

## Lacto Japan | 3139 |

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On October 13, 2022, Lacto Japan Co., Ltd. announced earnings results for Q3 FY11/22.

		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	Est. Cons.	140,000	26.3%	-	-	3,100	15.6%	2,250	14.8%	227.94	-	-	-

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).

### Q3 FY11/22 (December 2021–August 2022) results

#### Summary

- ▶ Sales: JPY107.5bn (+35.0% YoY)
- ▶ Operating profit: JPY2.8bn (+23.2% YoY)
- ▶ Ordinary income: JPY2.7bn (+23.1% YoY)
- ▶ Net income attributable to owners of the parent: JPY2.0bn (+23.1% YoY)
- ▶ Forex rates: JPY124.80/USD (JPY107.80/USD in Q3 FY11/21), JPY134.50/EUR (JPY129.43/ EUR)

In cumulative Q3 FY11/22, the company reported consolidated sales of JPY107.5bn (+35.0% YoY), operating profit of JPY2.8bn (+23.2% YoY), ordinary income of JPY2.7bn (+23.1% YoY), and net income attributable to owners of the parent of JPY2.0bn (+23.1% YoY).

Compared with the upwardly revised full-year FY11/22 forecast released on July 5, 2022, cumulative Q3 sales reached 76.8% of the full-year target (cumulative Q3 FY11/21 sales were 71.8% of the full-year FY11/21 result), while ordinary income reached 87.9% (82.5%) and net income 87.6% (81.7%).

#### Business environment

Overseas, despite ongoing recovery from the impact of the COVID-19 pandemic, the prolonged Russia–Ukraine conflict and concerns for the resulting energy-related issues for the winter months, as well as a growing concern for recession amid rising inflation and changes in monetary policies are exacerbating uncertainties about the future.

In Japan, the number of COVID-19 infections reached a record high during the seventh wave of the pandemic, but from March 2022 onward, movement restrictions imposed to prevent the spread of COVID-19 were eased and economic activities began to recover. That being said, economic outlook remains uncertain as soaring energy and raw material prices and rapid depreciation of the yen are putting downward pressure on earnings of domestic companies.

In Japan's food industry, the restaurant and leisure sectors are seeing a recovery in customer footfall, and demand for commercial food ingredients are recovering. In the dairy market, production volume of ice cream increased YoY in July and August due to an extended period of extreme heat, but price hikes resulting from a rise in raw material prices caused consumers to cut back on spending. Meanwhile, in terms of dairy ingredients, the inventory of domestically produced skim milk powder remained high due to robust domestic milk production volume, primarily in Hokkaido, and the issue of excess inventory has yet to be resolved.

In the Asia market, except in China where the local government is pushing forward with its Zero-COVID policy, countries are resuming economic activity one after the other while keeping the impact from the pandemic in check. As a result, demand for food products including dairy made a strong recovery.

### Factors behind sales growth

Under these circumstances, the company worked to secure stable supply of dairy ingredients by taking full advantage of its procurement network, and focused on offering price-competitive products. Further, to resolve the ongoing issue surrounding the excess inventory of domestically produced dairy products, the company actively worked to sell domestically produced dairy ingredients, including exporting them in collaboration with group companies in Asia. As a result, sales volume increased in all business divisions in Q3 except in Meat Product Ingredients, and this combined with higher selling prices driven by a further depreciation of the yen resulted in a 35.0% YoY increase in sales.

### Operating profit up 23.2% YoY

Cost of goods sold rose 36.1% YoY, and while the gross profit margin fell 0.7pp YoY to 5.6%, gross profit rose 19.1% YoY. Operating profit grew 23.2% YoY, but operating profit margin fell 0.2pp YoY to 2.6%.

### Ordinary income up 23.1% YoY

In cumulative Q3, the company recorded foreign exchange gains of JPY180mn, up from JPY123mn recorded a year ago. Excluding the JPY70mn boost from the shift in foreign exchange rates during Q3, ordinary income would have come in at JPY2,654mn for a 17.8% increase over the comparable figure of JPY2.3bn in Q3 FY11/21.

\* 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.

## Breakdown by business category

### Dairy Ingredients and Cheese

In cumulative Q3 FY11/22, sales were JPY72.4bn (+31.6% YoY) and total sales volumes were 141,079 tons (+4.5% YoY). In dairy ingredient sales, demand recovered, primarily for commercial products, as the summer vacation period of 2022 had no COVID-19-related movement restrictions, the first such period since the outbreak of the pandemic, and extremely hot days continued, resulting in robust growth in sales volume. Sales of ingredients for ice cream, chocolates, and beverages increased. Meanwhile, the prices of imported dairy products shot up due to higher international market prices coupled with a weak yen, shrinking the gap between the prices of domestically produced and imported products. This caused some customers to switch from using imported products to domestically produced dairy ingredients. Further, the company saw some results from its business aimed at reducing the excess inventory of domestically produced skim milk powder caused by a supply and demand gap in the domestic market, but the inventory nevertheless remained at a high

level. In addition to selling imported dairy ingredients in the key dairy industry, the company strove to acquire new customers in Japan through the sale of domestically produced skim milk powder and expand its market share. It also focused on exporting domestically produced skim milk powder in collaboration with group companies in Asia.

In the cheese industry, sales were strong owing to a recovery in demand for commercial products. Despite an ongoing increase in international market prices and shipping delays, demand recovered and inquiries increased as cheese differs from skim milk powder and butter in that it is only marginally affected by an excess inventory of domestic dairy products. The company supplied ingredients in a timely manner at competitive prices by utilizing its global procurement network, and this led to growth in sales volume and value.

### **Meat Product Ingredients**

In cumulative Q3 FY11/22, sales were JPY10.9bn (+5.3% YoY) and total sales volumes were 18,224 tons (-4.1% YoY). Sales of both meat products and processed food products were brisk backed by a recovery in demand in the restaurant industry in Japan. In addition to mainstay chilled pork, sales of dry-cured ham and salami rebounded. Meanwhile, sales volume of processed pork products, which are the ingredients of ham and sausages, were affected by labor shortages at the company's main supplier in the US amid the pandemic. The labor shortages had an effect on product supply and shipping schedules, including issues in securing necessary volume of ingredients and delays in production schedule. As a result, sales volume fell.

### **Asia Business and Other**

In cumulative Q3 FY11/22, sales were JPY24.2bn (+69.8% YoY). Demand for dairy products began to recover in Asia as well, as COVID-19-related restrictions were eased and countries in the region began accepting foreign tourists again.

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

Sales were JPY19.4bn (+74.6% YoY) and sales volumes were 38,906 tons (+12.6% YoY). Sales of dairy ingredients to food product and beverage manufacturers were robust in Southeast Asia, primarily in Singapore and the Philippines where the local economies are making a firm recovery. The company aggressively pushed forward with the export of domestically produced skim milk powder in collaboration with the Japan headquarters' Dairy Ingredients division in efforts to reduce the excess inventory in the domestic market. Sales volume increased 12.6% YoY, buoyed by an increased price competitiveness of domestically produced skim milk powder amid rising international market prices. Sales were up 74.6% YoY, thanks to a weaker yen and higher selling prices against a backdrop of rising international market prices.

### **Cheese manufacturing and sales**

Sales were JPY2.9bn (+19.1% YoY) and sales volumes were 3,579 tons (+6.7% YoY). Sales to China temporarily came to a halt due to the impact of lockdowns imposed in Shanghai and surrounding regions in Q2 (March–May 2022), but gradually resumed from Q3 onward. Further, the economy in Southeast Asia steadily recovered from the impact of the pandemic, and sales, mainly in Singapore and Malaysia, held firm. The company implemented price hikes in April 2022 and later due to an increase in cheese prices, which is the ingredient for the business, but this notwithstanding, sales volume grew 6.7% YoY on the back of robust demand. Sales were up 19.1% YoY due to increased selling prices and a weaker yen.

### **Other businesses**

Sales in the functional food ingredients business, which Lacto Japan launched in FY11/20 and has positioned as a new growth business, made steady progress. Sales of milk-derived whey protein ingredients, key products of the business, grew, mainly in the sports nutrition industry. As COVID-19-related movement restrictions were relaxed, the company

resumed marketing activities from FY11/21 not only in Japan but also in overseas markets including Asia, to further grow sales.

### Quarterly (cumulative) earnings

Cumulative (JPYmn)	FY11/20				FY11/21				FY11/22			FY11/22 FY	
	Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	Q1 Cons.	Q2 Cons.	Q3 Cons.	% of Est.	Est.
Sales	28,222	57,912	85,065	110,838	23,994	52,648	79,630	110,884	31,755	69,788	107,486	76.8%	140,000
YoY	1.2%	0.3%	-2.8%	-5.1%	-15.0%	-9.1%	-6.4%	0.0%	32.3%	32.6%	35.0%		26.3%
Dairy Ingredients and Cheese	20,061	39,927	59,925	78,330	17,090	36,952	54,996	76,481	22,024	47,202	72,356	74.4%	97,200
YoY	-5.0%	-6.4%	-7.5%	-8.1%	-14.8%	-7.5%	-8.2%	-2.4%	28.9%	27.7%	31.6%		27.1%
% of sales	71.1%	68.9%	70.4%	70.7%	71.2%	70.2%	69.1%	69.0%	69.4%	67.6%	67.3%		
Meat Product Ingredients	2,900	6,107	8,781	11,895	3,116	6,769	10,380	14,278	3,530	7,221	10,927	79.8%	13,700
YoY	-1.4%	0.0%	-5.5%	-3.1%	7.4%	10.8%	18.2%	20.0%	13.3%	6.7%	5.3%		-4.0%
% of sales	10.3%	10.5%	10.3%	10.7%	13.0%	12.9%	13.0%	12.9%	11.1%	10.3%	10.2%		9.8%
Asia Business, other	5,259	11,876	16,358	20,611	3,787	8,926	14,251	20,122	6,200	15,364	24,201		
YoY	37.2%	33.0%	21.6%	6.8%	-28.0%	-24.8%	-12.9%	-2.4%	63.7%	72.1%	69.8%		
% of sales	18.6%	20.5%	19.2%	18.6%	15.8%	17.0%	17.9%	18.1%	19.5%	22.0%	22.5%		
Asia Business: dairy ingredients	4,411	10,138	13,752	17,025	2,829	6,809	11,111	15,754	4,783	12,279	19,405	84.4%	23,000
YoY	47.4%	38.8%	24.9%	6.2%	-35.9%	-32.8%	-19.2%	-7.5%	69.1%	80.3%	74.6%		46.0%
% of sales	15.6%	17.5%	16.2%	15.4%	11.8%	12.9%	14.0%	14.2%	15.1%	17.6%	18.1%		16.4%
Asia Business: cheese	680	1,352	2,036	2,895	801	1,689	2,428	3,324	935	1,827	2,892	72.3%	4,000
YoY	3.3%	5.3%	3.7%	9.2%	17.9%	24.9%	19.3%	14.8%	16.7%	8.2%	19.1%		20.3%
% of sales	2.4%	2.3%	2.4%	2.6%	3.3%	3.2%	3.0%	3.0%	2.9%	2.6%	2.7%		2.9%
Other	168	386	570	691	156	428	712	1,044	481	1,258	1,904	90.7%	2,100
YoY	-8.7%	11.9%	20.5%	9.7%	-7.1%	10.9%	24.9%	51.1%	208.3%	193.9%	167.4%		101.1%
% of sales	0.6%	0.7%	0.7%	0.6%	0.7%	0.8%	0.9%	0.9%	1.5%	1.8%	1.8%		1.5%
Sales volume (tons)													
Dairy Ingredients and Cheese	49,413	98,294	145,534	191,575	43,141	91,993	135,032	184,358	46,731	96,454	141,079	70.8%	199,200
YoY	-0.7%	-1.8%	-4.9%	-6.1%	-12.7%	-6.4%	-7.2%	-3.8%	8.3%	4.8%	4.5%		8.1%
Meat Product Ingredients	5,220	11,453	16,143	21,925	5,736	12,567	19,013	25,699	6,004	12,096	18,224	73.5%	24,800
YoY	4.7%	9.0%	-1.1%	1.8%	9.9%	9.7%	17.8%	17.2%	4.7%	-3.7%	-4.1%		-3.5%
Asia Business: dairy ingredients	14,676	34,921	48,281	60,159	9,918	22,690	34,546	47,817	11,397	26,549	38,906	73.4%	53,000
YoY	29.9%	25.2%	15.7%	0.4%	-32.4%	-35.0%	-28.4%	-20.5%	14.9%	17.0%	12.6%		10.8%
Asia Business: cheese	1,014	1,983	2,949	4,197	1,120	2,334	3,355	4,635	1,253	2,336	3,579	71.6%	5,000
YoY	16.0%	9.9%	7.9%	12.3%	10.5%	17.7%	13.8%	10.4%	11.9%	0.1%	6.7%		7.9%
Average price (JPY/kg)													
Dairy Ingredients and Cheese	406	406	412	409	396	402	407	415	471	489	513		
YoY	-4.3%	-4.7%	-2.8%	-2.1%	-2.4%	-1.1%	-1.1%	1.5%	19.0%	21.8%	25.9%		
Meat Product Ingredients	556	533	544	543	543	539	546	556	588	597	600		
YoY	-5.8%	-8.2%	-4.5%	-4.9%	-2.2%	1.0%	0.4%	2.4%	8.2%	10.8%	9.8%		
Asia Business: dairy ingredients	301	290	285	283	285	300	322	329	420	463	499		
YoY	13.5%	10.9%	8.0%	5.8%	-5.1%	3.4%	12.9%	16.4%	47.1%	54.1%	55.1%		
Asia Business: cheese	671	682	690	690	715	724	724	717	746	782	808		
YoY	-10.9%	-4.2%	-3.9%	-2.8%	6.6%	6.1%	4.8%	4.0%	4.3%	8.1%	11.7%		
CoGS	26,535	54,505	79,981	104,211	22,316	49,274	74,599	104,243	30,033	65,832	101,492		
YoY	0.8%	0.3%	-2.9%	-5.3%	-15.9%	-9.6%	-6.7%	0.0%	34.6%	33.6%	36.1%		
CoGS ratio	94.0%	94.1%	94.0%	94.0%	93.0%	93.6%	93.7%	94.0%	94.6%	94.3%	94.4%		
Gross profit	1,686	3,407	5,084	6,626	1,678	3,375	5,032	6,641	1,722	3,956	5,994		
YoY	7.6%	1.2%	-1.3%	-2.6%	-0.5%	-1.0%	-1.0%	0.2%	2.6%	17.2%	19.1%		
GPM	6.0%	5.9%	6.0%	6.0%	7.0%	6.4%	6.3%	6.0%	5.4%	5.7%	5.6%		
SG&A expenses	922	1,826	2,709	3,667	865	1,844	2,786	3,854	982	2,088	3,228		
YoY	10.9%	3.9%	1.8%	0.3%	-6.2%	1.0%	2.9%	5.1%	13.5%	13.2%	15.9%		
SG&A ratio	3.3%	3.2%	3.2%	3.3%	3.6%	3.5%	3.5%	3.5%	3.1%	3.0%	3.0%		
Operating profit	764	1,581	2,375	2,959	813	1,530	2,245	2,787	740	1,868	2,766		
YoY	3.8%	-1.7%	-4.6%	-5.9%	6.4%	-3.2%	-5.5%	-5.8%	-9.0%	22.0%	23.2%		
OPM	2.7%	2.7%	2.8%	2.7%	3.4%	2.9%	2.8%	2.5%	2.3%	2.7%	2.6%		
Gains (losses) on foreign exchange	15	-39	-21	3	50	0	123	81	7	0	180		
YoY	-	-	-	-	224.7%	-	-	2,325.6%	-86.2%	-	45.4%		
% of sales	0.1%	-0.1%	-0.0%	0.0%	0.2%	0.0%	0.2%	0.1%	0.0%	0.0%	0.2%		
OP + Gains (losses) on forex	780	1,542	2,354	2,962	863	1,531	2,369	2,868	747	1,868	2,945		
YoY	25.7%	8.4%	2.2%	-2.2%	10.7%	-0.8%	0.6%	-3.2%	-13.5%	22.0%	24.3%		
% of sales	2.8%	2.7%	2.8%	2.7%	3.6%	2.9%	3.0%	2.6%	2.4%	2.7%	2.7%		
Ordinary income	753	1,434	2,209	2,781	737	1,412	2,213	2,682	719	1,665	2,725	87.9%	3,100
YoY	40.6%	14.5%	5.8%	1.2%	-2.1%	-1.5%	0.2%	-3.6%	-2.5%	17.9%	23.1%		15.6%
Profit margin	2.7%	2.5%	2.6%	2.5%	3.1%	2.7%	2.8%	2.4%	2.3%	2.4%	2.5%		2.2%
Net income	546	1,040	1,608	2,062	527	1,011	1,601	1,959	524	1,207	1,970	87.6%	2,250
YoY	45.3%	17.2%	7.9%	5.1%	-3.4%	-2.8%	-0.4%	-5.0%	-0.6%	19.4%	23.1%		14.8%
Net margin	1.9%	1.8%	1.9%	1.9%	2.2%	1.9%	2.0%	1.8%	1.6%	1.7%	1.8%		1.6%
Foreign exchange													
USD/JPY	109.53	108.55	107.97	107.27	104.30	106.65	107.80	108.97	114.65	119.55	124.80		
EUR/JPY	120.87	119.33	120.52	121.40	126.62	128.73	129.43	129.68	129.77	132.11	134.50		

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)	FY11/20				FY11/21				FY11/22		
	Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	Q1 Cons.	Q2 Cons.	Q3 Cons.
Sales	28,222	29,690	27,153	25,773	23,994	28,654	26,982	31,253	31,755	38,033	37,698
YoY	1.2%	-0.5%	-9.0%	-11.9%	-15.0%	-3.5%	-0.6%	21.3%	32.3%	32.7%	39.7%
CoGS	26,535	27,969	25,476	24,231	22,316	26,957	25,325	29,644	30,033	35,799	35,659
YoY	0.8%	-0.2%	-9.1%	-12.2%	-15.9%	-3.6%	-0.6%	22.3%	34.6%	32.8%	40.8%
CoGS ratio	94.0%	94.2%	93.8%	94.0%	93.0%	94.1%	93.9%	94.9%	94.6%	94.1%	94.6%
Gross profit	1,686	1,721	1,677	1,542	1,678	1,697	1,657	1,609	1,722	2,234	2,039
YoY	7.6%	-4.3%	-6.0%	-6.6%	-0.5%	-1.4%	-1.2%	4.3%	2.6%	31.6%	23.0%
GPM	6.0%	5.8%	6.2%	6.0%	7.0%	5.9%	6.1%	5.1%	5.4%	5.9%	5.4%
SG&A expenses	922	904	883	958	865	979	942	1,067	982	1,106	1,140
YoY	10.9%	-2.4%	-2.2%	-3.8%	-6.2%	8.3%	6.7%	11.4%	13.5%	13.0%	21.0%
SG&A ratio	3.3%	3.0%	3.3%	3.7%	3.6%	3.4%	3.5%	3.4%	3.1%	2.9%	3.0%
Operating profit	764	817	794	584	813	717	715	542	740	1,127	898
YoY	3.8%	-6.3%	-10.0%	-10.8%	6.4%	-12.2%	-9.9%	-7.2%	-9.0%	57.1%	25.7%
OPM	2.7%	2.8%	2.9%	2.3%	3.4%	2.5%	2.6%	1.7%	2.3%	3.0%	2.4%
Gains (losses) on foreign exchange	15.5	-54	18	24	50.3	-50	123	-43	7.0	-7	180
YoY	-	-	-	-66.5%	224.7%	-	580.0%	-	-86.2%	-	45.7%
% of sales	0.1%	-0.2%	0.1%	0.1%	0.2%	-0.2%	0.5%	-0.1%	0.0%	-0.0%	0.5%
OP + Gains (losses) on forex	780	762	812	608	863	667	838	499	747	1,120	1,078
YoY	25.7%	-5.0%	-7.8%	-16.3%	10.7%	-12.5%	3.3%	-18.0%	-13.5%	67.9%	28.6%
% of sales	2.8%	2.6%	3.0%	2.4%	3.6%	2.3%	3.1%	1.6%	2.4%	2.9%	2.9%
Ordinary income	753	680	775	572	737	675	801	469	719	947	1,060
YoY	40.6%	-5.1%	-7.1%	-13.3%	-2.1%	-0.8%	3.3%	-18.1%	-2.5%	40.2%	32.4%
Profit margin	2.7%	2.3%	2.9%	2.2%	3.1%	2.4%	3.0%	1.5%	2.3%	2.5%	2.8%
Net income	546	495	567	455	527	484	590	358	524	684	763
YoY	45.3%	-3.4%	-5.9%	-3.9%	-3.4%	-2.2%	4.0%	-21.2%	-0.6%	41.3%	29.3%
Net margin	1.9%	1.7%	2.1%	1.8%	2.2%	1.7%	2.2%	1.1%	1.6%	1.8%	2.0%

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).

Company forecast for full-year FY11/22

Revised earnings forecast for the full-year FY11/22 (as of July 5, 2022)

- ▶ Sales: JPY140.0bn (+26.3% YoY; previous forecast: JPY126.0bn)
- ▶ Ordinary income: JPY3.1bn (+15.6% YoY; JPY2.9bn)
- ▶ Net income: JPY2.3bn (+14.8% YoY; JPY2.1bn)
- ▶ EPS: JPY227.94 (JPY198.73 in FY11/21; JPY212.95)
- ▶ DPS: JPY37.00 (JPY32.00; JPY37.00)

The company upgraded its earnings forecast for the full-year FY11/22 on July 5, 2022. As for reasons for the upward revision, the company said that it expected international market prices for dairy and meat products to continue rising and yen to remain weak in 2H as was the case in 1H, and that it anticipated a recovery in commercial demand in particular for food products in general.

Company outlook for near-term business environment

- ▶ Dairy Ingredients and Cheese: Measures to normalize the excess inventory of domestically produced skim milk powder are ongoing, and the company plans to keep focusing on sales of the product to help reduce the inventory in FY11/22. While the rising international market prices of dairy products and yen depreciation serve as tailwinds for the export of domestically produced skim milk powder, one of the measures aimed at reducing the domestic inventory level of the product, the company expects the narrowing gap between the prices of imported and domestically produced products to impede sales of highly versatile, imported dairy ingredients. It also expects further price increases in October and later driven by soaring raw material prices, and intends to keep a close eye on how consumers' cautious spending behavior impacts its sales volume.

- ▶ **Meat Product Ingredients:** The company noted that a decline in production capacity at meat processing plants for both pork and beef and the resulting increase in international prices are a cause for concern. Although the company is making steady progress in cultivating new customers for new products such as beef and honey, it is concerned that rising import prices, the weak yen, and its potential inability to secure products may become bottlenecks.
- ▶ **Asia Business (dairy ingredient sales):** In Japan, the company expects imported dairy products to be increasingly replaced by domestically produced skim milk powder. Further, it expects weak sales of dairy ingredients in Japan due in part to its concern for consumers' cautious stance toward spending. However, it anticipates the sale of domestically produced dairy products aimed at reducing Japan's skim milk powder inventory (export business) will contribute to earnings from Q4 and through FY11/23.
- ▶ **Asia Business (cheese manufacturing and sales):** The company will continue negotiating prices with suppliers as it expects cheese ingredients and energy prices to continue rising (prices for some products have already been revised). It expects strong sales to continue through the year-end supported by a recovery in demand for commercial products mainly in the restaurant industry in Singapore, Malaysia, and Thailand.

### Financial position

- ▶ Current assets totaled JPY68.8bn, up JPY18.8bn versus end-FY11/21. The increase is mainly attributable to a JPY12.4bn increase in merchandise and finished goods and a JPY3.3bn rise in notes and accounts receivable.
- ▶ Fixed assets of JPY3.0bn were up JPY110mn versus end-FY11/21, due to a JPY225mn increase in tangible fixed assets partially offset by a JPY108mn decrease in investments and other assets.
- ▶ Current liabilities stood at JPY43.1bn, up JPY15.6bn versus end-FY11/21, with most of this increase coming as a result of a JPY4.8bn increase in accounts payable and a JPY7.5bn increase in short-term borrowings due to an increase in working capital. Fixed liabilities of JPY6.0bn were up JPY164mn versus end-FY11/21, primarily reflecting a JPY50mn increase in long-term borrowings.
- ▶ Net assets totaled JPY22.7bn, up JPY3.2bn versus end-FY11/21, due mainly to increases of JPY1.7bn in retained earnings, JPY415mn in deferred hedge gains, and JPY1.1bn in foreign currency translation adjustments.

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