

## Lacto Japan | 3139 |

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On July 13, 2023, Lacto Japan Co., Ltd. announced earnings results for 1H FY11/23.

### 1H FY11/23 (December 2022–May 2023) results

#### Summary

- ▶ Sales: JPY80.5bn (+15.3% YoY)
- ▶ Operating profit: JPY1.7bn (-8.7% YoY)
- ▶ Ordinary income: JPY1.3bn (-19.2% YoY)
- ▶ Net income attributable to owners of the parent: JPY923mn (-23.6% YoY)
- ▶ Forex rates: JPY133.82/USD (JPY119.55/USD in 1H FY11/22), JPY144.09/EUR (JPY132.11/ EUR)

Compared with the full-year FY11/23 forecast, 1H sales reached 50.3% of the full-year target (1H FY11/22 sales were 47.3% of the full-year FY11/22 result), while ordinary income reached 42.0% (53.1%) and net income 39.6% (52.8%). According to the company, higher sales and lower profits in 1H were as expected in the beginning of the year, and excluding the impact of an economic downturn in China, results were largely in line with plan.

#### Business environment

In 1H, economic activity revitalized as various restrictions and measures imposed to prevent the spread of COVID-19 were lifted. The flow of people increased as border restrictions were eased and national and local governments continued to support the travel industry, and the economy showed signs of gradual recovery. In May 2023, the Japanese government downgraded COVID-19 to the same level as seasonal influenza, prompting socioeconomic activity to make a full-scale transition to the era of coexistence with COVID-19. Globally, concerns of an economic downturn heightened against a backdrop of the protracted Russia–Ukraine war, soaring raw material and energy costs, and ongoing inflation, and as a result, the outlook remained clouded.

In Japan's food industry, restaurant and leisure markets staged a comeback, with demand for commercial food products from restaurants among others recovering. However, prices of many food products were raised to cover the increase in raw material and energy costs, and demand for food products for household consumption slumped. In the dairy industry, the company's focus market, prices of milk and other dairy products rose due to a milk price hike in April 2023, resulting in sluggish consumption. Meanwhile, the level of skim milk powder inventory, which has been an ongoing issue, is gradually approaching a normal level owing to the concerted efforts of the dairy farming community and the dairy industry to optimize the supply and demand conditions and curtailed milk production.

In Southeast Asian countries where measures to live with COVID-19 were introduced ahead of Japan, demand for dairy products for commercial use was robust backed by a recovery in the restaurant industry. However, recovery of the food products industry slowed due to the marked impact of diminished demand in China, which suffered from a resurgence of COVID-19.

### Factors behind sales growth

Factors contributing to sales growth included increased sales of high-priced products against a backdrop of high market prices and a weak yen in 2022. Under the business environment described above, demand for dairy products, mainly for commercial use, was on a recovery track, supported by the revitalization of the restaurant and leisure industries. Sales grew in all businesses and business categories other than the Asia Business (Cheese), which was affected by a delayed economic recovery in China, owing to steady sales of high-priced products. Growth in overall sales volume was limited, partly because consumers refrained from spending due to price hikes of end (consumer) products, but sales volume in the Meat Products business jumped 29.2% YoY in Q2 (March–May 2023).

### Factors behind a decline in operating profit

In the Asia Business (cheese manufacturing and sales), profitability fell because of cheese ingredients procured when prices were high in FY11/22. Cost of sales increased 16.1% YoY due primarily to a rise in the cost ratio, and gross profit was up only 1.2% YoY, with the GPM at 5.0% (-0.7pp YoY). Operating profit fell 8.7% YoY, and the OPM was down 0.6pp YoY to 2.1%.

### Ordinary income down 19.2% YoY

In 1H, the company recorded foreign exchange losses of JPY189mn, versus foreign exchange gains of JPY54mn recorded a year ago. Excluding the JPY72mn negative forex impact in 1H, ordinary income would have come in at JPY1.4bn, down 17.0% from the comparable figure of JPY1.7bn in 1H FY11/22. Versus the initial ordinary income forecast of JPY1.5bn, adjusted ordinary income was 92.0%.

\* In order to avoid taking on exchange rate risk in the course of regular business transactions, as a rule the company enters into forward exchange contracts to cover the cost of the purchases made in foreign currencies at the time the contract is signed. Meanwhile, regarding the accounting treatment of the purchase transaction, procurement (purchase) is recorded at the time of shipment, which creates a lag from the point in time the purchase contract is signed. If the yen strengthens during that timeframe, the exchange rate will be lower than the forward rate at purchase and the actual cost of the goods will be lower than the cost based on forward exchange rate secured at the time the contract was concluded. Lacto Japan calculates its gross profit using the cost of goods sold based on the forward exchange rate at the time the goods were purchased, and records a forex hedging loss under non-operating expenses as a foreign exchange loss.

## Results by business category

### Dairy Ingredients and Cheese

In 1H FY11/23, sales were JPY56.8bn (+20.3% YoY) and total sales volume was 85,335 tons (-11.5% YoY). Progress against the company's full-year FY11/23 forecast was 53.4% for sales and 49.6% for sales volume.

Sales of dairy ingredients for commercial use held firm on the back of a recovery in the restaurant and leisure industries, as well as an increase in the flow of people, including inbound tourists. In particular, demand for souvenirs and confectionery rebounded, contributing to increased sales of lactose and whole milk powder, which are ingredients for chocolate. Meanwhile, the sales volume of skim milk powder and imported dairy mixtures, the company's key products, fell, due to the switch to domestically produced products in efforts to bring down the excess inventory of skim milk powder.

The inventory of domestic skim milk powder gradually declined, from the peak of 100,000 tons in May 2022 down to 60,000–70,000 tons in March 2023 and later. Inventory adjustment is expected to proceed going forward, driven by the collaborative efforts of the dairy farming community and the dairy industry to normalize the excess inventory and curtailed milk production.

Further, while the milk producing industry is expanding in Europe and other key dairy farming regions, as a result of sluggish demand in China, the largest importer of dairy products, caused by a delayed economic recovery, international dairy product prices remain low. Because domestic dairy product prices are rising due to increased milk prices, imported dairy ingredients are regaining price competitiveness. Although there remain uncertainties such as the possibility of ongoing devaluation of the yen, the company is seeing increased inquiries for imported dairy ingredients.

In the cheese business as well, demand for commercial use, including in the restaurant industry, is recovering, but growth in sales volume was lackluster due to weak consumer (retail) demand caused by price hikes on end (consumer) products. The company says inquiries and orders are picking up, supported by a decline in international cheese prices.

### **Meat Products**

In 1H FY11/22, sales were JPY9.0bn (+24.6% YoY) and total sales volume was 13,878 tons (+14.7% YoY).

Progress against the company's full-year FY11/23 forecast was 59.2% for sales and 49.6% for sales volume.

In Meat Products, demand for household consumption fell due to price hikes on end (consumer) products, but sales of chilled and frozen pork, the company's mainstay, were robust owing to a recovery in demand for commercial use, particularly in the restaurant industry. In the imported pork market, sales of North American pork, which has a price advantage, grew, against a backdrop of an increase in the market price of pork produced in Europe. Improvements were seen in the production system of the company's key supplier meat manufacturer in the US, as it made progress securing personnel. While concerns still remain about the procurement of products that require processing, the supply of chilled and frozen pork has reached a sufficient level.

Lacto Japan is working to diversify its product offerings in Meat Products, and in 1H, it focused on sales of poultry, for which demand is growing. The company is also focusing on the sale of processed meat products sourced from in and outside Japan, and intends to increase its handling volume of these products going forward.

### **Asia Business and Other**

In 1H FY11/23, sales were JPY14.7bn (-4.6% YoY).

In the Asia Business (Dairy Ingredients), sales of ingredients for dairy mixtures to Japan declined, but sales of skim milk powder produced in Japan, a collaborative effort by the head office and local business bases in Asia, held firm. In the Asia Business (Cheese), sales volume of processed cheese slumped due to the impact of diminished demand in China, where economic recovery is being delayed, on all regions of the Asian Business and price revisions.

#### **Dairy ingredient sales (wholesaling)**

Sales were JPY10.6bn (-14.0% YoY) and sales volumes was 21,088 tons (-20.6% YoY).

Progress against the company's full-year FY11/23 forecast was 39.4% for sales and 37.3% for sales volume.

Sales of skim milk powder exported from Japan as a countermeasure to excess domestic inventory were steady, but sales of dairy mixture ingredients to Japan were slow to grow, resulting in a 20.6% YoY drop in sales volume. Customers of domestically produced skim milk powder mainly include local food manufacturers in Singapore and the Philippines, and among these are customers newly acquired with the launch of the project to lower domestic skim milk powder inventory. The company plans to maintain business with these newly acquired customers going forward, and aims to expand business by actively proposing dairy ingredients produced in Europe and the US.

#### **Cheese manufacturing and sales**

Sales were JPY2.2bn (+22.9% YoY) and sales volume was 2,369 tons (+1.4% YoY).

Progress against the company's full-year FY11/23 forecast was 48.8% for sales and 40.2% for sales volume.

The falloff of demand in China, where a resurgence in COVID-19 cases has put a brake on economic recovery, had an impact on the Asia Business overall, and resulted in a decline in the sales volume of processed cheese. In Thailand, in particular, sales to local food manufacturers that handle products to be sold to China suffered. In Singapore as well, sales of cheese ingredients which are used in food products to be shipped to China struggled. That being said, demand for cheese in the restaurant industry in Asia, excluding China, was robust, as were sales of natural cheese, inquiries for which have increased in recent years. As a result, the company secured sales volume on par with the previous year's level.

#### Other businesses

Sales came in at JPY1.9 (+47.1% YoY), with progress against the company's full-year FY11/23 forecast at 26.4%.

Sales in the functional food ingredients business, which Lacto Japan launched in FY11/20 and has positioned as a new growth business, were robust. Whey protein ingredients remained the main product of the business, and the company focused on selling these products to owners of sports gym brands. Protein products, which are expected to continue growing, are expanding into the general food product sectors as well, and protein products for women and the elderly are on the rise. Against a backdrop of diversifying demand, the company proposed protein products combined with other functional ingredients to prospective customers other than sports gym brand owners, and began working to expand its sales channel. In the protein products market where competition is fierce, the company aims to grow its business by proposing recipes and enhanced functionalities by combining multiple ingredients, and engage in high-value-added sales activities.

#### Financial position

Current assets totaled JPY77.4bn, up JPY7.3bn versus end-FY11/22. The increase is mainly attributable to increases of JPY4.3bn in merchandise and finished goods, JPY2.2bn in cash and deposits, and JPY1.1bn in notes and accounts receivable. Fixed assets of JPY3.4bn were up JPY47mn versus end-FY11/22, primarily due to increases of JPY74mn in investments and other assets and JPY12mn in intangible fixed assets, partially offset by a decline of JPY39mn in tangible fixed assets.

Current liabilities stood at JPY46.6bn, up JPY5.5bn versus end-FY11/22, with most of this increase attributed to increases of JPY6.7bn in short-term borrowings accompanying increased working capital and JPY1.0bn in commercial papers, partially offset by a JPY1.7bn decline in accounts payable. Fixed liabilities of JPY10.5bn were up JPY621mn versus end-FY11/22, primarily reflecting a JPY622mn increase in long-term borrowings. Net assets totaled JPY23.7bn, up JPY1.2bn versus end-FY11/22, due mainly to increases of JPY526mn in retained earnings, JPY441mn in deferred hedge gains, and JPY155mn in foreign currency translation adjustments.

Inventories totaled JPY44.2bn, up JPY4.3bn versus end-FY11/22, mainly reflecting an increase in product prices denominated in yen due to products procured when the market prices were high and the yen was weak, and the following three volume factors. According to the company, inventories are in principle tied to sales and the company does not take inventory risk.

- 1) Sales of dairy ingredients slowed in the domestic cheese market due to sluggish demand caused by price hikes on end (consumer) products.
- 2) Orders increased in the Meat Business, as food manufacturers in North America sought to secure ingredients in advance in light of rising market prices in Europe.
- 3) Sales volume grew on increased orders driven by a recovery in economic activity.

Quarterly (cumulative) earnings

Cumulative (JPYmn)	FY11/21				FY11/22				FY11/23		FY11/23	
	Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	Q1 Cons.	Q2 Cons.	% of Est.	Est.
Sales	23,994	52,648	79,630	110,884	31,755	69,788	107,486	147,423	38,745	80,450	50.3%	160,000
YoY	-15.0%	-9.1%	-6.4%	0.0%	32.3%	32.6%	35.0%	33.0%	22.0%	15.3%		8.5%
Dairy Ingredients and Cheese	17,090	36,952	54,996	76,481	22,024	47,202	72,356	98,821	27,594	56,791	53.4%	106,400
YoY	-14.8%	-7.5%	-8.2%	-2.4%	28.9%	27.7%	31.6%	29.2%	25.3%	20.3%		7.7%
% of sales	71.2%	70.2%	69.1%	69.0%	69.4%	67.6%	67.3%	67.0%	71.2%	70.6%		
Meat Products	3,116	6,769	10,380	14,278	3,530	7,221	10,927	15,135	4,063	8,996	59.2%	15,200
YoY	7.4%	10.8%	18.2%	20.0%	13.3%	6.7%	5.3%	6.0%	15.1%	24.6%		0.4%
% of sales	13.0%	12.9%	13.0%	12.9%	11.1%	10.3%	10.2%	10.3%	10.5%	11.2%		9.5%
Asia Business: dairy ingredients	2,829	6,809	11,111	15,754	4,783	12,279	19,405	26,672	5,248	10,564	39.4%	26,800
YoY	-35.9%	-32.8%	-19.2%	-7.5%	69.1%	80.3%	74.6%	69.3%	9.7%	-14.0%		0.5%
% of sales	11.8%	12.9%	14.0%	14.2%	15.1%	17.6%	18.1%	18.1%	13.5%	13.1%		16.8%
Asia Business: cheese	801	1,689	2,428	3,324	935	1,827	2,892	3,984	1,087	2,246	48.8%	4,600
YoY	17.9%	24.9%	19.3%	14.8%	16.7%	8.2%	19.1%	19.9%	16.3%	22.9%		15.5%
% of sales	3.3%	3.2%	3.0%	3.0%	2.9%	2.6%	2.7%	2.7%	2.8%	2.8%		2.9%
Other	156	428	712	1,044	481	1,258	1,904	2,808	751	1,851	26.4%	7,000
YoY	-7.1%	10.9%	24.9%	51.1%	208.3%	193.9%	167.4%	169.0%	56.1%	47.1%		149.3%
% of sales	0.7%	0.8%	0.9%	0.9%	1.5%	1.8%	1.8%	1.9%	1.9%	2.3%		4.4%
Sales volume (tons)												
Dairy Ingredients and Cheese	43,141	91,993	135,032	184,358	46,731	96,454	141,079	182,957	40,578	85,335	49.6%	172,000
YoY	-12.7%	-6.4%	-7.2%	-3.8%	8.3%	4.8%	4.5%	-0.8%	-13.2%	-11.5%		-6.0%
Meat Products	5,736	12,567	19,013	25,699	6,004	12,096	18,224	24,775	6,005	13,878	49.6%	28,000
YoY	9.9%	9.7%	17.8%	17.2%	4.7%	-3.7%	-4.1%	-3.6%	0.0%	14.7%		13.0%
Asia Business: dairy ingredients	9,918	22,690	34,546	47,817	11,397	26,549	38,906	50,423	10,374	21,088	37.3%	56,500
YoY	-32.4%	-35.0%	-28.4%	-20.5%	14.9%	17.0%	12.6%	5.4%	-19.0%	-20.6%		12.1%
Asia Business: cheese	1,120	2,334	3,355	4,635	1,253	2,336	3,579	4,786	1,154	2,369	40.2%	5,900
YoY	10.5%	17.7%	13.8%	10.4%	11.9%	0.1%	6.7%	3.3%	-7.9%	1.4%		23.3%
Average price (JPY/kg)												
Dairy Ingredients and Cheese	396	402	407	415	471	489	513	540	680	666		
YoY	-2.4%	-1.1%	-1.1%	1.5%	19.0%	21.8%	25.9%	30.2%	44.3%	36.0%		
Meat Products	543	539	546	556	588	597	600	611	677	648		
YoY	-2.2%	1.0%	0.4%	2.4%	8.2%	10.8%	9.8%	10.0%	15.1%	8.6%		
Asia Business: dairy ingredients	285	300	322	329	420	463	499	529	506	501		
YoY	-5.1%	3.4%	12.9%	16.4%	47.1%	54.1%	55.1%	60.6%	20.5%	8.3%		
Asia Business: cheese	715	724	724	717	746	782	808	832	942	948		
YoY	6.6%	6.1%	4.8%	4.0%	4.3%	8.1%	11.7%	16.1%	26.2%	21.2%		
CoGS	22,316	49,274	74,599	104,243	30,033	65,832	101,492	139,962	36,639	76,448		
YoY	-15.9%	-9.6%	-6.7%	0.0%	34.6%	33.6%	36.1%	34.3%	22.0%	16.1%		
CoGS ratio	93.0%	93.6%	93.7%	94.0%	94.6%	94.3%	94.4%	94.9%	94.6%	95.0%		
Gross profit	1,678	3,375	5,032	6,641	1,722	3,956	5,994	7,462	2,107	4,002		
YoY	-0.5%	-1.0%	-1.0%	0.2%	2.6%	17.2%	19.1%	12.4%	22.4%	1.2%		
GPM	7.0%	6.4%	6.3%	6.0%	5.4%	5.7%	5.6%	5.1%	5.4%	5.0%		
SG&A expenses	865	1,844	2,786	3,854	982	2,088	3,228	4,490	1,093	2,296		
YoY	-6.2%	1.0%	2.9%	5.1%	13.5%	13.2%	15.9%	16.5%	11.4%	10.0%		
SG&A ratio	3.6%	3.5%	3.5%	3.5%	3.1%	3.0%	3.0%	3.0%	2.8%	2.9%		
Operating profit	813	1,530	2,245	2,787	740	1,868	2,766	2,971	1,013	1,706		
YoY	6.4%	-3.2%	-5.5%	-5.8%	-9.0%	22.0%	23.2%	6.6%	36.9%	-8.7%		
OPM	3.4%	2.9%	2.8%	2.5%	2.3%	2.7%	2.6%	2.0%	2.6%	2.1%		
Gains (losses) on foreign exchange	50	0	123	81	7	0	180	445	242	-189		
YoY	224.7%	-	-	-	-86.2%	-	45.4%	452.7%	-	-		
% of sales	0.2%	0.0%	0.2%	0.1%	0.0%	0.0%	0.2%	0.3%	0.6%	-0.2%		
OP + Gains (losses) on forex	863	1,531	2,369	2,868	747	1,868	2,945	3,416	1,256	1,516		
YoY	10.7%	-0.8%	0.6%	-3.2%	-13.5%	22.0%	24.3%	19.1%	68.1%	-16.4%		
% of sales	3.6%	2.9%	3.0%	2.6%	2.4%	2.7%	2.7%	2.3%	3.2%	1.9%		
Ordinary income	737	1,412	2,213	2,682	719	1,665	2,725	3,135	744	1,345	42.0%	3,200
YoY	-2.1%	-1.5%	0.2%	-3.6%	-2.5%	17.9%	23.1%	16.9%	3.5%	-19.2%		2.1%
Profit margin	3.1%	2.7%	2.8%	2.4%	2.3%	2.4%	2.5%	2.1%	1.9%	1.7%		2.0%
Net income	527	1,011	1,601	1,959	524	1,207	1,970	2,287	509	923	39.6%	2,330
YoY	-3.4%	-2.8%	-0.4%	-5.0%	-0.6%	19.4%	23.1%	16.7%	-2.8%	-23.6%		1.9%
Net margin	2.2%	1.9%	2.0%	1.8%	1.6%	1.7%	1.8%	1.6%	1.3%	1.1%		1.5%
Foreign exchange												
USD/JPY	104.30	106.65	107.80	108.97	114.65	119.55	124.80	129.67	132.73	133.82		
EUR/JPY	126.62	128.73	129.43	129.68	129.77	132.11	134.50	136.86	141.94	144.09		

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).

Quarterly earnings (three months)

Quarterly (JPYmn)	FY11/21				FY11/22				FY11/23	
	Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	Q1 Cons.	Q2 Cons.
Sales	23,994	28,654	26,982	31,253	31,755	38,033	37,698	39,938	38,745	41,705
YoY	-15.0%	-3.5%	-0.6%	21.3%	32.3%	32.7%	39.7%	27.8%	22.0%	9.7%
CoGS	22,316	26,957	25,325	29,644	30,033	35,799	35,659	38,470	36,639	39,809
YoY	-15.9%	-3.6%	-0.6%	22.3%	34.6%	32.8%	40.8%	29.8%	22.0%	11.2%
CoGS ratio	93.0%	94.1%	93.9%	94.9%	94.6%	94.1%	94.6%	96.3%	94.6%	95.5%
Gross profit	1,678	1,697	1,657	1,609	1,722	2,234	2,039	1,467	2,107	1,896
YoY	-0.5%	-1.4%	-1.2%	4.3%	2.6%	31.6%	23.0%	-8.8%	22.4%	-15.1%
GPM	7.0%	5.9%	6.1%	5.1%	5.4%	5.9%	5.4%	3.7%	5.4%	4.5%
SG&A expenses	865	979	942	1,067	982	1,106	1,140	1,262	1,093	1,203
YoY	-6.2%	8.3%	6.7%	11.4%	13.5%	13.0%	21.0%	18.2%	11.4%	8.7%
SG&A ratio	3.6%	3.4%	3.5%	3.4%	3.1%	2.9%	3.0%	3.2%	2.8%	2.9%
Operating profit	813	717	715	542	740	1,127	898	205	1,013	692
YoY	6.4%	-12.2%	-9.9%	-7.2%	-9.0%	57.1%	25.7%	-62.1%	36.9%	-38.6%
OPM	3.4%	2.5%	2.6%	1.7%	2.3%	3.0%	2.4%	0.5%	2.6%	1.7%
Gains (losses) on foreign exchange	-50	51	123	-43	7	-7	180	265	242	53
YoY	-	-	580.0%	-	-86.2%	-	45.7%	-	-	-
% of sales	-0.2%	0.2%	0.5%	-0.1%	0.0%	-0.0%	0.5%	0.7%	0.6%	0.1%
OP + Gains (losses) on forex	763	768	838	499	747	1,120	1,078	471	1,256	745
YoY	-2.2%	0.7%	3.3%	-18.0%	-13.5%	67.9%	28.6%	-5.6%	68.1%	-30.1%
% of sales	3.2%	2.7%	3.1%	1.6%	2.4%	2.9%	2.9%	1.2%	3.2%	1.8%
Ordinary income	737	675	801	469	719	947	1,060	409	744	601
YoY	-2.1%	-0.8%	3.3%	-18.1%	-2.5%	40.2%	32.4%	-12.7%	3.5%	-36.5%
Profit margin	3.1%	2.4%	3.0%	1.5%	2.3%	2.5%	2.8%	1.0%	1.9%	1.4%
Net income	527	484	590	358	524	684	763	317	509	414
YoY	-3.4%	-2.2%	4.0%	-21.2%	-0.6%	41.3%	29.3%	-11.6%	-2.8%	-39.5%
Net margin	2.2%	1.7%	2.2%	1.1%	1.6%	1.8%	2.0%	0.8%	1.3%	1.0%

Source: Shared Research based on company data

Note: Figures rounded to the nearest million yen (amounts less than JPY1 mn are rounded down in materials released by the company).

Company forecast for full-year FY11/23

	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 JPY1 mn are rounded down in materials released by the company).

Company forecast for full-year FY11/23

- ▶ Sales: JPY160.0bn (+8.5% YoY)
- ▶ Ordinary income: JPY3.2bn (+2.1% YoY)
- ▶ Net income: JPY2.3bn (+1.9% YoY)
- ▶ EPS: JPY235.52 (JPY231.64 in FY11/22)
- ▶ DPS: JPY48.00 (JPY40.00)

As of the announcement of 1H results, the company maintained its full-year earnings forecast. The project to address excess inventories started in FY11/22 in an effort to optimize inventory levels of domestically produced skim milk powder is expected to remain in place until March 2024.

With domestic milk prices scheduled to increase from August 2023, the company expects demand for imported products, which are regaining price competitiveness, to increase. Domestic butter supply is dwindling, and ALIC (Agriculture and Livestock Industry Development Corp.) bids are brisk, with demand for imported butter demand growing. Although the profit margin for processed cheese dipped due to high raw material prices in 2022, the company expects the profit margin to improve through 2H as international cheese prices are trending lower in 2023. It is making steady progress in its preparations for opening a new plant in Asia, and aims to commence operations from 1H 2025.

Sales of Japan-made skim milk powder are mainly to local companies such as dairy product manufacturers, and the company has expanded its business with existing customers by adding new products. This has also helped cultivate new customers, and the company expects to grow its business by expanding its customer base.

With regard to dry-cured ham and salami, imports of Italian products are continuing to be restricted due to the outbreak of the African swine fever (ASF) in Italy in FY11/22. Pork prices have soared due to a decline in production volume, and inquiries for pork produced in North America is increasing. The company expects this trend to continue throughout FY11/23 and is working to maintain sales volume by selling substitutes such as products from Spain.

### Forecast by business category

#### Dairy Ingredients and Cheese

Sales: JPY106.4bn (+7.7% YoY)

Sales volume: 172,000 tons (-6.0% YoY)

#### Meat Products

Sales: JPY15.2bn (+0.4% YoY)

Sales volume: 28,000 tons (+13.0% YoY)

#### Asia Business: Dairy ingredient sales (wholesaling)

Sales: JPY26.8bn (+0.5% YoY)

Sales volume: 56,500 tons (+12.1% YoY)

#### Asia Business: Cheese manufacturing and sales

Sales: JPY4.6bn (+15.5% YoY)

Sales volume: 5,900 tons (+23.3% YoY)

#### Other

Sales: JPY7.0bn (+149.3% YoY)

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