-	29.3%	-20.1%	-12.6%	-	-	-	-	-	-	-
% of sales	17.2%	17.5%	13.8%	13.3%	-	-	-	-	-	-	-
Asia Business (dairy ingredients)	-	-	-	-	13,348	14,578	16,026	17,025	15,754	26,672	26,800
YoY	-	-	-	-	-	9.2%	9.9%	6.2%	-7.5%	69.3%	0.5%
% of sales	-	-	-	-	13.2%	12.6%	13.7%	15.4%	14.2%	18.1%	16.8%
Asia Business (cheese)	-	-	-	-	1,919	2,116	2,651	2,895	3,324	3,984	4,600
YoY	-	-	-	-	-	10.3%	25.3%	9.2%	14.8%	19.9%	15.5%
% of sales	-	-	-	-	1.9%	1.8%	2.3%	2.6%	3.0%	2.7%	2.9%
Other	-	-	-	-	793	878	630	690	1,044	2,808	7,000
YoY	-	-	-	-	-	10.7%	-28.2%	9.5%	51.3%	169.0%	149.3%
% of sales	-	-	-	-	0.8%	0.8%	0.5%	0.6%	0.9%	1.9%	4.4%
Total sales volume (tons)	-	192,263	202,732	215,504	246,757	275,530	289,299	277,856	262,509	262,941	262,400
YoY	-	-	5.4%	6.3%	14.5%	11.7%	5.0%	-4.0%	-5.5%	0.2%	-0.2%
Dairy Ingredients and Cheese	122,148	129,810	141,540	148,091	172,885	198,445	204,105	191,575	184,358	182,957	172,000
YoY	8.0%	6.3%	9.0%	4.6%	16.7%	14.8%	2.9%	-6.1%	-3.8%	-0.8%	-6.0%
Price per ton (JPY)	392,136	492,861	487,827	408,823	405,003	429,792	417,462	408,874	414,850	540,132	618,605
YoY	-	25.7%	-1.0%	-16.2%	-0.9%	6.1%	-2.9%	-2.1%	1.5%	30.2%	14.5%
Meat Products	-	25,809	25,010	28,029	26,349	21,595	21,532	21,925	25,699	24,775	28,000
YoY	-	-	-3.1%	12.1%	-6.0%	-18.0%	-0.3%	1.8%	17.2%	-3.6%	13.0%
Price per ton (JPY)	-	607,257	617,713	582,896	578,883	582,357	570,314	542,531	555,586	610,898	542,857
YoY	-	-	1.7%	-5.6%	-0.7%	0.6%	-2.1%	-4.9%	2.4%	10.0%	-11.1%
Asia Business (dairy ingredients)	-	34,914	34,223	37,472	45,014	52,822	59,925	60,159	47,817	50,423	56,500
YoY	-	-	-2.0%	9.5%	20.1%	17.3%	13.4%	0.4%	-20.5%	5.4%	12.1%
Price per ton (JPY)	-	-	-	-	296,530	275,983	267,434	283,000	329,464	528,965	474,336
YoY	-	-	-	-	-	-6.9%	-3.1%	5.8%	16.4%	60.6%	-10.3%
Asia Business (cheese)	-	1,730	1,959	1,912	2,509	2,668	3,737	4,197	4,635	4,786	5,900
YoY	-	-	13.2%	-2.4%	31.2%	6.3%	40.1%	12.3%	10.4%	3.3%	23.3%
Price per ton (JPY)	-	-	-	-	764,847	793,103	709,393	689,778	717,152	832,428	779,661
YoY	-	-	-	-	-	3.7%	-10.6%	-2.8%	4.0%	16.1%	-6.3%

Source: Shared Research based on company data

* Figures rounded to the nearest million yen (amounts less than JPY1mn are rounded down in materials released by the company).

Medium-term strategy

Aiming for sustainable growth by evolving existing businesses, expanding the Asia Business, and building next-generation businesses

Medium-term strategy

Changed from rolling to fixed plans

Previously, Lacto Japan had revised its medium-term targets annually, producing a rolling plan in order to respond flexibly to changes in the operating environment. However, it switched to releasing fixed plans to enhance the effectiveness of the plans by clarifying targets for each fiscal term and drive concrete growth.

For FY11/25, the final year of the medium-term plan NEXT-LJ2025 spanning FY11/23–FY11/25, the company targets sales of JPY200.0bn (three-year CAGR of 10.7%), ordinary income of JPY4.0bn (8.7%), net income of JPY2.9bn (8.2%), ROE of 10% or higher, dividend payout ratio of 20%–25%, and equity ratio of 30%–35%. The company will focus on expanding dairy ingredients and cheese sales in tandem with an increase in dairy product import volume driven by the normalization of domestic skim milk powder inventory and the end of the COVID-19 pandemic. Also, it plans to develop an export business of domestically produced dairy products, expand the cheese business in Asia, and accelerate the development of functional food business.

Numerical targets of current medium-term business plan, NEXT-LJ2025

(JPYmn)	FY11/22 Act.	FY11/23 Est.	FY11/24 Targets	FY11/25 Targets	Three-year CAGR
Sales	147,423	160,000	180,000	200,000	10.7%
YoY	33.0%	8.5%	12.5%	11.1%	
Ordinary income	3,135	3,200	3,900	4,000	8.5%
YoY	16.9%	2.1%	21.9%	2.6%	
Profit margin	2.1%	2.0%	2.2%	2.0%	
Net income	2,287	2,330	2,850	2,900	8.2%
YoY	16.7%	1.9%	22.3%	1.8%	
Net margin	1.6%	1.5%	1.6%	1.5%	
ROE	10.9%			10% or higher	
Payout ratio	17.3%			20–25%	
Cons. equity ratio	30.5%			30–35%	

Source: Shared Research based on company data

Basic course of action: Lacto Japan intends to grow by evolving its existing customer businesses and expanding the Asia Business, and to lay a foundation for building next-generation businesses.

Its plan comprises the following three initiatives (unchanged from the previous plan).

- ▶ Evolve existing businesses (Base)
- ▶ Expand the Asia Business (Growth)
- ▶ Build next-generation businesses (Challenge)

Business strategies: Japan business

- ▶ Dairy ingredients: Secure stable supply and expand market share. Key measures include diversifying supply sources, bolstering sales and export of domestically produced dairy ingredients, and expanding plant-based product offerings
- ▶ Cheese: Secure stable supply and grow demand. Key measures include diversifying supply sources, developing functional cheese products, and exporting domestically produced cheese.
- ▶ Meat Products: Diversify the business from the existing model centered on import of US-produced pork and processed pork products. Key measures include increasing suppliers (both in terms of livestock and processed products) and products handled, and launching a manufacturing and processing business of delicatessen, etc. The

Medium-term strategy

- ▶ Targeting sales of JPY200.0bn in FY11/25 (three-year CAGR of 10.7%)
- ▶ Ordinary income target of JPY4.0bn (8.7%)

company will also work to capture increasing demand for primary and secondary processing, mainly in the restaurant industry which is affected by labor shortages.

- ▶ **Functional foods:** Make proposals on new products and ingredients to the existing base of loyal customers, and create next-generation businesses. Key measures include increasing sales of functional food products such as sports nutrition products, expanding business through partnerships, and exporting or engaging in trilateral trade of functional food products.

Business strategies: Overseas

Aggressively invest in the reinforcement of the local business structure and relocation to the new plant. Develop overseas operations into an integrated food business covering both upstream and downstream.

- ▶ **Dairy ingredients (Asia):** Strengthen local business structures, and capture robust market growth to increase share. Key measures include diversifying supply sources, cultivating national staff, putting in place local governance systems, and expanding business bases and operating areas.
- ▶ **Cheese manufacturing (Asia):** Enhance manufacturing capabilities, and capture robust market growth to increase share. Key measures include relocating to the new Singapore plant, revamping production facilities and increasing capacity of the Thai plant, and developing high-value-added products.
- ▶ **Manufacture and processing (downstream):** Increase the number of products produced overseas, and grow the share of overseas manufacturers. As key measures, the company plans to manufacture health foods and supplements, develop and manufacture products for the retail industry, and acquire food manufacturers.
- ▶ **Dairy farming industry, etc. (upstream):** Contribute to realizing sustainable dairy farming and livestock production industries. In terms of its involvement in the dairy farming industry in Southeast Asia, the company plans to sell environmentally friendly animal feeds.

Key initiatives

- ▣ Expand the cheese manufacture and sales business

Expand the manufacture and sales volume of cheese in Asia to 15,000 tons

By constructing a new plant in Singapore and relocating current manufacturing facilities to the new plant, the company will promote automation of manufacturing processes and expand the group's production capacity to 3x that of today.

Expand sales of natural cheese products

The company will work to expand its manufacturing (processing) capabilities to enhance its shredded cheese offerings which are in high demand. It expects consumption to further increase in retail and restaurant industries, the target markets for shredded cheese in Asia, and intends to generate synergies by taking full advantage of its having both processed cheese manufacturing and natural cheese processing lines.

Develop and manufacture new products

The company plans to develop and manufacture new products, including high-value-added products such as vegan cheese and other products for the retail market.

- ▣ Accelerate development of the functional food business
Position the business as the pillar of next generation businesses and a new growth engine

Continue engaging in aggressive sales activities

The company will propose recipes to increase value-added of its products and enhance the lineup of sports nutrition products. It will also offer functional products containing gelatin and collagen.

Accelerate growth through new development

The company seeks to expand the scope of business through forming partnerships and alliances, and to export and engage in trilateral trade of functional foods in collaboration with overseas bases. It began sales to Singapore in 2023, and centered on Asia, looks to export to Europe and the Americas.

Develop an export business of domestically produced dairy products

Target export region is Asia

Against a backdrop of increasing health awareness, Japan-made products are highly valued for their quality in Hong Kong and Taiwan among other regions. The company aims to build an export and sales business for dairy and other food products produced in Japan, targeting Asia where Japan-made products are highly regarded and the affluent and middle class are rapidly expanding.

Leverage the group's superiority

The export value of milk and dairy products produced in Japan is growing each year, and the Ministry of Agriculture, Forestry, and Fisheries aims to grow the value to JPY32.8bn in 2025 and JPY72.0bn in 2030. The company, utilizing its favorable relationships with Japan's dairy manufactures, can procure competitive dairy products, and will leverage its sales network in Asia.

Diversify supply sources

Dairy ingredients and cheese

Lacto Japan will strengthen its global procurement network, and respond to issues related to stable supply, climate change, and diversification of contract forms.

Meat Products

In addition to pork, the company intends to expand products handled to include beef and poultry. It will promote diversification of the business by increasing suppliers and procuring a wide range of products for its processed product and ingredient offerings.

Outlook for longer-term use of funds

The company expects the relocation to the new Singapore plant to be the largest investment during the period under the NEXT-LJ2025. It plans to spend about JPY3.5bn for the land and building combined for the new plant. Operation is slated to begin in the beginning of 2025.

Capex: Relocation to the new Singapore plant, maintenance and overhaul of existing plant facilities

Business-related investments: Reinforcement of sales capabilities in Asia (expansion of local business bases, etc.), investments aimed at expanding new businesses (product development, business alliance, M&A, etc.), and investments to enhance business efficiency (core system updates, etc.)

Long-term vision

In commemorating the 25th anniversary of its founding, Lacto Japan drafted a long-term vision, positioning the 10 years to FY11/32 as the period of renewed growth in response to the transition to the new post-COVID era. The company aims to increase profitability under the three slogans below.

- 1) Transition from a trading company specializing in dairy products to a comprehensive food products company
- 2) Become a leader in Japan in terms of dairy products handling volume, and eventually become a global leader
- 3) Create demand through optimal matching, and contribute to the advancement of the dairy farming and livestock farming industries

In manufacturing, Lacto Japan intends to widen the scope of its business by expanding its product lineup and functions, and moving away from its current business model focused on B2B products and closer to offering final consumer products. It plans to handle processed and luxury food items, and also enter the delicatessen manufacture and processing business. Further, in addition to manufacturing its own brand products, the company is considering to take on contract manufacturing at its overseas plants to expand its business to include manufacturing of products other than cheese. It also looks to acquire food manufacturers.

Quantitative targets for FY11/32 are consolidated ordinary income of JPY6.0bn (10-year CAGR of 6.7%), overseas contribution ratio of 40% (27% in FY11/22) on a consolidated ordinary income basis, and groupwide dairy product handling volume of 450,000 tons (238,000 tons in FY11/22). In terms of ESG targets, the company identified six material issues, and for each issue, set measures and quantitative targets (for some).

Strengths and weaknesses

Strengths

✔ **Wealth of information, ability to offer solutions, respond to customer needs:**

As a trading company specializing in dairy ingredients and cheese, Lacto Japan is a leading company with a share of over 30% in imports of these products. The company was founded in May 1998 by long-standing employees of Toshoku (dairy product division), in response to pleas from the latter's suppliers and customers following Toshoku's collapse. Since then, Lacto Japan has amassed a wealth of specialist expertise and know-how, with over 60 employees involved in the dairy ingredients and cheese fields (even more than the five to ten employed at competing business units of general trading companies). The company is able to provide customers with specialist knowledge of overseas markets, including information on dairy ingredients not manufactured in Japan, international markets, forex, trade, and tax systems. At the same time, it boasts a full lineup comprising around 40 general-purpose dairy ingredients as well as over 500 primary processed products tailored to customers' detailed specifications. Lacto Japan has built favorable relationships with leading dairy companies in key milk-producing countries, and now boasts more than 100 suppliers in about 20 countries around the world (including almost all major suppliers in the main milk-producing countries). As a consequence, the company is now able to source products worldwide, and therefore is able to ensure Japanese customers of a reliable flow of imports (supplies).

- #### ✔ **Independence** (not bound by capital alliances or complex trading relationships):
- Lacto Japan operates independently, with no ties to any particular corporate group.

Not only does this permit it to cultivate new suppliers and customers with no constraints from capital relationships or complicated dealings within business groups, but the company is also able to put itself always in the customer's shoes in order to devise optimal solutions, and can act nimbly, starting with swift decision-making. Although there are other trading companies specializing in food, they tend to be small in scale, and none have a sufficiently broad lineup of dairy ingredients and cheese products to compete with Lacto Japan.

- **Presence in Asia and addition of manufacturing capability:** Since establishing a subsidiary in Singapore in 1999, Lacto Japan has accumulated over 20 years of experience in Asia, importing and selling “Japanese-quality” dairy ingredients (surpassing international standards on aspects such as bacteria count) to Japanese manufacturers operating in the region. Back in 2005—before Mitsui & Co, Itochu, and Mitsubishi Corp respectively invested in dairy product manufacturing in Asia in August 2007, August 2009, and June 2012—Lacto Japan started up its own processed cheese plant in Singapore, thus adding manufacturer to its trading company persona. In 2015, the company built another plant in Thailand. It plans to bring its new Singapore plant into operation in 2025 and relocate its existing manufacturing facilities to the new plant, where it intends to promote automation of manufacturing processes. During the period under the long-term vision, it plans to expand the group's production capacity to 15,000 tons, 3x that of today.

Weaknesses

- **Heavy reliance on domestic market (constraint on growth):** Some 70% of Lacto Japan's sales come from importing dairy ingredients and cheese (67.0% in FY11/22). The company has benefited from the fact that dairy product imports grew at a CAGR of 2.4% over the ten years from FY2011 to FY2020, while Japan's dairy product output declined at a CAGR of 0.1% over the same period. Since FY2011, however, domestic consumption of dairy products has only grown at a CAGR of 0.8% on a raw milk equivalent basis. This has acted as a constraint on growth.
- **Limits on potential for adding value:** Lacto Japan imports the dairy ingredients required by customers from appropriate suppliers, earning a commission for doing so. The company's ability to stably supply ingredients is a source of added value, as are the aforementioned information resources and ability to offer solutions and respond to customer needs. Potential for adding value is limited, however, in comparison with the scope for suppliers (dairy ingredient manufacturers) and customers (dairy product, confectionery, oils & fat, and beverage manufacturers) to add value through manufacturing and sales. In real terms (adjusted for exchange gains and losses), the company's operating profit margin is only about 3%.

Income statement

Income statement										
	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	75,943	96,550	98,001	88,679	101,335	115,441	116,794	110,838	110,884	147,423
YoY	37.6%	27.1%	1.5%	-9.5%	14.3%	13.9%	1.2%	-5.1%	0.0%	33.0%
CoGS	72,684	92,291	94,352	82,333	95,948	108,930	109,994	104,211	104,243	139,962
YoY	-	27.0%	2.2%	-12.7%	16.5%	13.5%	1.0%	-5.3%	0.0%	34.3%
CoGS ratio	95.7%	95.6%	96.3%	92.8%	94.7%	94.4%	94.2%	94.0%	94.0%	94.9%
Gross profit	3,259	4,259	3,648	6,346	5,387	6,511	6,801	6,626	6,641	7,462
YoY	-	30.7%	-14.3%	73.9%	-15.1%	20.9%	4.4%	-2.6%	0.2%	12.4%
GPM	4.3%	4.4%	3.7%	7.2%	5.3%	5.6%	5.8%	6.0%	6.0%	5.1%
SG&A expenses	2,559	2,727	2,928	2,996	3,463	3,502	3,656	3,667	3,854	4,490
YoY	-	6.6%	7.4%	2.3%	15.6%	1.1%	4.4%	0.3%	5.1%	16.5%
SG&A ratio	3.4%	2.8%	3.0%	3.4%	3.4%	3.0%	3.1%	3.3%	3.5%	3.0%
Operating profit	700	1,532	720	3,349	1,924	3,009	3,144	2,959	2,787	2,971
YoY	-	118.8%	-53.0%	365.1%	-42.6%	56.4%	4.5%	-5.9%	-5.8%	6.6%
OPM	0.9%	1.6%	0.7%	3.8%	1.9%	2.6%	2.7%	2.7%	2.5%	2.0%
Forex gains (losses)	1,189	638	1,053	-1,537	1,159	-135	-114	3	81	445
YoY	-	-46.3%	65.0%	-	-	-	-	-	-	452.7%
% of sales	1.6%	0.7%	1.1%	-1.7%	1.1%	-0.1%	-0.1%	0.0%	0.1%	0.3%
OP + Gains (losses) on forex	1,889	2,170	1,773	1,812	3,082	2,874	3,030	2,962	2,868	3,416
YoY	-	14.9%	-18.3%	2.2%	70.1%	-6.8%	5.4%	-2.2%	-3.2%	19.1%
% of sales	2.5%	2.2%	1.8%	2.0%	3.0%	2.5%	2.6%	2.7%	2.6%	2.3%
Other non-operating income (expenses)	-219	-516	-430	-378	-560	-261	-284	-178	-106	163
YoY	-	-	-	-	-	-	-	-	-	-
% of sales	-0.3%	-0.5%	-0.4%	-0.4%	-0.6%	-0.2%	-0.2%	-0.2%	-0.1%	0.1%
Ordinary income	1,670	1,653	1,343	1,434	2,523	2,613	2,747	2,781	2,682	3,135
YoY	112.2%	-1.0%	-18.8%	6.8%	75.9%	3.6%	5.1%	1.2%	-3.6%	16.9%
Profit margin	2.2%	1.7%	1.4%	1.6%	2.5%	2.3%	2.4%	2.5%	2.4%	2.1%
Net income attrib. to parent company shareholders	1,007	988	831	946	1,755	1,784	1,963	2,062	1,959	2,287
YoY	138.6%	-1.9%	-15.9%	13.8%	85.5%	1.7%	10.0%	5.1%	-5.0%	16.7%
Net margin	1.3%	1.0%	0.8%	1.1%	1.7%	1.5%	1.7%	1.9%	1.8%	1.6%
Depreciation and amortization of goodwill	96	100	179	174	226	212	220	291	297	325
EBITDA	796	1,632	900	3,524	2,149	3,221	3,365	3,250	3,084	3,296

Source: Shared Research based on company data
Figures rounded to the nearest million yen

Financial indicators

Financial indicators										
	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
ROA (OI-based)	6.3%	4.5%	3.3%	3.7%	6.0%	5.5%	5.7%	6.1%	5.6%	5.0%
ROE	15.6%	12.2%	8.5%	8.7%	14.5%	13.2%	13.0%	12.3%	10.6%	10.9%
Inventory turnover	-	4.8	5.0	5.2	5.6	4.7	4.6	4.7	4.6	4.4
Fixed assets turnover	-	135.0	138.7	130.4	165.8	199.6	200.3	176.0	158.4	178.6
Current ratio	162.6%	157.1%	243.5%	281.1%	208.0%	193.2%	168.3%	203.7%	181.7%	170.5%
Net assets ratio	22.9%	21.5%	26.4%	30.4%	27.8%	29.2%	33.0%	40.4%	36.9%	30.5%

Source: Shared Research based on company data
Note: Figures rounded to the nearest million yen

Per-share data (JPY)

Per-share data (JPY)										
	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Shares issued (year-end)	3,918,200	3,917,400	4,889,500	4,889,500	4,892,500	4,896,500	9,835,200	9,877,200	9,899,200	9,915,200
EPS	261.49	255.57	197.87	193.57	358.96	364.62	200.11	209.47	198.73	231.64
EPS (fully diluted)	-	-	-	-	354.31	356.97	195.98	205.73	195.90	228.80
Dividend per share	30.00	30.00	30.00	32.00	38.00	40.00	22.00	30.00	32.00	40.00
Book value per share	1,841.88	2,331.16	2,125.08	2,335.43	2,605.95	2,924.69	1,618.31	1,774.58	1,978.42	2,265.51

Source: Shared Research based on company data

Balance sheet

Balance sheet										
	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash and deposits	3,305	4,300	5,132	6,724	4,006	4,930	4,475	5,005	5,511	6,380
Notes and accounts receivable	11,908	14,941	12,695	14,278	17,199	15,873	17,852	13,849	19,277	21,066
Inventories	13,180	19,193	18,496	13,101	21,446	25,216	22,946	21,383	24,335	39,915
Merchandise and finished goods	13,053	19,040	18,331	12,910	21,178	24,873	22,618	21,008	24,335	39,915
Raw materials and supplies	126	153	165	191	268	343	328	375	504	1,468
Deferred tax asset	8	11	124	28	139	101	0	-	-	-
Other	708	1,694	316	1,001	700	318	501	386	391	1,239
Total current assets	29,109	40,139	36,764	35,133	43,491	46,337	45,775	40,623	50,018	70,067
Tangible fixed assets	344	715	698	663	560	597	569	691	709	942
Intangible assets	150	125	95	56	21	39	30	20	45	39
Investments and other assets	1,407	1,543	1,765	1,711	1,833	1,917	1,762	2,035	2,128	2,408
Investment securities	658	735	900	790	998	889	738	784	838	795
Deferred tax asset	181	149	45	82	102	117	160	273	260	456
Other	568	661	822	839	735	915	863	996	1,047	1,176
Allowance for doubtful accounts	-	-1	-1	-1	-1	-3	-	-17	-17	-20
Total fixed assets	1,901	2,382	2,558	2,429	2,414	2,631	2,360	2,746	2,882	3,390
Total assets	31,010	42,522	39,322	37,562	45,905	48,968	48,135	43,370	52,900	73,457
Accounts payable	6,559	10,189	8,620	6,890	11,411	11,174	12,649	9,740	12,202	17,350
Short-term borrowings	7,031	10,476	1,560	209	4,796	8,686	6,100	5,500	10,669	13,949
Current portion of bonds	688	300	355	620	690	660	450	270	-	-
Current portion of long-term debts	2,625	3,308	3,687	3,474	2,893	2,333	6,643	3,220	2,610	3,960
Income taxes payable	587	300	175	298	657	397	410	491	365	723
Deferred tax liability	-	378	-	130	-	-	18	40	44	17
Other	418	602	703	878	460	730	946	719	679	1,119
Total current liabilities	17,908	25,553	15,099	12,500	20,908	23,979	27,198	19,939	27,525	41,102
Corporate bonds	485	385	860	1,590	1,380	720	270	0	0	0
Long-term borrowings	4,839	6,708	12,202	11,209	9,926	8,493	4,050	5,060	5,010	8,960
Deferred tax liability	48	65	73	61	91	72	18	40	44	17
Net defined benefit liability	264	269	263	297	264	279	311	350	362	411
Provision for directors' retirement benefits	265	313	225	269	-	-	-	-	-	-
Asset retirement obligations	11	37	37	36	36	36	36	38	38	45
Other	60	60	171	181	515	982	287	351	342	440
Total fixed liabilities	5,973	7,837	13,832	13,643	12,212	10,557	4,972	5,839	5,796	9,873
Total liabilities	23,880	33,390	28,931	26,142	33,120	34,561	32,171	25,778	33,321	50,975
Shareholder's equity	6,698	7,673	9,646	10,446	12,050	13,655	15,416	17,328	18,907	20,923
(Treasury stock)	(11)	-	-	-	-0	-0	-53	-11	-112	-66
Accumulated other comprehensive income	401	1,459	744	973	700	666	480	195	604	1,490
Non-controlling interests	30	-	-	-	-	-	-	-	-	-
Share subscription rights	-	-	-	-	36	111	69	69	69	69
Total net assets	7,130	9,132	10,391	11,419	12,785	14,432	15,964	17,592	19,579	22,481
Net debt	12,362	16,877	13,531	10,378	15,679	15,962	13,038	9,045	12,778	20,490
Working capital	18,528	23,946	22,571	20,489	27,234	29,916	28,150	25,493	31,411	43,630

Source: Shared Research based on company data

Figures rounded to the nearest million yen

As of end-FY11/22, inventories had expanded JPY16.5bn YoY due to increased products in tandem with growth in sales contracts as economic activity resumed. The increase in inventories was also attributed to higher unit prices resulting from soaring raw material prices and a weak yen. Likewise, accounts payable at end-FY11/22 were up JPY5.1bn YoY. Interest-bearing debts rose JPY11.7bn YoY at end-FY11/22, due to increases in long- and short-term borrowings and commercial papers attributed to higher working capital.

Cash flow statement

Cash flow statement										
	FY11/13	FY11/14	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities	-3,229	-4,062	2,535	3,560	-5,048	356	3,365	4,534	-4,037	-10,408
Cash flows from investing activities	-130	-541	-242	5	-137	-864	849	-137	-292	-287
Cash flows from financing activities	3,802	5,412	-1,476	-1,655	2,385	990	-3,695	-3,764	4,659	11,079

Source: Shared Research based on company data

Figures rounded to the nearest million yen

Net cash used in operating activities expanded due to an increase in working capital as procurement and selling prices continued to rise against a backdrop of a surge in raw material prices and depreciation of the yen. Net cash provided by financing activities grew owing to increases in long- and short-term borrowing and commercial papers accompanying the growth in working capital.

Policy on shareholder returns

Lacto Japan believes in prioritizing profit returns to shareholders, and has a basic policy of maintaining a stable and steady dividend stream. The company paid a dividend of JPY30.0 per share in FY11/20 (+JPY8 YoY), JPY32.0 per share in FY11/21 (+JPY2 YoY), and JPY40.0 per share in FY11/22 (+JPY8 YoY). It plans to pay a dividend of JPY48.0 (+JPY8 YoY) per share in FY11/23, which marks the 25th year since its founding, and aims to realize a 20% payout ratio (versus 14.3% in FY11/20, 16.1% in FY11/21, and 17.3% in FY11/22). To achieve growth over the medium to long term and enhance corporate value, the company will invest in the expansion of facilities for cheese manufacturing and sales under the Asia Business and will work to strengthen its financial position to achieve this.

Shareholders

Shareholders	Shares	Shareholding ratio
Custody Bank of Japan, Ltd. (Trust account)	1,212,900	12.26%
The Master Trust Bank of Japan, Ltd. (Trust account)	1,186,400	11.99%
Shigeru Yasumi	306,400	3.09%
Motohisa Miura	256,249	2.59%
Kichiro Kamakura	243,000	2.45%
Meiji Co., Ltd.	200,000	2.02%
Morinaga Milk Industry Co., Ltd.	200,000	2.02%
Yotsuba Milk Products Co., Ltd.	200,000	2.02%
Isamu take	176,000	1.77%
Masayuki Maekawa	167,391	1.69%
Shares issued	4,148,340	41.90%

Source: Shared Research based on company data (as of November 30, 2022)

Corporate governance

Organization type, capital structure, etc.	
Controlling shareholder	None
Parent company code	-
Director	
Number of directors under Articles of Association	12
Directors' terms under Articles of Association	1 year
Number of external (independent) directors	4
Other	
Participation in electronic voting platform	Yes
Other initiatives to enhance voting rights of investors	Yes
Providing convocation notice in English	Yes
Disclosure of directors' compensation	None
Disclosure of executive officers' compensation	-
Policy on determining amount of compensation and calculation methodology	Yes
Takeover defenses	None

Source: Shared Research based on company data

Number of employees (consolidated basis)

	FY11/15	FY11/16	FY11/17	FY11/18	FY11/19	FY11/20	FY11/21	FY11/22
Dairy Ingredients and Cheese	50	46	50	55	60	62	61	68
Meat Products	9	8	9	11	11	11	13	14
Asia Business, Other	123	125	147	166	183	197	217	247
Company-wide	22	23	25	28	31	35	32	35
Total	204	202	231	260	285	305	323	364

Source: Shared Research based on company data

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