



# Financial Results for FY2019 Second Quarter

July 24, 2019

<b>1. Consolidated Financial Results for FY2019 Second Quarter</b>	<b>P.3</b>
<b>2. Business Information</b>	<b>P.9</b>
<b>3. Outlook for the Asia Business</b>	<b>P.18</b>
<b>■ New Corporate Business Plan “NEXT-LJ2021”</b>	<b>P.25</b>
<b>■ Reference Information</b>	<b>P.28</b>
● <b>The Risk of Foreign Exchange Fluctuations for Lacto Japan and Separate Accounting Treatment</b>	

## ■ Consolidated financial results

### Net sales

- Consolidated net sales decreased, compared to both the same term in the previous year and the business plan.
- Behind this is the effect of the reactionary decrease to skim milk powder demand in the major Dairy Ingredients and Cheese and a decrease in sales of the Meat Products.
- Meanwhile, Asia Business is moving steadily.
- Notably, the Cheese Manufacture and Sales recorded new highs for a second quarter in both net sales and sales volume.

### Ordinary income

- Ordinary income is 1.25 billion yen, an increase of 110 million yen compared to the same quarter the previous year.
- Even when foreign exchange is taken into account, ordinary income is 1.35 billion yen, progress exceeding the business plan.

## ■ Forecasts for FY2019/11

- Subdued conditions are expected for skim milk powder sales due to skim milk powder inventory in Japan; steady sales are expected for cheese, butter, and other dairy ingredients.
- Considering the continuing favorable conditions of the Asia Business, the forecast at the beginning of the term is still expected to be valid for both net sales and ordinary income.

## ■ Medium-to-long-term business plan

- As a result of the continuing decrease in domestic raw milk production, it is anticipated that over the medium-to-long-term the demand for imported milk products and ingredients will increase.
- Trades taking advantage of free trade agreements such as TPP11 and Japan-EU EPA have increased, and the expected bilateral agreement with the U.S.A. should provide further impetus.
- A new base will be established in the Philippines (scheduled for October 2019) to meet the increased demand in the Asian market to capture greater demand.
- The goal is to expand our business activities in Japan and Asia further, equipped with our proposal, procurement, information, and service skills we have long been polishing in the Japanese market.

# 1

## Consolidated Financial Results for FY2019 Second Quarter



# Consolidated Financial Results for Year Ending May, 2019



(Amounts of financial result less than one million yen are omitted Millions of Yen)

	2018/11 2Q	2019/11 2Q			FY2019/11
		Actual	Difference	Ratio(%)	Budget
Net sales	59,164	57,712	(1,452)	(2.5)	125,200
Ordinary income	1,133	1,252	119	10.5	2,800
Ordinary income ratio to net sales(%)	1.9	2.2	0.3	-	2.2
Foreign exchange fluctuation on ordinary income (*1)	(245)	(99)	146	-	-
Net income attributable to owners of the parent	736	887	151	20.5	1,930
Net income ratio to net sales(%)	1.2	1.5	0.3	-	1.5
Net income per share (Yen)	75.25 *2	90.55	15.30		196.77 *2
Exchange rate (Yen/USD)	109.18	110.78	1.60		-
Exchange rate (Yen/EURO)	132.52	125.30	(7.22)		-

\*1 Foreign exchange fluctuation on ordinary income: By applying "Separate accounting treatments", the total amount of the impact of foreign exchange hedging as sales costs and non-operating profit / losses. (Please refer P28-31)

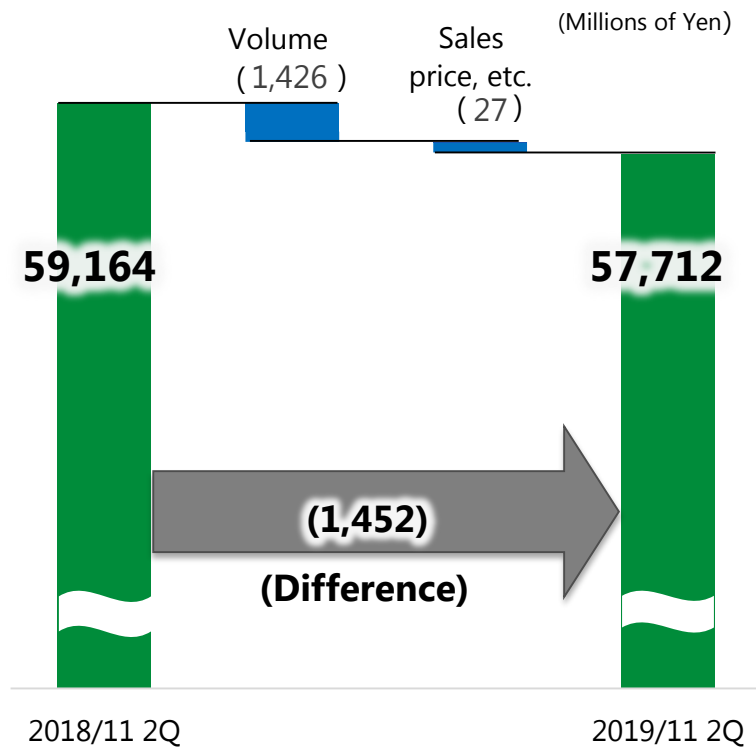
\*2 Lacto Japan split its regular shares on May 1, 2019 in a 2-for-1 split. The share split has been treated as occurring at the beginning of the previous consolidated fiscal year, and Net income per share for the quarter has been calculated accordingly.

# Analysis by Net Sales and Ordinary Income

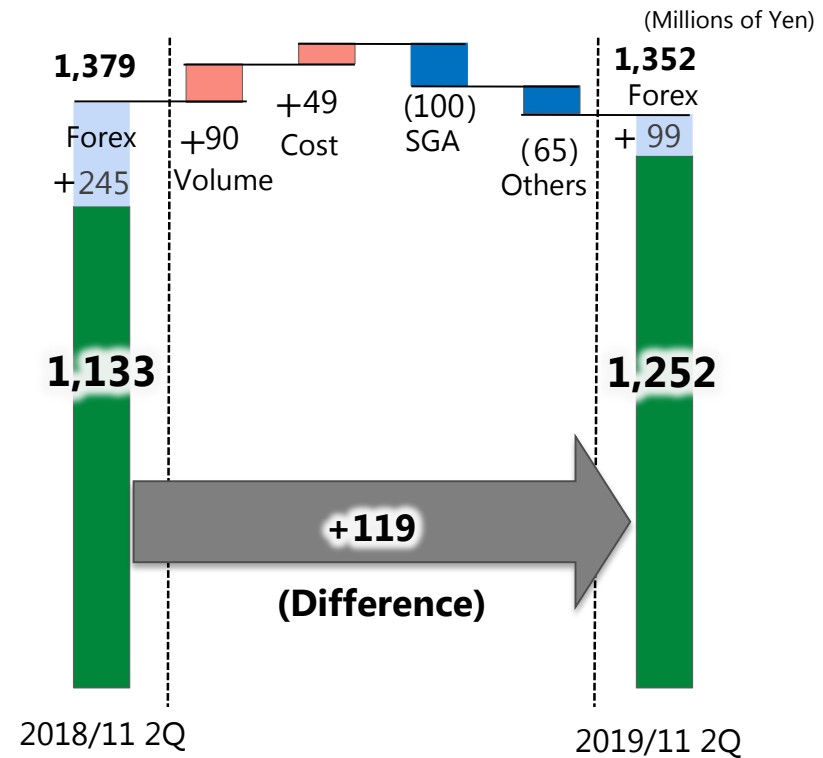
Net sales decreased due to decrease in quantity.

Ordinary income increased due to factors such as increased revenue in the Asia Business.

## Consolidated net sales



## Consolidated ordinary income



# Net Sales and Sales Volume by Business

**Dairy ingredients and cheese still show effects of the reactionary decrease to demand for skim milk powder.**

**Increased revenue in the Asia Business due to favorable sales.**

## Net sales by business

(Millions of Yen)

	2018/11 2Q	2019/11 2Q	Difference	Ratio (%)
Dairy Ingredients and Cheese	43,812	42,675	(1,136)	(2.6%)
Meat Products	6,616	6,104	(512)	(7.7%)
Asia Business / Others	8,735	8,932	196	2.2%

## Sales volume by business

(Unit: t)

	2018/11 2Q	2019/11 2Q	Difference	Ratio (%)
Dairy Ingredients and Cheese	104,168	100,139	(4,029)	(3.9%)
Meat Products	11,366	10,511	(855)	(7.5%)
Asia Business (Dairy Ingredients)	26,431	27,892	1,460	5.5%
Asia Business (Cheese)	1,289	1,804	514	39.9%

# Consolidated Balance Sheets

(Millions of Yen)

	30-Nov-2018	31-May-2019	Difference
<b>Current assets</b>	<b>46,337</b>	<b>45,416</b>	<b>(920)</b>
Cash and cash equivalents	4,929	5,119	189
Trade notes and accounts receivable	15,873	14,688	(1,184)
Inventories	25,216	25,149	(66)
Others	318	458	140
<b>Non-current assets</b>	<b>2,630</b>	<b>2,429</b>	<b>(201)</b>
Property, plant and equipment	597	507	(90)
Intangible assets	39	33	(6)
Investment and other assets	1,994	1,888	(105)
<b>Total asset</b>	<b>48,967</b>	<b>47,845</b>	<b>(1,122)</b>
Accounts payable	11,173	11,812	638
Interest-bearing liabilities	20,948	18,977	(1,971)
Others	2,413	2,465	51
<b>Liabilities</b>	<b>34,536</b>	<b>33,254</b>	<b>(1,281)</b>
<b>Net assets</b>	<b>14,431</b>	<b>14,590</b>	<b>159</b>
<b>Total liabilities</b>	<b>48,967</b>	<b>47,845</b>	<b>(1,122)</b>

(Amounts less than one million yen are omitted)

## Main factor

- **Decreased accounts receivable**  
Earlier recovery of receivables due to accounts receivable financing
- **Increased accounts payable**  
Increased merchandise purchases
- **Decreased interest-bearing liabilities**  
Repayment of short-term borrowings

\* Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 February 16, 2018) and the like have been applied from the beginning of this consolidated fiscal first quarter. Deferred tax assets are indicated in the Investment and other assets category and deferred tax liabilities are indicated in the Non-current liabilities category.



(Millions of Yen)

	2018/11 2Q	2019/11 2Q	Difference
Cash flows from operating activities	(4,388)	2,506	6,895
Cash flows from investing activities	(6)	233	239
Cash flows from financing activities	4,584	(2,250)	(6,834)
Effect of exchange rate changes on cash and cash equivalents	(29)	(55)	(25)
Net change in cash and cash equivalents	159	434	274
Cash and cash equivalents at beginning of year	2,987	3,477	489
Cash and cash equivalents at end of year	3,147	3,911	763

(Amounts less than one million yen are omitted)

## Main factor

### – Cash in from operating activities

Earlier recovery of receivables due to accounts receivable financing

### – Cash in from cash flow from investing activities

Improved efficiency of funding by closing current deposit account

### – Cash out from financing activities

Repayment of short-term borrowings due to cash in from cash flow from sales and investing activities

# 2

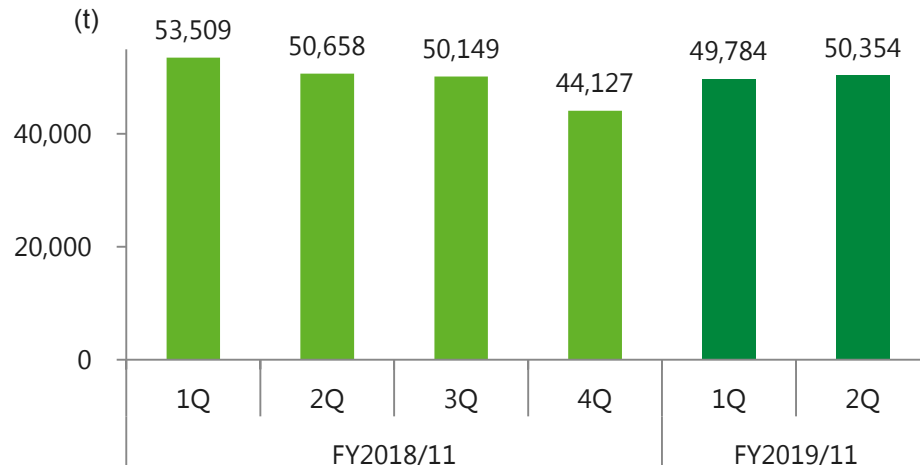
## Business Information



## ■ Net sales and sales volume

	FY2018/11		FY2019/11			
	2Q	4Q	2Q	Difference	Ratio (%)	Forecast
Net sales (Millions of Yen)	43,812	85,290	42,675	(1,136)	(2.6%)	92,270
Sales volume (t)	104,168	198,445	100,139	(4,029)	(3.9%)	209,320

## ■ Sales volume



## ■ First half results

### Net sales of 42.6 billion yen (-2.6%)

- ◆ Decrease in sales due to easing demand for skim milk powder.
- ◆ Increase in demand for butter due to a perceived shortage of domestic butter, the lowered price of imported butter, the regular butter auctions of the ALIC\*, etc.
- ◆ Favorable cheese sales due to lowered duty due to free trade agreements such as TPP11 and the Japan-EU EPA.

### Business environment

- ◆ Demand for imported ingredients is steady due to the continued decrease of domestic raw milk volume and the increased cost of domestic milk.
- ◆ Increased domestic inventory of skim milk powder, for which supply/demand was tight in the last term, due to easing demand this term.

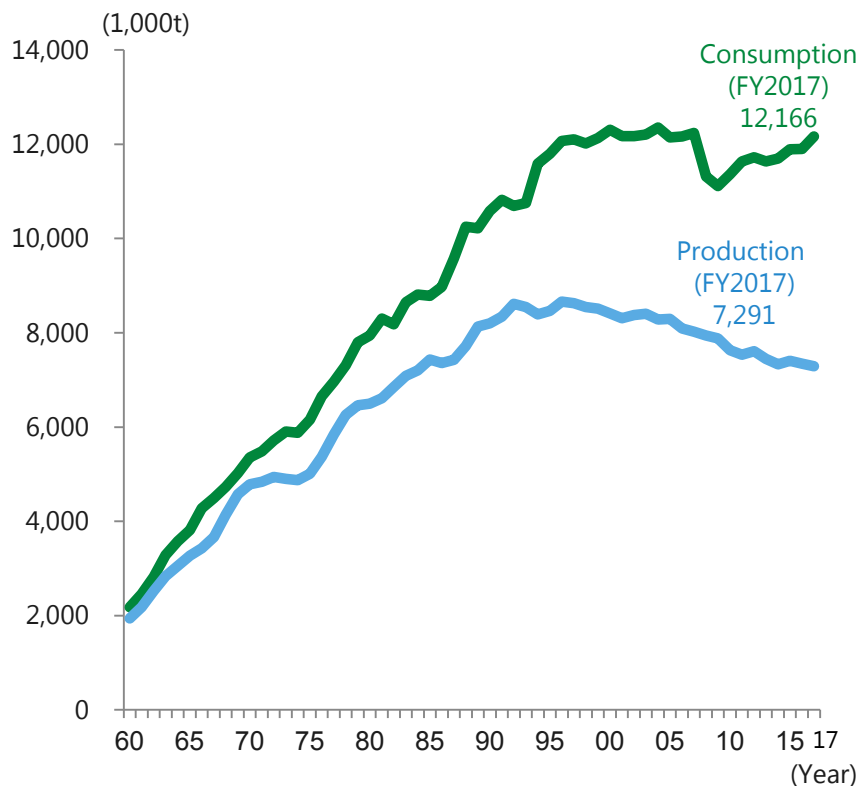
## ■ Second half outlook

- ◆ Stagnate sales of skim milk powder due to domestic inventory of skim milk powder.
- ◆ Increased sales of imported milk products and ingredients taking advantage of the framework provided by free trade agreements such as TPP11 and Japan-EU EPA.
- ◆ Steady sales of butter due to shortage of domestic butter and lowered butter prices internationally.

\*Agriculture & Livestock Industries Corporation, an incorporated administrative agency

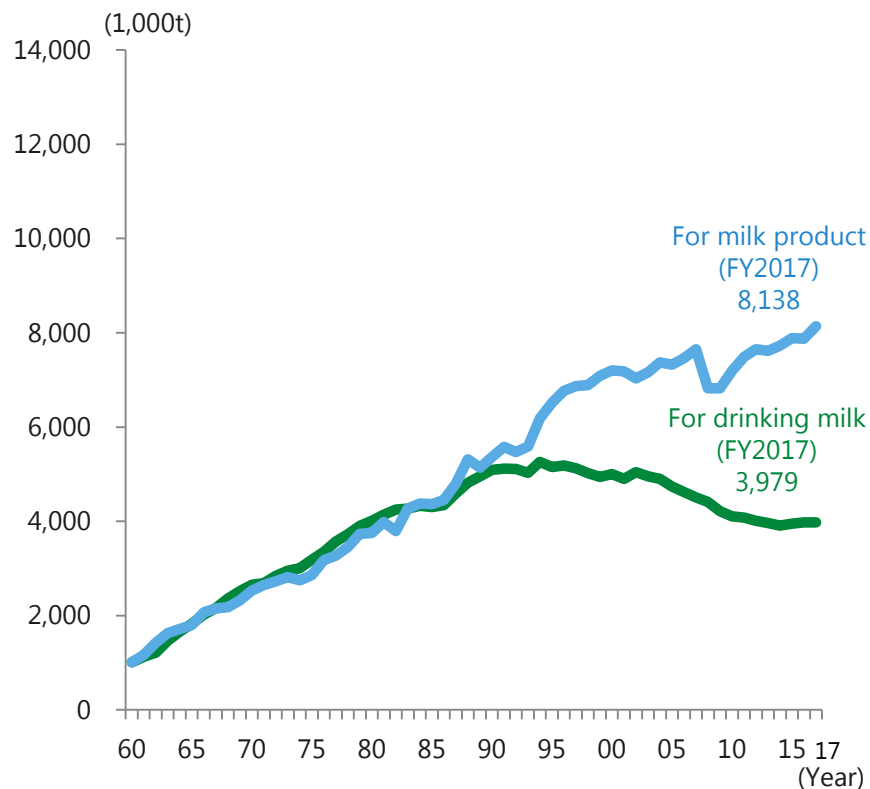
Although the trend for domestic production of raw milk continues to be downward, the consumption of milk and milk products remains high. Domestic Consumption for drinking milk has been increasing since FY2015, and domestic demand is ever positive.

■ Domestic raw milk production volume and milk / milk product consumption



Source: Maff "Food supply and demand table for 2017" (Approximate value for 2017)  
Data converted to raw milk

■ Domestic consumption for milk and milk products

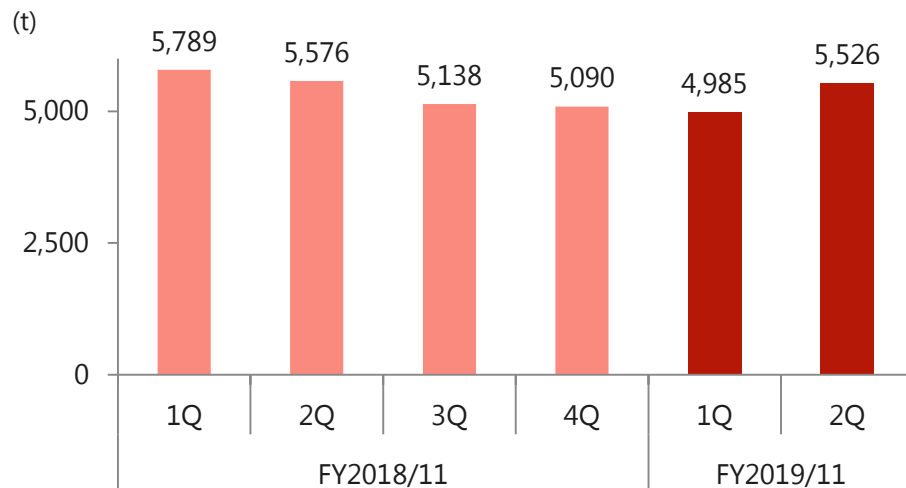


Source: Maff "Food supply and demand table for 2017" (Approximate value for 2017)  
Data converted to raw milk

## Net sales and sales volume

	FY2018/11		FY2019/11			
	2Q	4Q	2Q	Difference	Ratio (%)	Forecast
Net sales (Millions of Yen)	6,616	12,576	6,104	(512)	(7.7%)	15,320
Sales volume (t)	11,366	21,595	10,511	(855)	(7.5%)	26,260

## Sales volume



## First half results

### Net sales of 6.1 billion yen (-7.7%)

- ◆ Decreased sales of pork products due to the subdued condition of the domestic pork market.
- ◆ Increased sales of processed foods such as uncured ham and salami due to sales efforts.

### Business environment

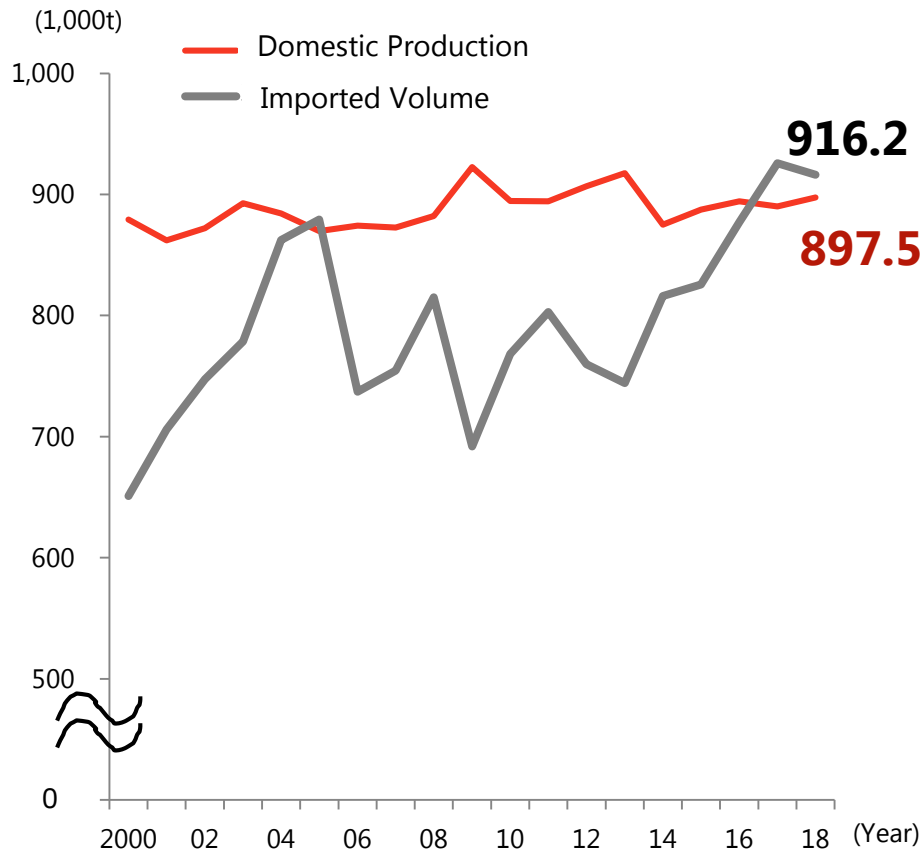
- ◆ Increased production of domestic pork since the latter half of 2018 led to a shift to domestic pork.
- ◆ Lowered sales of final products such as hams and sausages.
- ◆ Increased price internationally due to great demand in the international market due to less pigs in China due to African swine fever.

## Second half outlook

- ◆ Domestic pork production volume is expected to decrease (better supply/demand)
- ◆ Growth in the second half of new sales projects initiated in the first half. (recovery of sales)

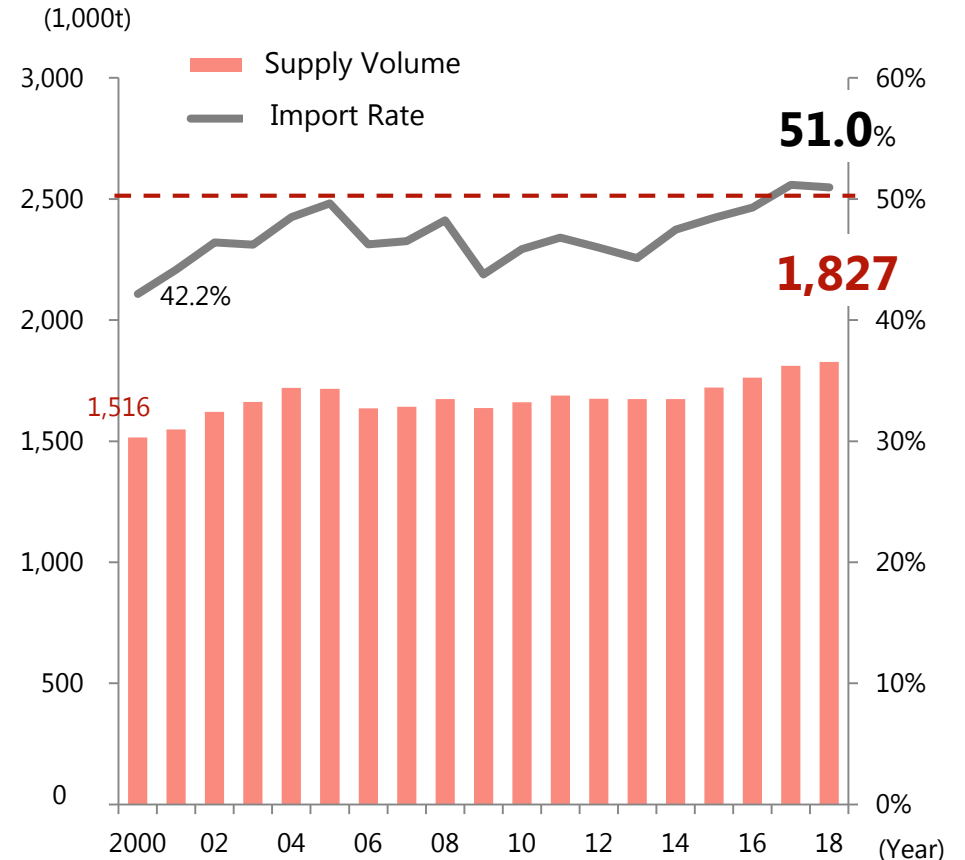
Pork import volume is at a high level and moving. Import pork is well-established and recognized in the domestic market.

■ Production volume and import volume of pork (Japan)



Source: Alic "Supply and demand table for Pork"

■ Pork demand (supply volume) and imported products ratio

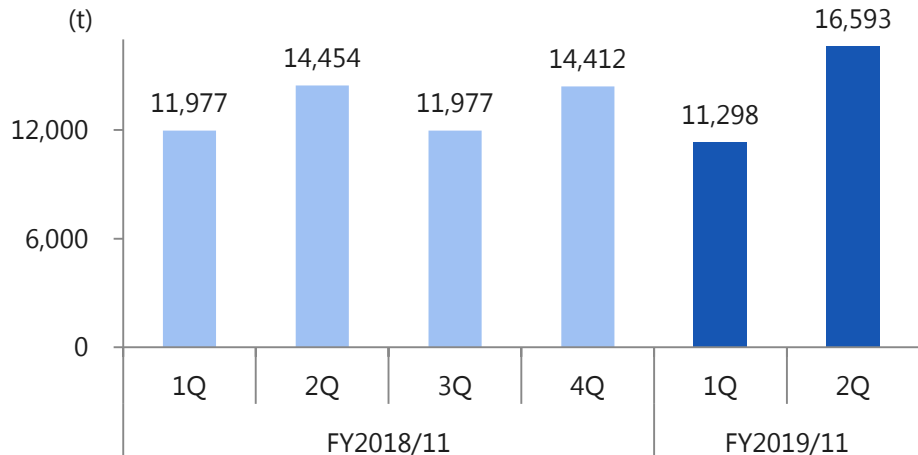


Source: Alic "Supply and demand table for Pork"

## ■ Net sales and sales volume

	FY2018/11		FY2019/11			
	2Q	4Q	2Q	Difference	Ratio (%)	Forecast
Net sales (Millions of Yen)	7,302	14,578	7,303	+0	+0.0%	14,330
Sales volume (t)	26,431	52,822	27,892	+1,460	+5.5%	54,700

## ■ Sales volume



## ■ First half results

### Net sales of 7.3 billion yen ( $\pm 0.0\%$ )

- ◆ Sales to local companies are expanding steadily
- ◆ Growth of sales utilizing our procurement route for European items due to the rising prices of Oceanian dairy ingredients

### Business environment

- ◆ Continued expansion of the dairy product market as the Western diet becomes well-established
- ◆ Increase in a client demographic requiring quality, information, and service (rising demand for added value besides price)

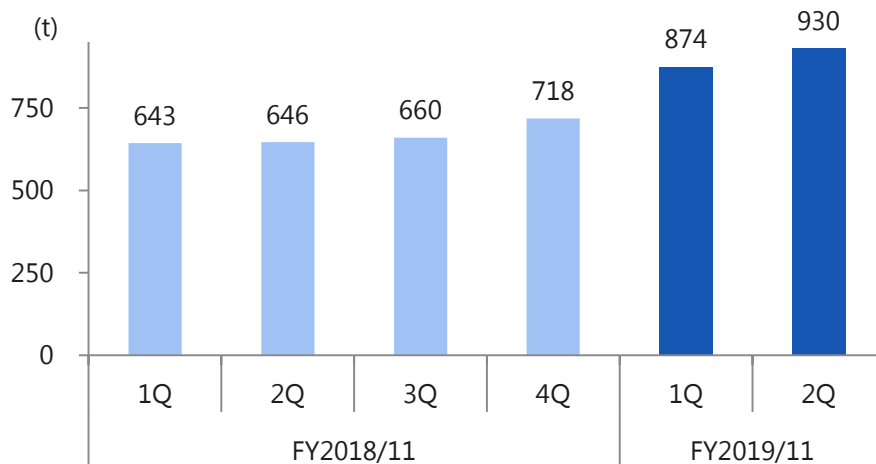
## ■ Second half outlook

- ◆ Continued expansion of demand for dairy products in the Asian market for the time being
- ◆ Work for further expansion of business operations by utilizing our proposal skills to widen existing trades and develop new trades

## Net sales and sales volume

	FY2018/11		FY2019/11			
	2Q	4Q	2Q	Difference	Ratio (%)	Forecast
Net sales (Millions of Yen)	997	2,116	1,284	+287	+28.8%	2,380
Sales volume (t)	1,289	2,668	1,804	+514	+39.9%	3,100

## Sales volume



## First half results

### Net sales of 1.2 billion yen (+28.8%)

- ◆ Attempted to retain clients with functional products in the product line up and plenty of price-appeal products
- ◆ Enforced sales, such as by increasing sales representatives in Thailand, and steady progress in direct sales through our own routes in addition to sales via existing agents

### Business environment

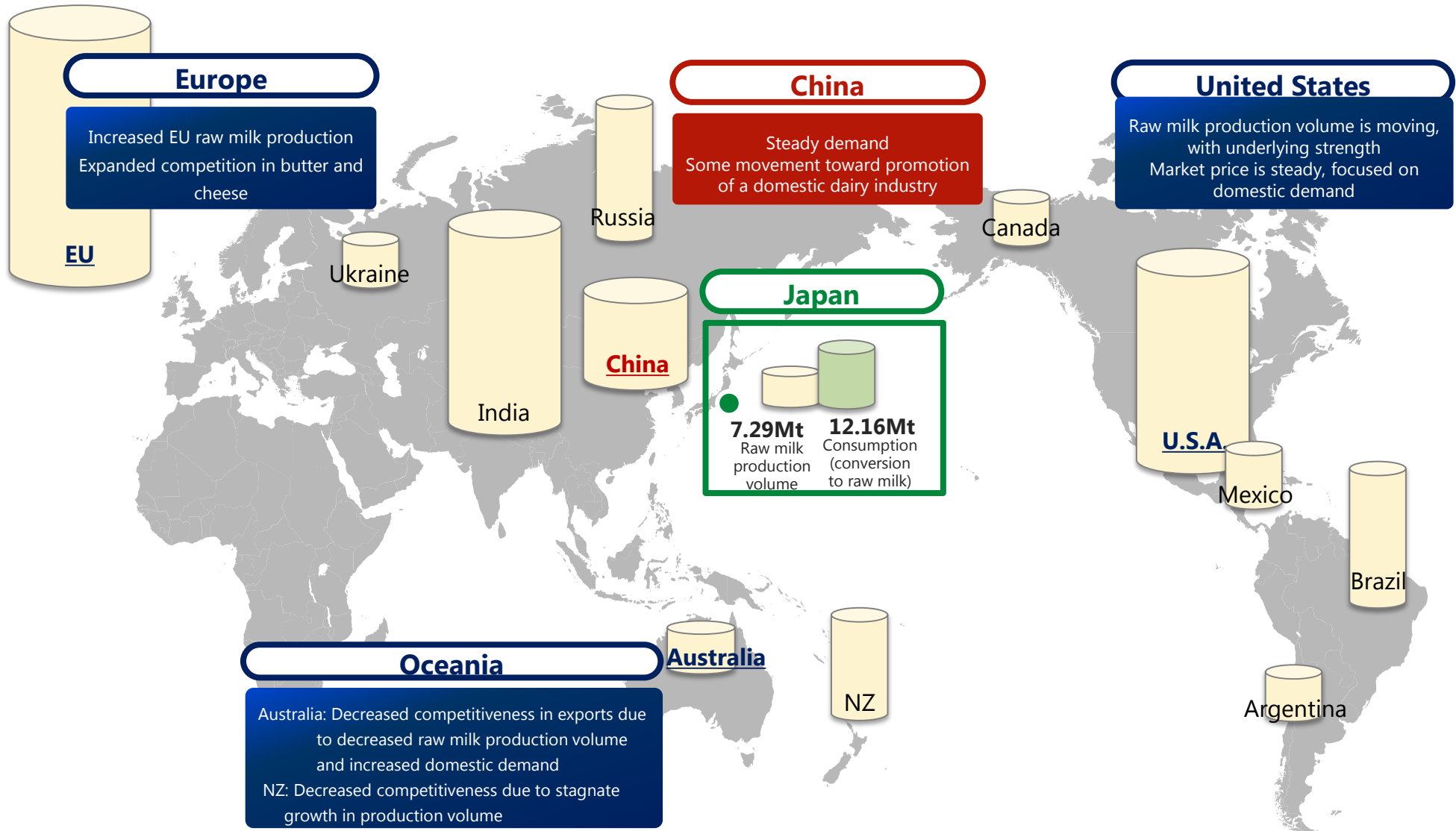
- ◆ Expanding demand for cheese our major sales countries Singapore, Malaysia, China, and Thailand
- ◆ Increasing price-appeal product development projects for the low-price inclination accompanying market expansion

## Second half outlook

- ◆ Continued expansion of cheese demand in the Asian market
- ◆ Wider trading due to product development to meet client needs
- ◆ Enforced sales ability utilizing the increased sales manpower



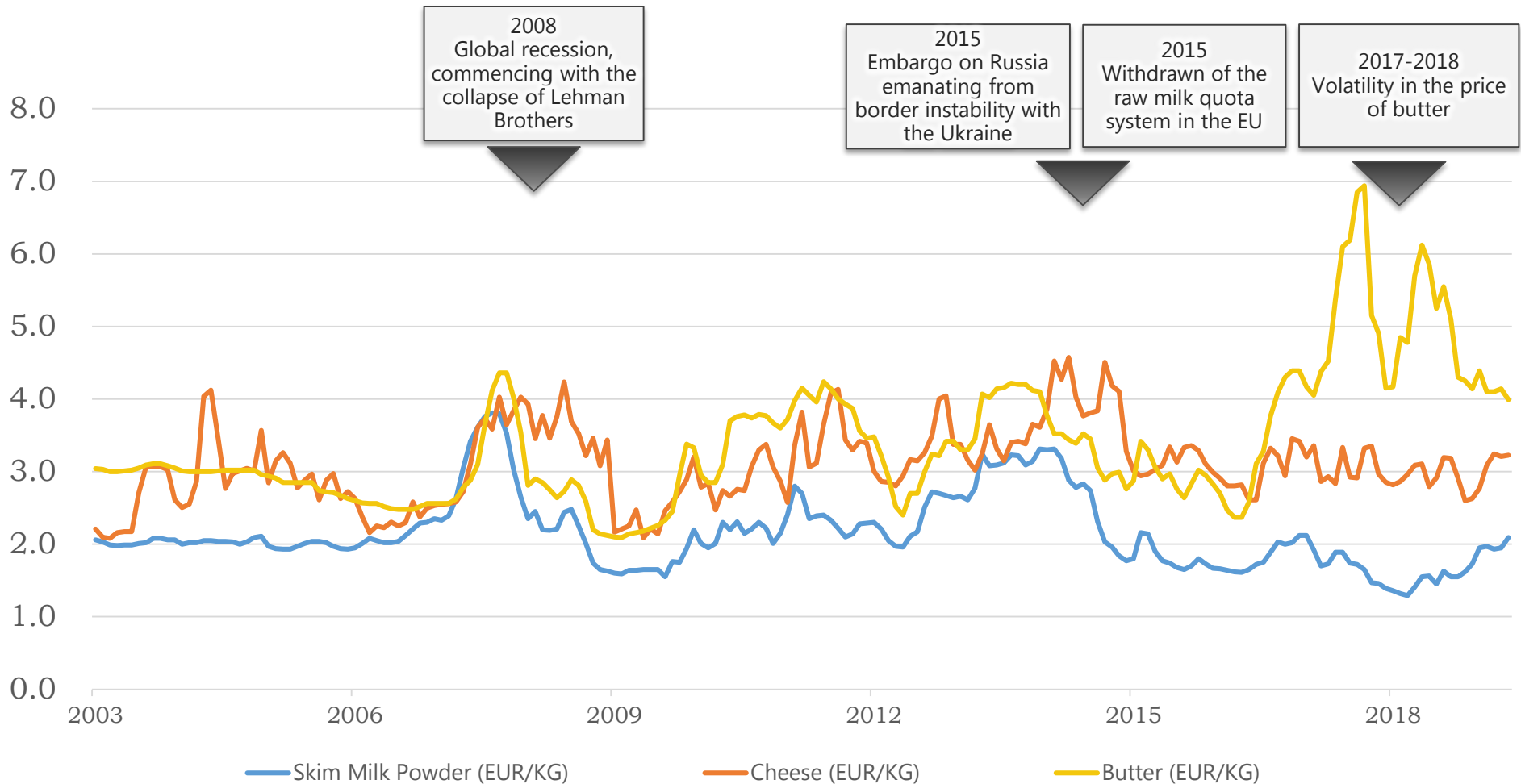
# Business Environment 1 Global business Environment



Data is generated based on information obtained by Lacto Japan from the United Department of Agriculture, and the Ministry of Agriculture, Forestry and Fisheries

**International market conditions were highly volatile from 2007 to 2009; however, comparatively stable conditions are now evident.**

**Skim milk powder and cheese prices steadied low in 2018 while butter prices fluctuated.**



# 3

## Outlook for the Asia Business

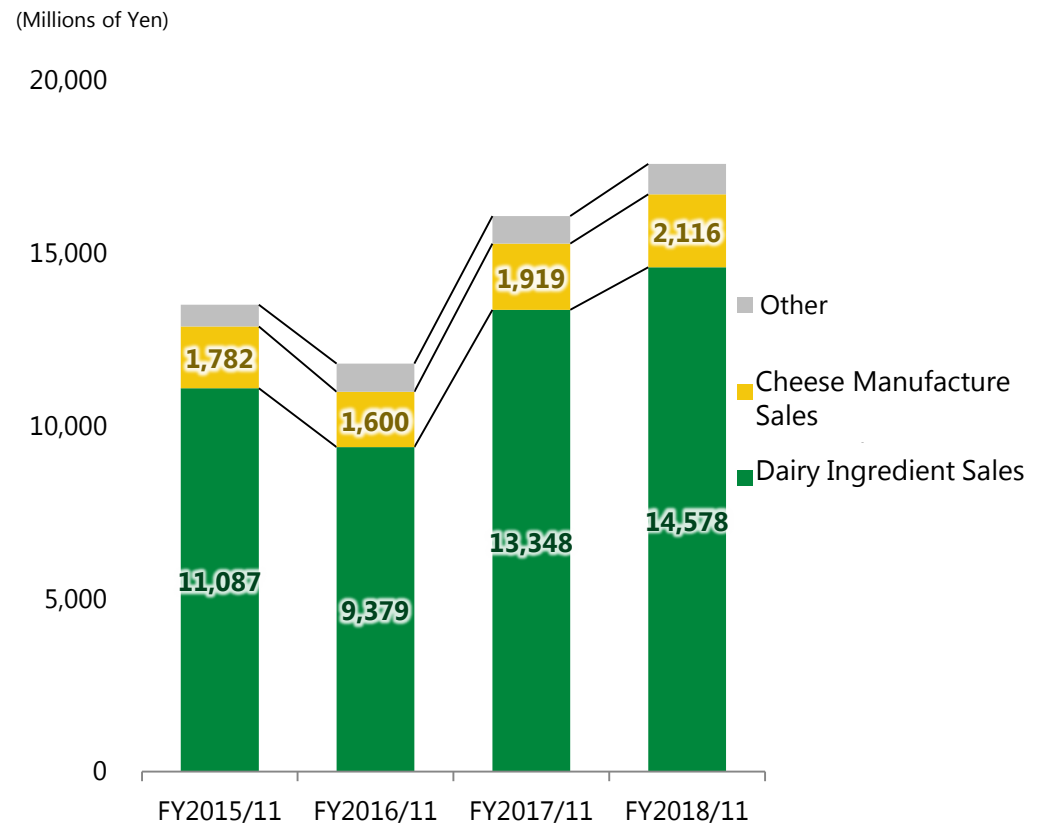


# Summary Asia Business Overview (1)

The pillar is dairy product sales, but Cheese Manufacture and Sales is expanding in recent years

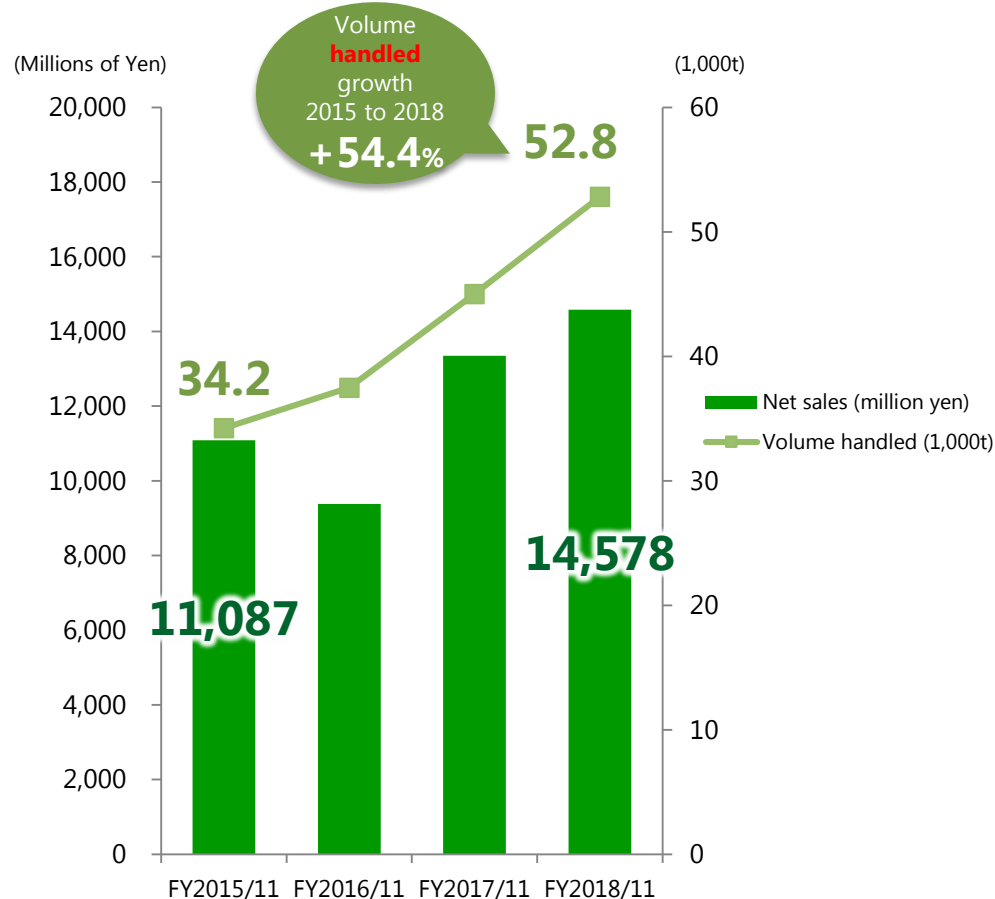


■ Movement of net sales in Asia and other business

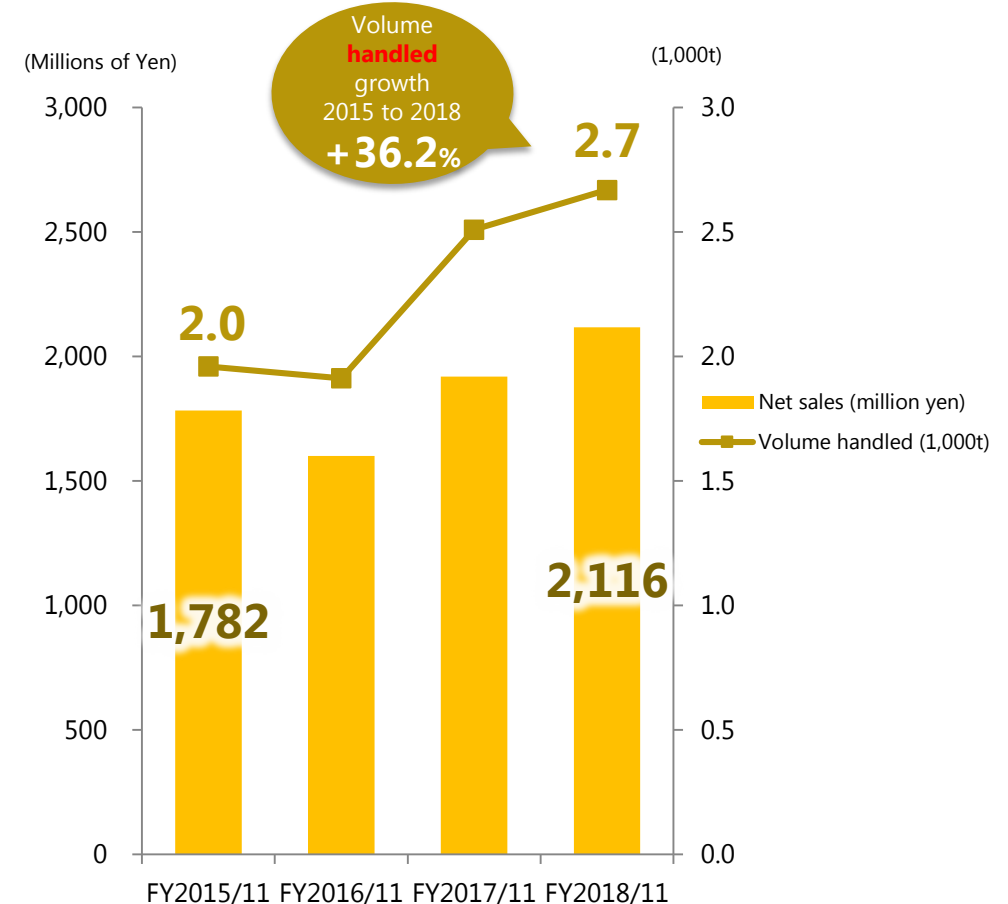


## Steady growth in both Dairy Ingredient Sales and Cheese Manufacture and Sales, accompanied by volume handled

■ Dairy Ingredient sales (trading company)

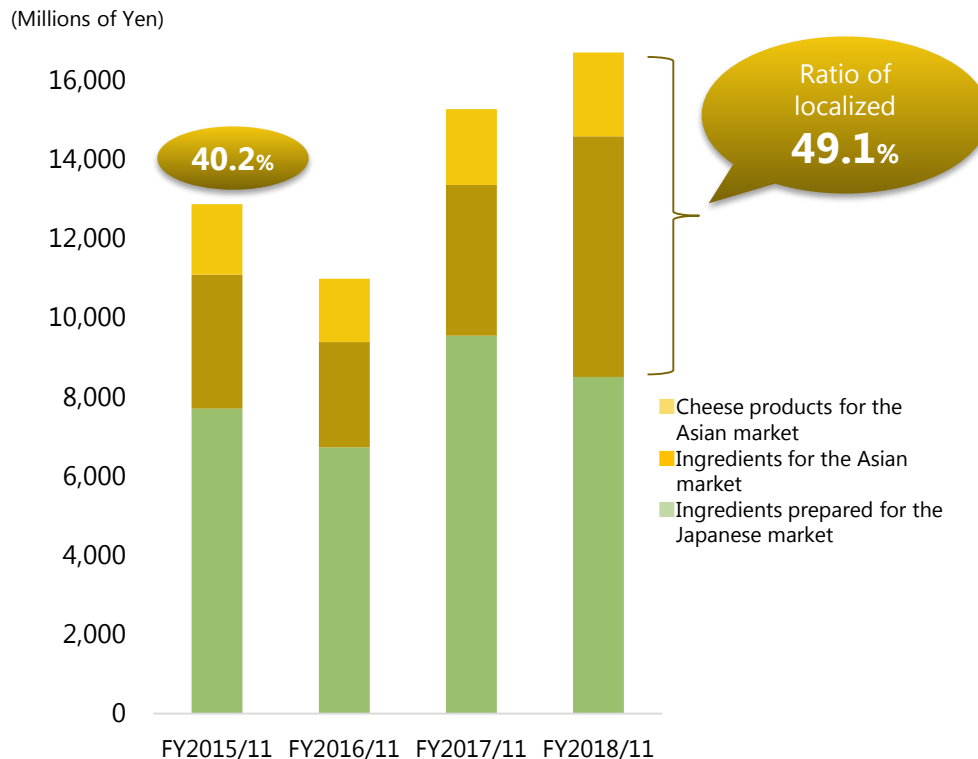


■ Cheese Manufacture and Sales (manufacturer)

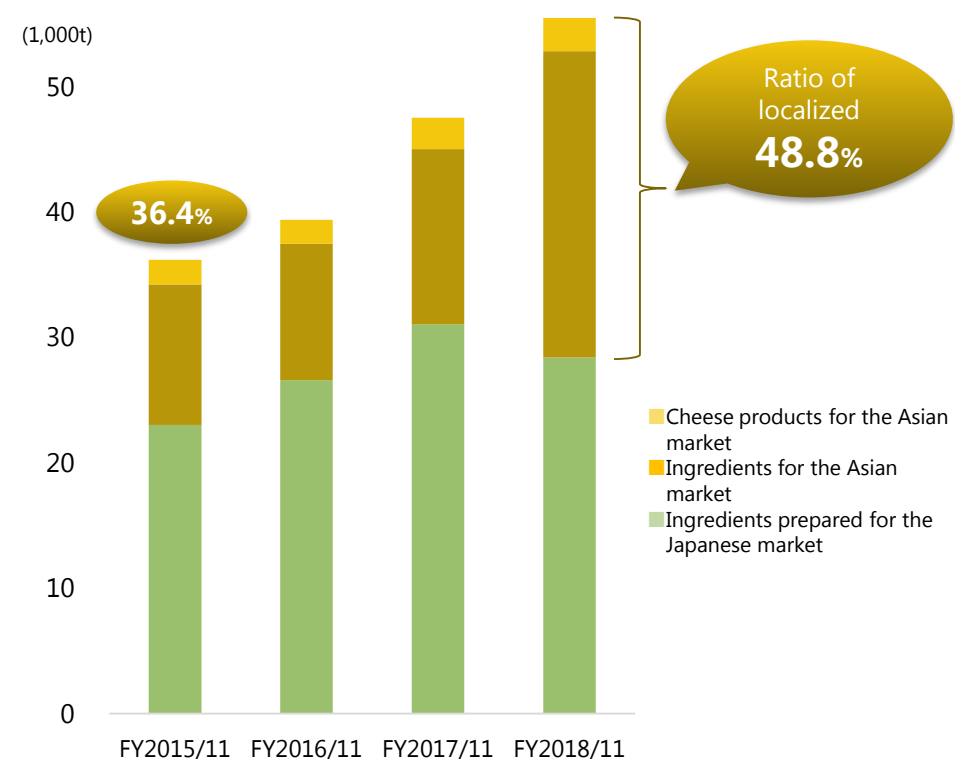


## “Localization” is the keyword Behind the expansion in Asia is the expansion of handled volume of products for the Asian market

■ Net sales by sales market



■ Volume by sales market



Note: The data above includes net sales and sales volume within the group.

## Utilize strengths to reliably grasp the needs of local companies and tie it to business expansion



Our strength

**A variety of supply sources secured**

Traditionally, import from the Oceania had been the bulk, but there has been an expansion of users requiring steady supply or varied ingredients due to the climate variation and progress of diet Westernization in recent years. **(Trading company)**

SOLUTION



**Sales offering proposals from the client's perspective**

Proposals, not just of price, but of ingredients matching needs such as location produced and functionality. **(Trading company)**

Product development and delivery meeting price, functionality, and all sorts of needs. **(Manufacturer)**



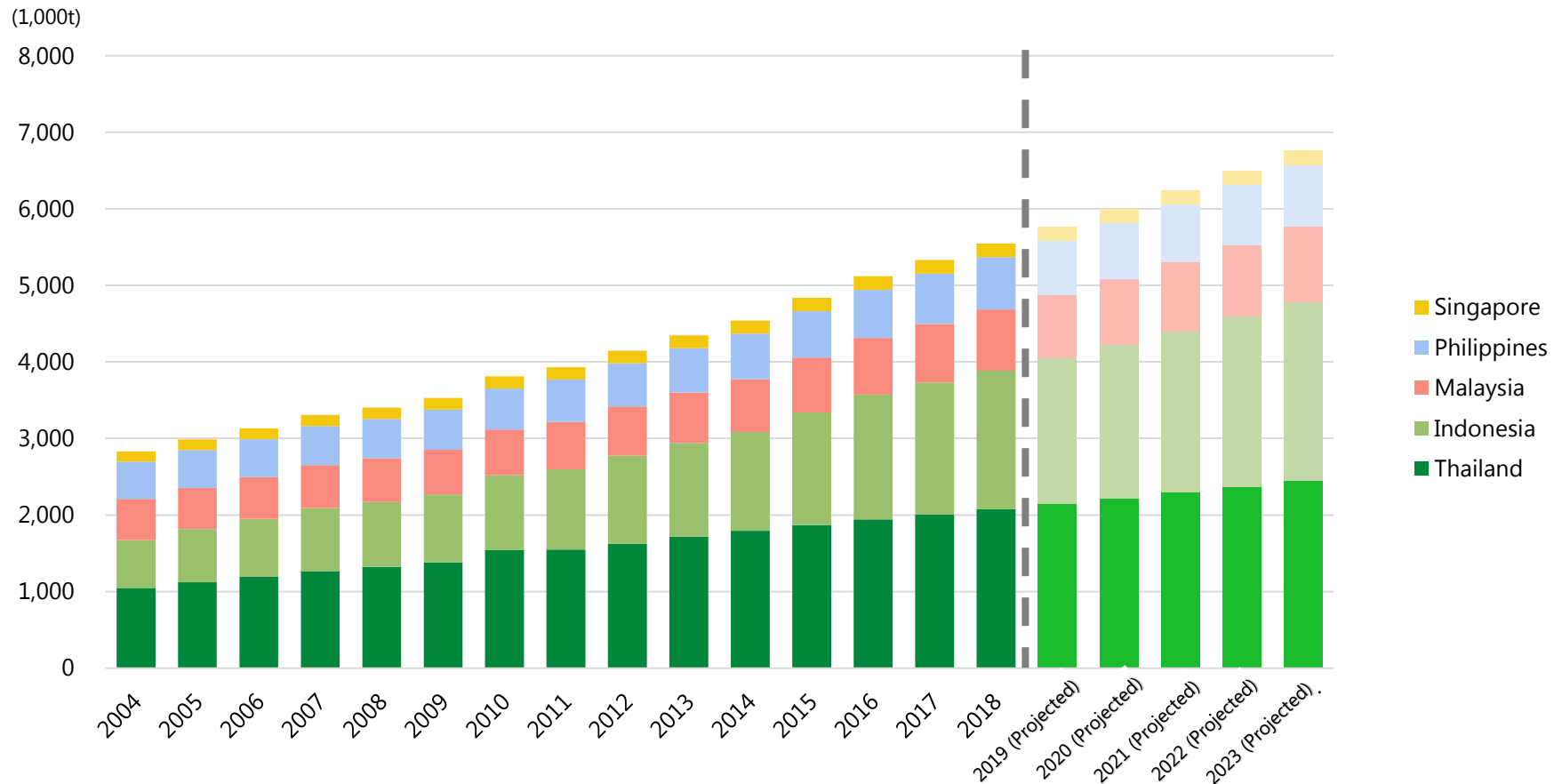
**Ability to meet detailed local needs**

Increased sales staff to grasp the needs of each locality and to respond to clients in detail. **(Trading company, Manufacturer)**

The approach is "Market-in": client needs + product development + delivery coordination. **(Manufacturer)**

## There is much room for expansion in major Asian countries for the dairy product business

■ Dairy product sales volume in major Asian countries



Source: Euro Monitor International

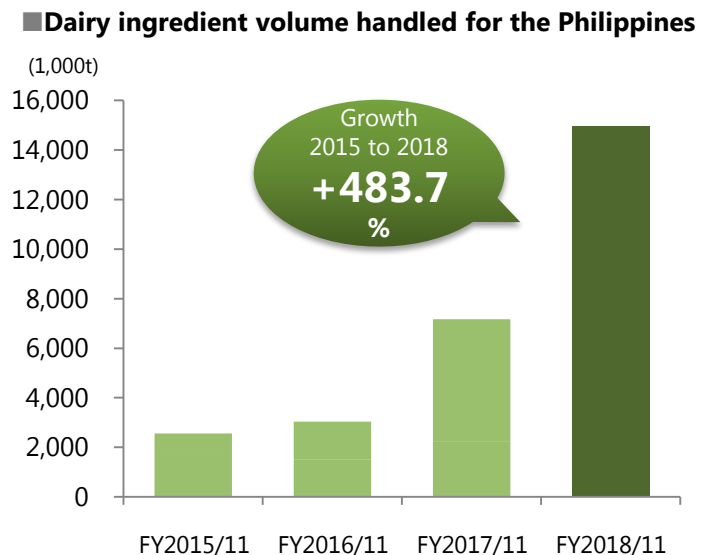
Note: The data above is the sales volume of cheese, butter, spreads, drinking milk, fermented milk, and other dairy products combined and totaled for each region.



## A local corporation is planned for establishment to enforce the sales network in Southeast Asia (sub-subsidiary)

<b>Company name</b>	Lacto Asia (Philippines) Inc. (subject to change)
<b>Business activity</b>	Procurement and sales of dairy ingredients, cheese, etc.
<b>Location</b>	Manila, the Republic of the Philippines
<b>Stated capital</b>	USD 500,000 (approx. JPY 55,000,000)
<b>Investors and ratios</b>	Lacto Asia Pte Ltd. (Singapore) 100%
<b>Establishment</b>	October 2019 (planned)

- A strategic base to expand sales share in Southeast Asia
- To respond to rapidly increasing Philippine business
- To improve response to local clients



# New Corporate Business Plan “NEXT-LJ2021”



Reached the goals set in "NEXT-LJ2020" in the first year and updated the Corporate business plan into "NEXT-LJ2021" in January 2019

## FY2018.11 Actual

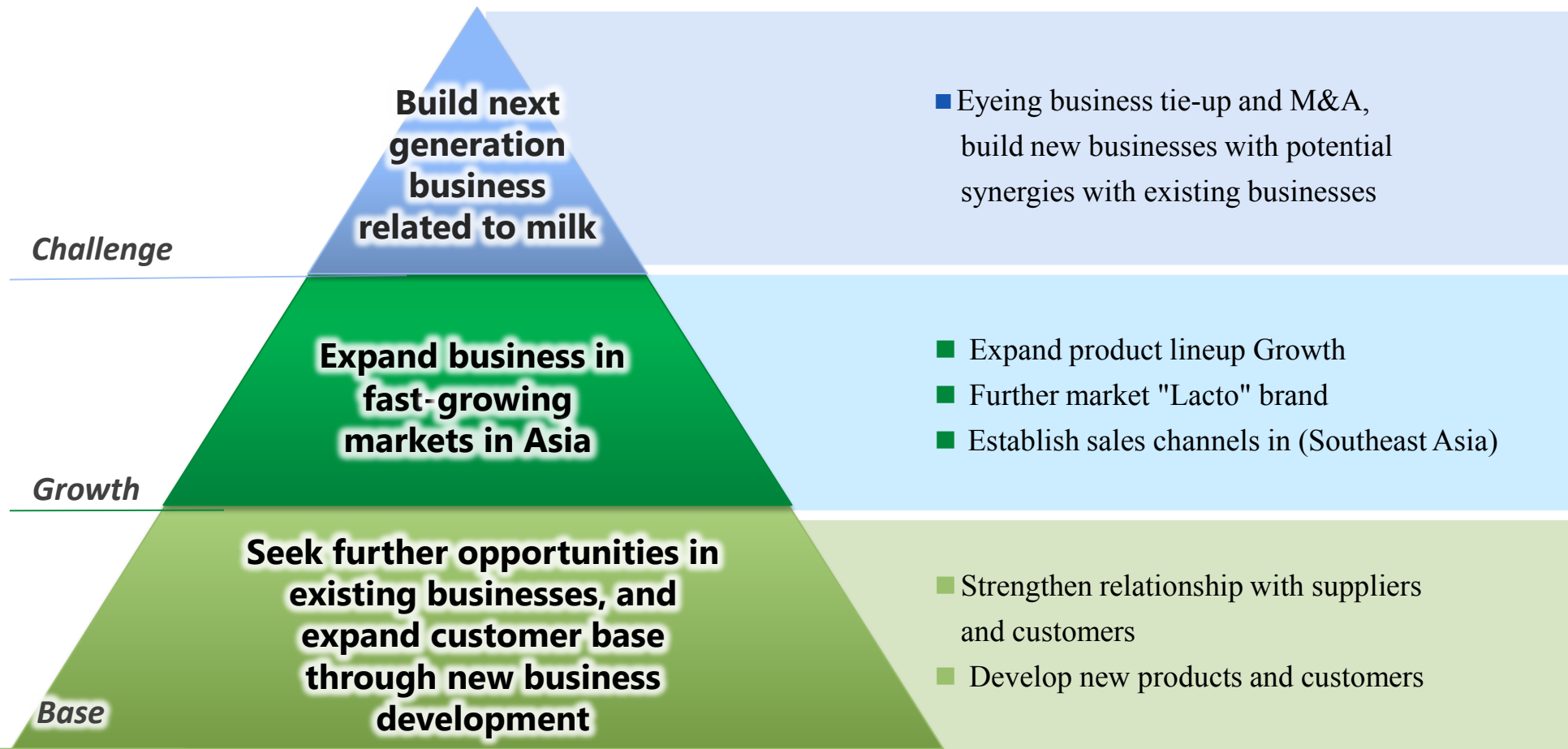
Net Sales	115.4billion
Ordinary Income	2.61billion
Consolidated Net income attributable to owners of the parent	1.78billion



## FY2021.11 Target

Net sales	145.0billion(+26%)
Ordinary Income	3.4billion(+30%)
Consolidated Net income attributable to owners of the parent	2.4billion(+35%)

## Continue with Basic Principle and Main Project Lacto Japan provides health and eating pleasure for consumers as Global Food Professional Company



# Reference Information

## The risk of foreign exchange fluctuation



# The Risk of Foreign Exchange Fluctuation for Lacto Japan and Separate Accounting Treatment



**In principle, Lacto Japan's business model hedges risks of foreign exchange fluctuations.**

Under Lacto Japan's Basic Business model, Lacto Japan enters into sales contracts with domestic customers at the same time as entering into foreign currency purchase contracts with overseas suppliers.

By entering into a forward exchange contract with a financial institution upon concluding a contract with an overseas supplier, Lacto Japan is able to fix actual profits/losses (gross profits/losses adjusted for forex gains/losses) at a time of the sales contract.

As a result, once a sales contract is concluded, under our basic business model foreign exchange fluctuations have no impact on actual profit/loss.

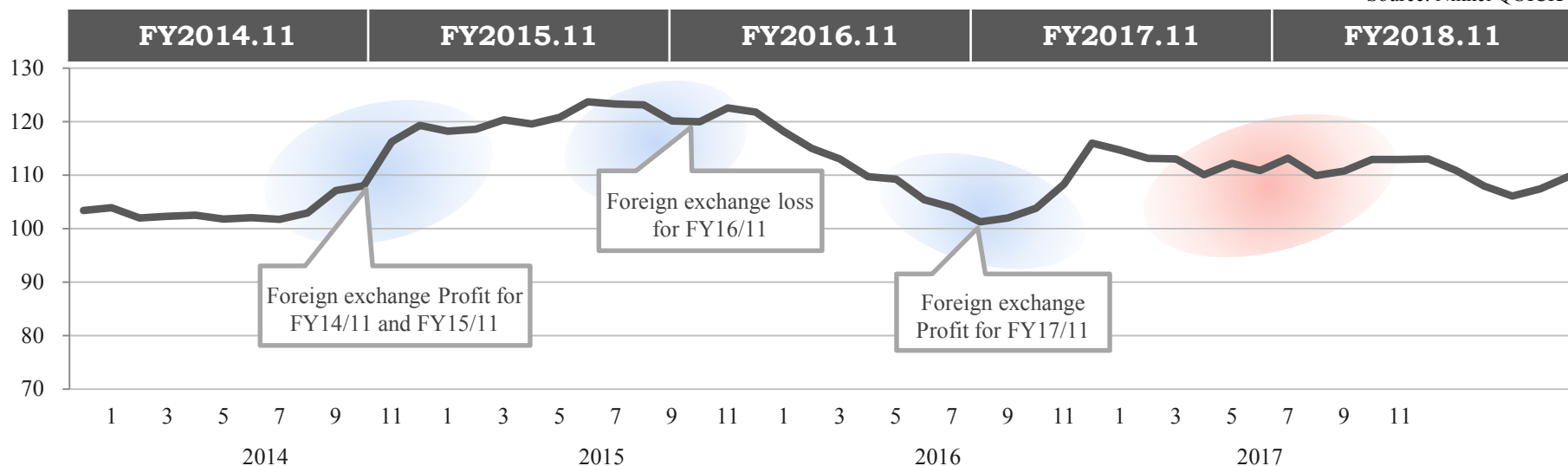
**It is of note here that under Japanese accounting standards Lacto Japan applies "separate accounting treatments" to foreign currency exchange accounts.**

Lacto Japan applies "separate accounting treatments" to adjust amounts of foreign exchange gains/losses caused by exchange fluctuations to amounts of gross profit/loss and non-operating income/loss.

In addition, if a product is not sold during the same financial period as that of the sales contract for the product, the part of the actual profits/losses will be recorded in the next financial period.(Please refer to the business flow model on the next page.)

## Trends of Foreign Exchange (Spot rate of Tokyo stock market)

Source: Nikkei QUICK



## Trends of Net sales and profit and loss (consolidated basis)

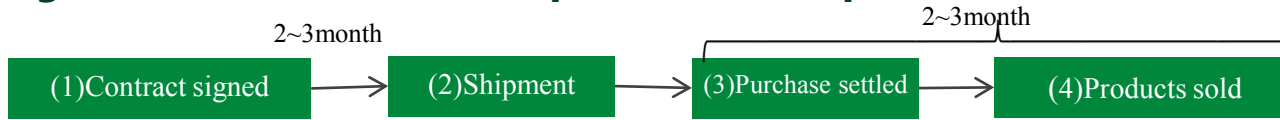
(Millions of Yen)

	FY2014.11	FY2015.11	FY2016.11	FY2017.11	FY2018.11
Net Sales	96,549	98,000	88,679	101,334	115,440
Gross profit	4,258	3,648	6,345	5,386	6,510
Operating income / loss	1,531	720	3,349	1,923	3,009
Foreign Exchange profit / loss(※)	638	1,052	(1,537)	1,158	(135)
Ordinary income / loss	1,653	1,343	1,434	2,522	2,612

※Trends of Foreign Exchange Profit / loss in the Other income and expense

# Model of Business Flow (Impact of Foreign Exchange Fluctuation in Separate Accounting)

Foreign exchange fluctuation have no impact on actual profit under our basic business model.



**Accounting**

- Foreign exchange contract is signed (Rate as of (1) time)
- ※Following accounting treatment at the same time.
  - Foreign currency contract entered into with suppliers
  - Contract in yen amount entered into with customer

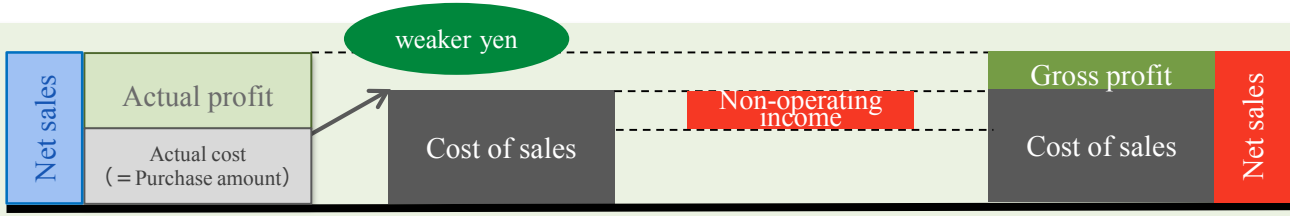
=Actual profit/loss and cost determined
- Recorded cost of sales = Actual rate of exchange (Rate as of (2) time)
- Exchange difference resulting from fluctuation between Rate (1) and (2) is recorded as foreign exchange gain/loss
- Recorded Sales (Contract in yen amount entered into at (1))

Product sold during the same financial period as that of the sales contract for the product  
 Sum the amounts from (1) to (4). The same amount as the actual profit/loss and cost at (1) is recorded.  
 Product is not sold during the same financial period as that of the sales contract for the product  
 The sales contract for the product, the part of the actual profit/losses will be recorded in the next financial period.

Currency Rate:  
**No change**

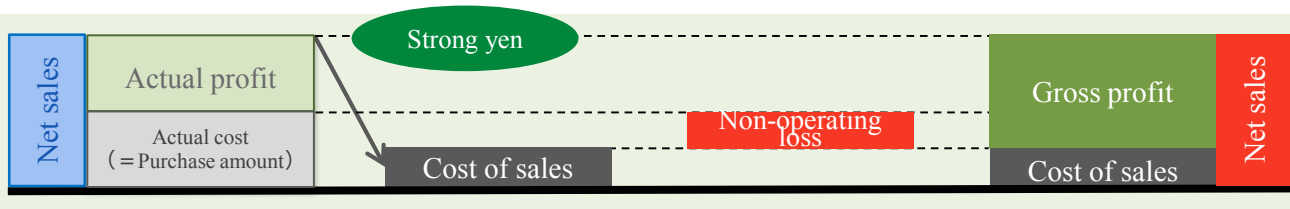


Currency Rate:  
**weaker yen**



The purchase price at (2) is higher than the amount of the forward exchange contract at (1).

Currency Rate:  
**yen appreciation**



Foreign exchange loss occurs. The purchase price at (2) is cheaper than the yen amount of the contract at (1).