



Financial Results for the Fiscal Year Ended November 2019 (FY2019/11)

January 21, 2020

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Consolidated Financial Results for FY2019/11 and Forecast for FY2020/11



Another year of record-high sales, ordinary income and net income

Consolidated net sales: Up 1.2% to 116,794 million yen

- Record-high sales due to higher sales volumes in the Dairy Ingredients and Cheese Business and the Asia Business
- Strong performance by the Asia Business, a key source of growth. Stability of the Dairy Ingredients and Cheese Business improved because of sales channel enlargement, including new customers (a priority of the past few years), and other progress.

Consolidated ordinary income: Up 5.1% to 2,746 million yen

- Ordinary income increased 134 million yen to 2,746 million yen, surpassing the all-time high of the previous fiscal year.
- An improvement in the product mix in the Dairy Ingredients and Cheese Business (higher sales volume of butter and processed products) and monetary and volume growth of Asia Business sales made big contributions to earnings growth.

FY2019/11 Consolidated Financial Results



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

	FY2018/11	FY2019/11		
		Actual	Difference	Ratio
Net sales	115,440	116,794	1,353	1.2%
Ordinary income	2,612	2,746	134	5.1%
Ordinary income ratio to net sales	2.3%	2.4%	0.1p	-
Foreign exchange fluctuation on ordinary income (*1)	(59)	(32)	-	-
Net income attributable to owners of the parent	1,784	1,963	178	10.0%
Net income ratio to net sales	1.5%	1.7%	0.2p	
Net income per share (*2)	182.31 yen	200.11 yen	17.8 yen	
Exchange rate (Yen/USD)	110.47	109.33	-	
Exchange rate (Yen/EUR)	130.91	122.63	-	
ROE	13.2%	13.0%		

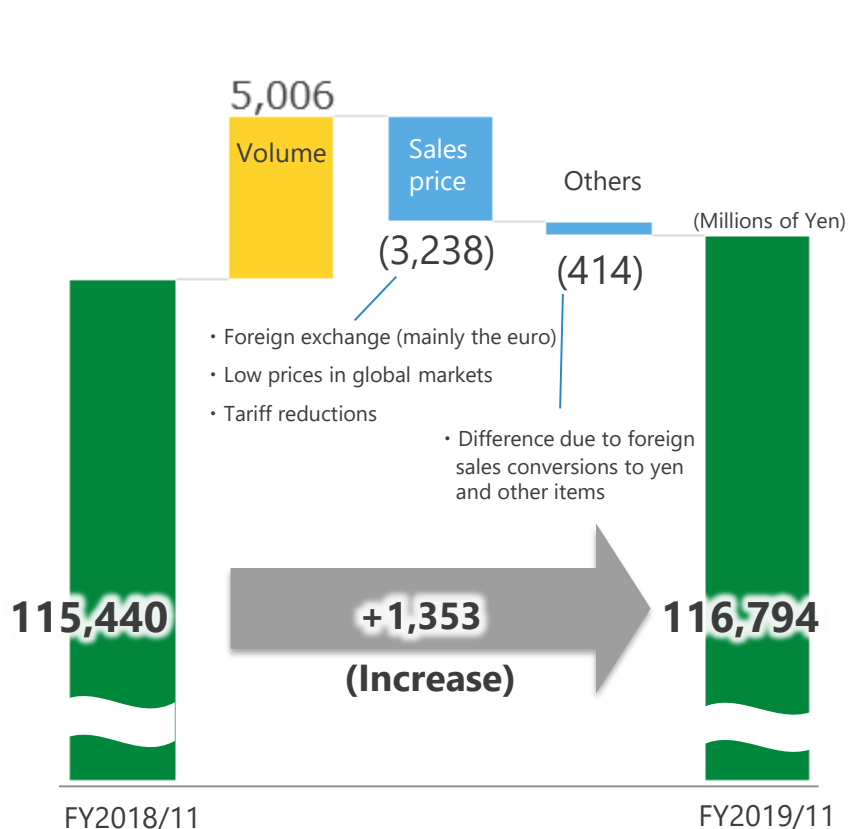
*1 Foreign exchange fluctuation on ordinary income: By applying "Separate accounting treatments," the total amount of the impact of foreign exchange hedging as sales costs and non-operating profit / losses. (Please refer P30-32)

*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 has been calculated accordingly.

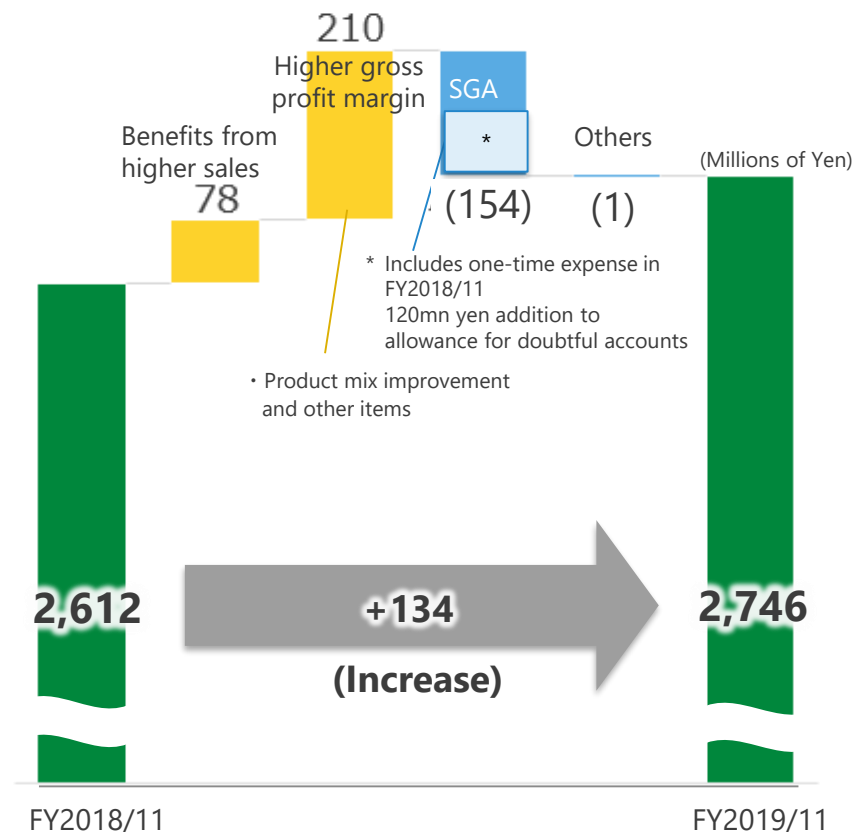
Analysis by Net Sales and Ordinary Income

In the Dairy Ingredients and Cheese Business, sales increased as sales volume growth offset price declines caused by tariff reductions due to free trade agreements, the yen's strength and other factors. Sales growth and a higher gross profit margin due to an improvement in the product mix were the primary reasons for the increase in ordinary income.

Consolidated net sales



Consolidated ordinary income



Net Sales and Sales Volume by Business

Big increases in sales volumes of both dairy ingredients and cheese in the Asia Business

Net sales by business

(Millions of Yen)

	FY2018/11	FY2019/11	Difference	Ratio
Dairy Ingredients and Cheese	85,290	85,206	(83)	(0.1)%
Meat Products	12,576	12,280	(295)	(2.4)%
Asia Business (Dairy Ingredients)	14,578	16,026	1,447	9.9%
Asia Business (Cheese)	2,116	2,651	534	25.2%
Others	878	630	(248)	(28.3)%

Sales volume by business

(t)

	FY2018/11	FY2019/11	Difference	Ratio
Dairy Ingredients and Cheese	198,445	204,105	5,660	2.9%
Meat Products	21,595	21,532	(63)	(0.3)%
Asia Business (Dairy Ingredients)	52,822	59,925	7,103	13.5%
Asia Business (Cheese)	2,668	3,737	1,069	40.1%

Consolidated Balance Sheets

(Millions of Yen)

	30-Nov-2018	30-Nov-2019	Difference
Current assets	46,337	45,774	(562)
Cash and cash equivalents	4,929	4,474	(454)
<u>Trade notes and accounts receivable</u>	<u>15,873</u>	<u>17,852</u>	<u>1,979</u>
<u>Inventories</u>	<u>25,216</u>	<u>22,946</u>	<u>(2,269)</u>
Others	318	501	182
Non-current assets	2,630	2,360	(270)
Property, plant and equipment	597	568	(28)
Intangible assets	39	29	(9)
Investment and other assets	1,994	1,761	(232)
Total asset	48,967	48,134	(832)
<u>Accounts payable</u>	<u>11,173</u>	<u>12,649</u>	<u>1,475</u>
Interest-bearing liabilities	20,948	17,641	(3,307)
Others	2,413	1,879	(533)
Liabilities	34,536	32,170	(2,365)
Net assets	14,431	15,964	1,532
Total liabilities	48,967	48,134	(832)

(Amounts less than one million yen are omitted)

Main factors

- **Increased trade notes and accounts receivable**
 - The receipt of some receivables was delayed to the next FY because the end of FY2019/11 was a weekend.
- **Decreased inventories**
 - Ingredients purchased in FY2018/11 early for a customer were sold in FY2019/11.
 - The yen's strength, tariff reductions and other factors lowered the value of inventories (cheese).
- **Increased accounts payable**
 - Just as for receivables, increased because the end of FY2019/11 was a weekend

(Millions of Yen)

	FY2018/11	FY2019/11	Difference
Cash flows from operating activities	356	3,365	3,009
Cash flows from investing activities	(863)	848	1,712
Cash flows from financing activities	989	(3,694)	(4,684)
Effect of exchange rate changes on cash and cash equivalents	7	(49)	(57)
Net change in cash and cash equivalents	489	469	(20)
Cash and cash equivalents at beginning of year	2,987	3,477	489
Cash and cash equivalents at end of year	3,477	3,946	469

(Amounts less than one million yen are omitted)

Main factors

- **Improved cash flows from operating activities**
 - End of FY2019/11 was a weekend
 - Decrease in inventories
 - Proceeds from sales of receivables
- **Cash in from investing activities**
 - Proceeds from time deposits
- **Cash out from financing activities**
 - Decrease in interest-bearing debt due to the repayment of loans

- **Continuation of the medium-term decline in Japan of raw milk production.**
- **Increase in competitive superiority for the procurement activities of the Lacto Japan global network because of TPP11, the Japan-EU EPA, Japan-US trade agreement and other new free-trade frameworks.**
- **In the Dairy Ingredients and Cheese Business, more progress with adding new businesses and customers and increasing business volume, including for sales of imported dairy ingredients for beverages and animal feed. Most significantly, anticipate higher volume of business due to the increasing need to replace dairy ingredients produced in Japan with imported ingredients.**
- **More growth in Asia, where demand for dairy products remains very strong, by reinforcing sales operations and expanding sales channels.**

Consolidated sales: Up 11.3% to 130 billion yen

- In Japan, sales of competitively priced imported dairy ingredients and upgrading ability to provide ideas for new products.
- In Asia, a market that continues to expand, the goal is monetary and volume sales growth by increasing the sales operations and competitiveness of both the Dairy Ingredients Sales and Cheese Manufacture and Sales.

Consolidated ordinary income: Up 9.2% to 3 billion yen

- Forecast continuation of sales volume growth in all businesses.
- Expect higher earnings due to sales of more value-added products and, in the Asia Business, growth of the Cheese Manufacture and Sales.

FY2020/11 Consolidated Forecast



(Millions of Yen)

	FY2019/11 Actual	FY2020/11 Forecast		
		Forecast	Difference	Ratio
Net sales	116,794	130,000	13,205	11.3%
Ordinary income	2,746	3,000	253	9.2%
Ordinary income ratio to net sales	2.4%	2.3%	(0.0)p	-
Net income attributable to owners of the parent	1,963	2,100	136	7.0%
Net income ratio to net sales	1.7%	1.6%	(0.1)p	-
Net income per share	200.11 yen	213.80 yen	13.69 yen	
Dividend per share	22 yen	30 yen	8 yen	

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

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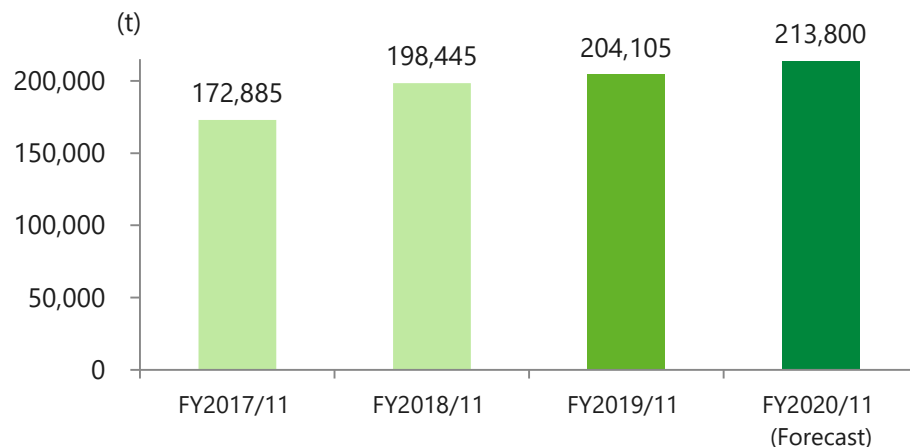
Business Information



Net sales and sales volume

	FY2018/11	FY2019/11			FY2020/11 (Forecast)		
	FY	FY	Difference	Ratio (%)	FY	Difference	Ratio (%)
Net sales (Millions of Yen)	85,290	85,206	(83)	(0.1)	91,750	6,543	7.6
Sales volume (t)	198,445	204,105	5,660	2.9	213,800	9,694	4.7

Sales volume



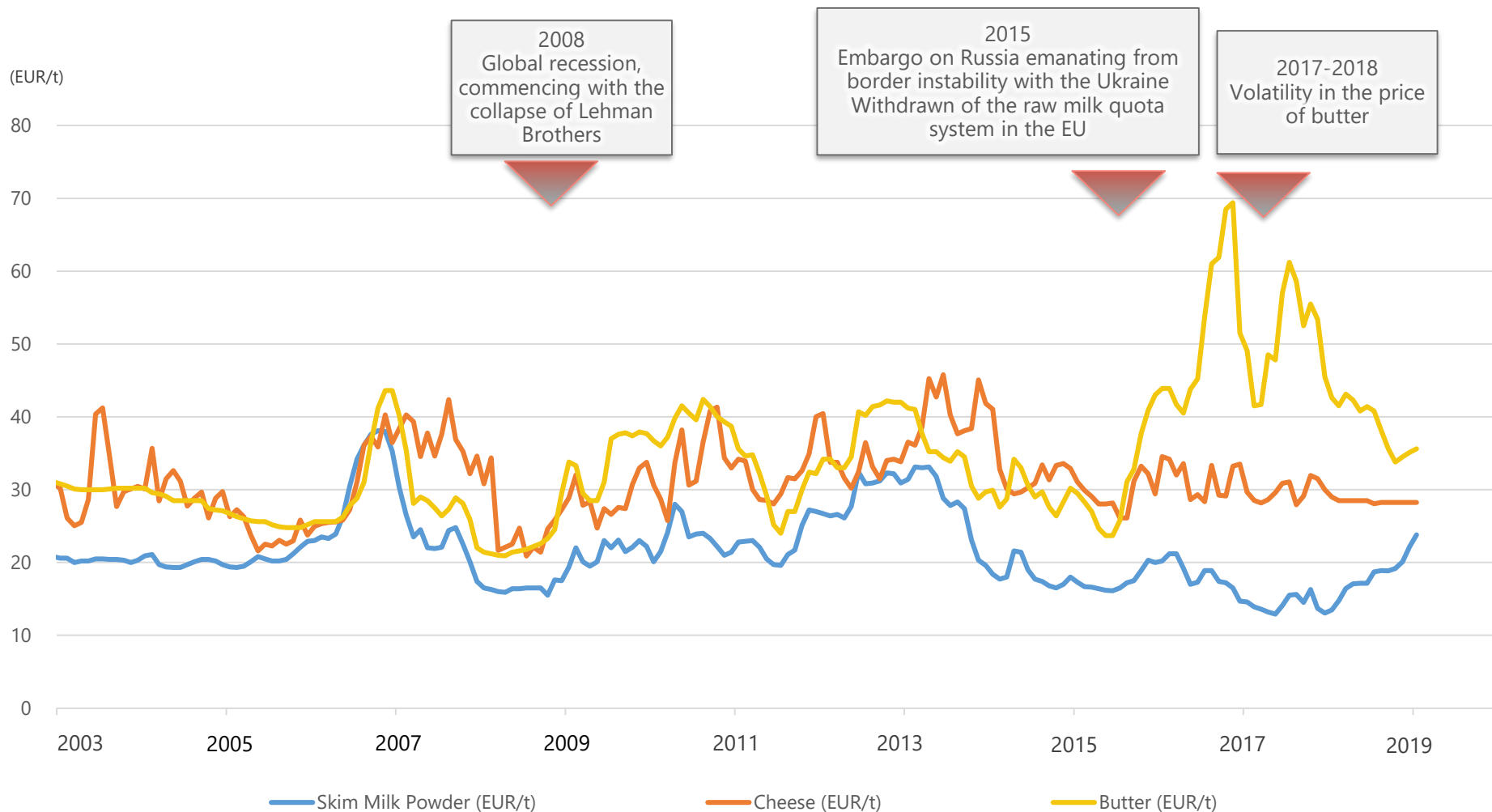
Summary

FY2019/11 highlights

- ◆ Demand in Japan for imported dairy ingredients increased because of the start of new free-trade systems like TPP11 and the Japan-EU EPA. However, there were a number of negative influences on the business climate. Skim milk powder inventories in Japan were high throughout the FY and demand for some finished products (ice cream, beverages and other items) was weak due to cool and wet weather during the first part of summer.
- ◆ Sales increased because of higher demand for imported dairy ingredients as well as the expansion and diversification of the customer base resulting from activities during the past several years to enlarge sales channels.

Current business climate

- ◆ Skim milk powder inventories remain high, partly because the yogurt boom has peaked. But there are signs of a recovery, such as increasing purchases of skim milk powder by some customers.
- ◆ Anticipate continuation of strong demand in Japan for imported butter because of low international butter prices, differences between butter prices in Japan and other countries and other reasons.
- ◆ Cheese sales, which were briefly weak in FY2019/11, are currently strong.

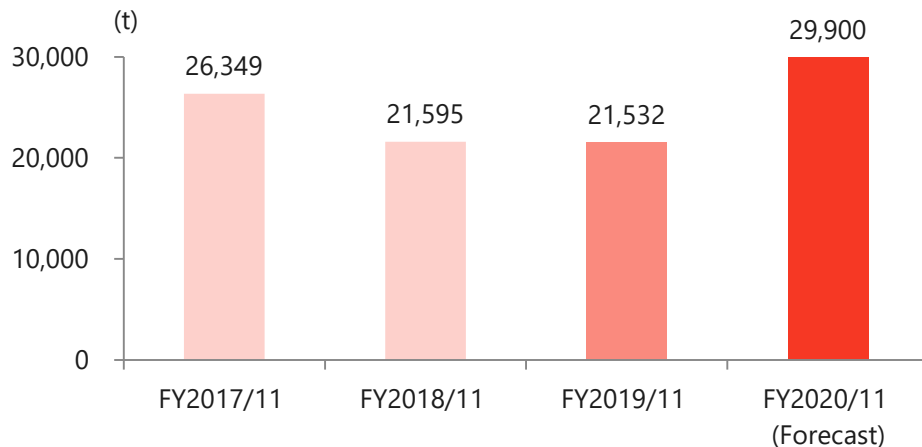


Source: Prepared by Lacto Japan based on data from Alic

Net sales and sales volume

	FY2018/11	FY2019/11			FY2020/11 (Forecast)		
	FY	FY	Difference	Ratio (%)	FY	Difference	Ratio (%)
Net sales (Millions of Yen)	12,576	12,280	(295)	(2.4)	16,000	3,719	30.3
Sales volume (t)	21,595	21,532	(63)	(0.3)	29,900	8,367	38.9

Sales volume



Summary

FY2019/11 highlights

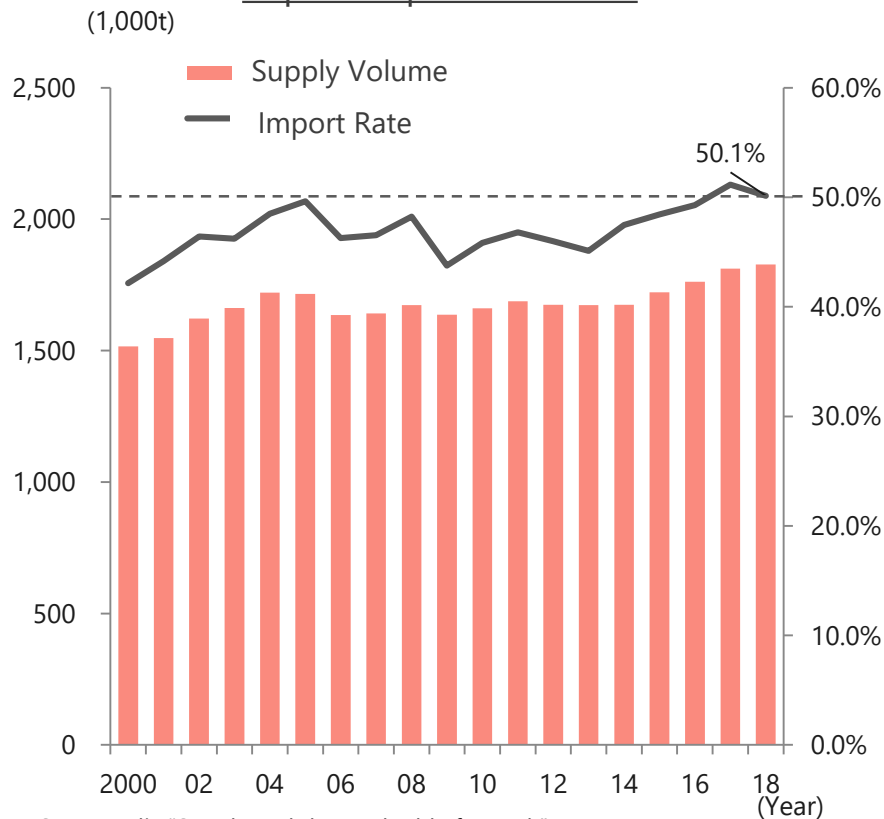
- ◆ In the first half of the FY, there was an increase in the volume of imported pork, which has established a firm position in Japan and pork production in Japan increased after declining in prior years. The result was a surplus of pork in Japan and slower sales of finished pork products.
- ◆ In the second half, there were outbreaks of classical swine fever in Japan and African swine fever in China and expectations for US-China trade friction to decline. Prices of pork produced in the US and other countries increased and there were signs of a decline in the excess supply problem in Japan. These events along with measures to further diversify the product lineup resulted in the start of a recovery in the Meat Products Business.

Current business climate

- ◆ This business, which procures most of its meat from the US, will benefit from the Japan-US trade agreement that started in 2020 because of the ability to offer competitive prices.
- ◆ This business will continue to closely monitor developments involving classical swine fever, US-China trade agreements and other events.

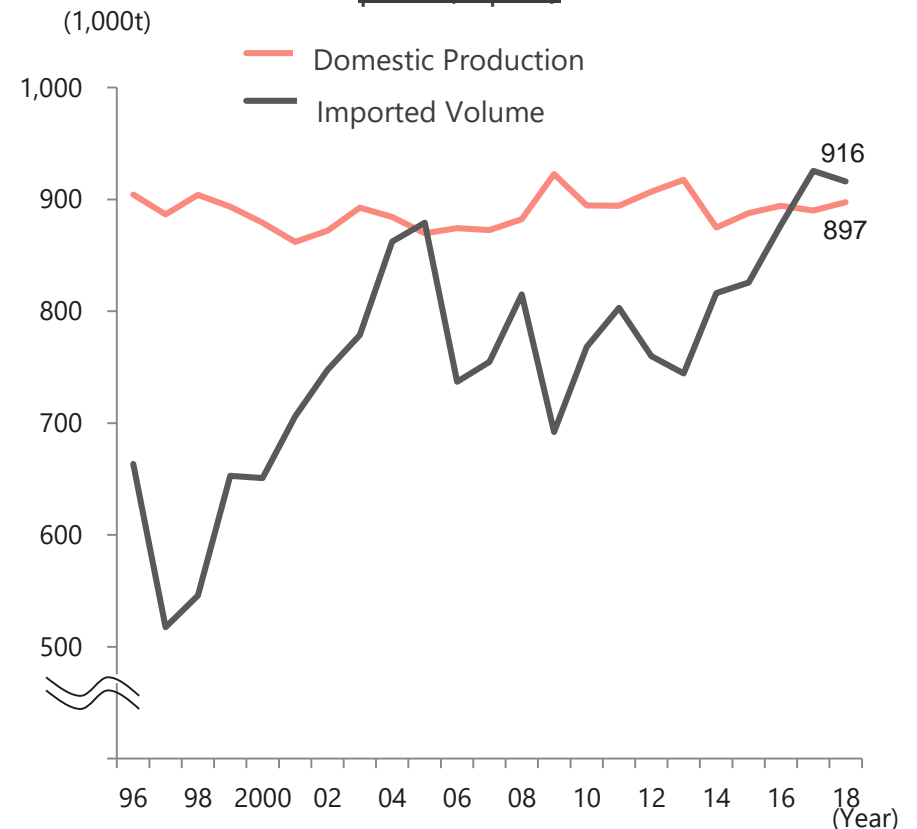
Demand for imported pork is consistently high with the import share above 50%

Pork demand (supply volume) and imported products ratio



Source: Alic "Supply and demand table for Pork"

Production volume and import volume of pork (Japan)

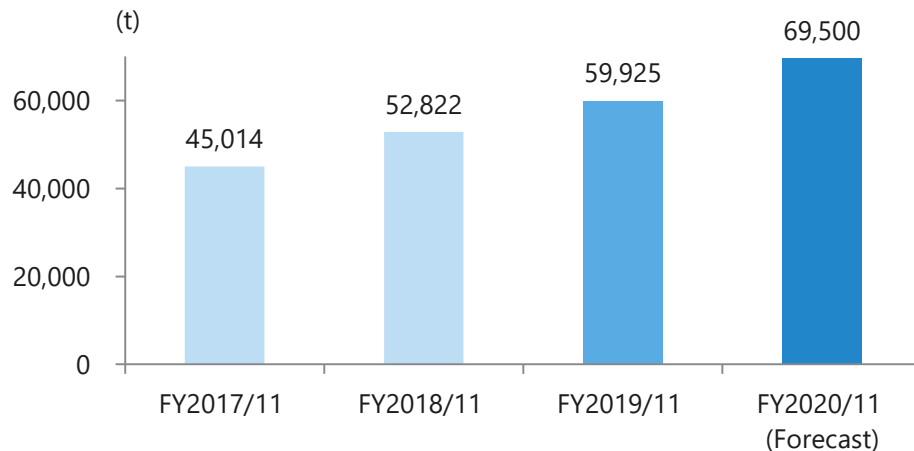


Source: Alic "Supply and demand table for Pork"

■ Net sales and sales volume

	FY2018/11	FY2019/11			FY2020/11 (Forecast)		
	FY	FY	Difference	Ratio (%)	FY	Difference	Ratio (%)
Net sales (Millions of Yen)	14,578	16,026	1,447	9.9	18,950	2,923	18.2
Sales volume (t)	52,822	59,925	7,103	13.5	69,500	9,574	16.0

■ Sales volume



■ Summary

FY2019/11 highlights

- ◆ The Oceania region has supplied dairy ingredients to Asian countries for many years. But milk production in this region is decreasing because of climate change and exports are declining too. Furthermore, the price of skim milk powder, the primary product, increased during FY2019/11. The Lacto Japan Group responded by using its global supply network to target opportunities created by this situation in Asia for replacing Oceania exports with dairy ingredients from Europe and North America.
- ◆ Sales were higher in overseas markets, particularly in the Philippines. In September 2019, the Lacto Japan Group established a sales subsidiary in the Philippines and plans to continue to increase sales activities in this country.

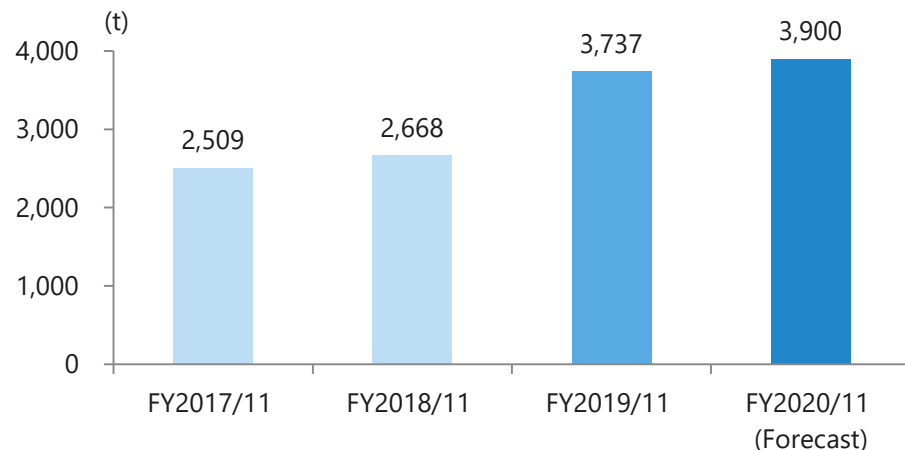
Current business climate

- ◆ The market for dairy products is increasing steadily in Asia as incomes climb and more people prefer European and American food. Demand for dairy ingredients is expected to remain strong as a result.
- ◆ The volume of dairy ingredients supplied by the Oceania region is very likely to continue to decrease. This decline will create more opportunities for growth in Asia for the Lacto Japan Group because of its global network for the supply of dairy ingredients.

■ Net sales and sales volume

	FY2018/11	FY2019/11			FY2020/11 (Forecast)		
	FY	FY	Difference	Ratio (%)	FY	Difference	Ratio (%)
Net sales (Millions of Yen)	2,116	2,651	534	25.2	2,800	148	5.6
Sales volume (t)	2,668	3,737	1,069	40.1	3,900	162	4.4

■ Sales volume



■ Summary

FY2019/11 highlights

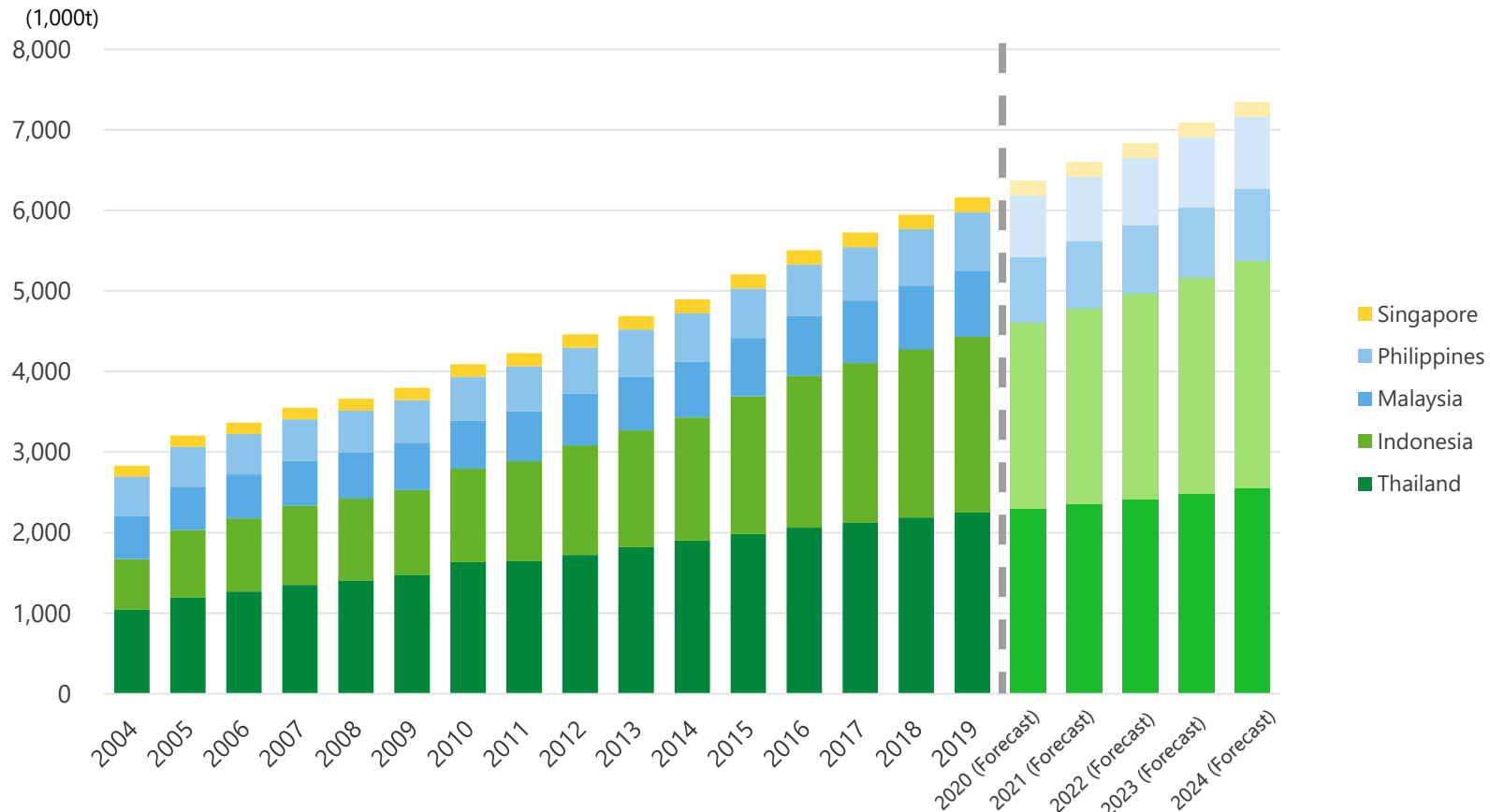
- ◆ Cheese sales increased significantly as the demand for cheese continued to grow in Asia. Higher sales were the result of the development of products that matched customers' requirements regarding functions and price, increased sales activities, and other actions. In Thailand, a key market for this business, sales were higher in the foodservice category and, through agents, in the food processing company sector.

Current business climate

- ◆ Demand for cheese in Asia is expected to remain strong as the consumption of European and American food increases.
- ◆ Competition is intense among processed cheese producers in Europe and Oceania and the increasing number of Asian companies that are starting to make this cheese. The Lacto Group plans to become more price competitive by using its procurement skills to supply safe, low-cost dairy ingredients. Another goal is to continue increasing sales by developing products that target customers' needs.

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.

3

New Corporate Business Plan “NEXT-LJ2022”



**New Corporate Business Plan
"NEXT-LJ2022"
Basic policy**

**Build next
generation
business
related to milk**

**Expand business in
fast-growing
markets in Asia**

**Seek further opportunities in
existing businesses, and
expand customer base
through new business
development**



I Ideas for new products backed by a diverse range of suppliers

→ Use competitive pricing, information and innovative ideas for increasing sales to companies in Asia



I Increase the scale of operations (for dairy ingredients and cheese)

→ Business growth by enlarging sales channels and handling a larger number of items



I Higher factory operating rates in Singapore and Thailand

→ Growth of the Cheese Manufacture and Sales and higher profitability



I New customers and expansion of sales channels

→ Increase sales to beverage and animal feed companies

→ More relationships with Japanese dairy product producers in areas other than major metropolitan areas by strengthening ties with regional wholesale firms



I Diversification of suppliers

→ Start using suppliers in emerging dairy product countries such as India and countries in eastern Europe

→ Start using pork suppliers in Europe in addition to the current suppliers in the United States and Canada



I Enlarge the product lineup

→ Increase the volume of primary processed food ingredients and products, supply an even broader range of meat



Medium-term targets have been achieved and sales and earnings are growing faster than expected. New businesses in Japan and other countries are making a big contribution to growth.

Business climate

Strong demand in Japan for imported dairy ingredients

Shift from domestic to imported products due to declining raw milk production in Japan

Growth of markets in Asia

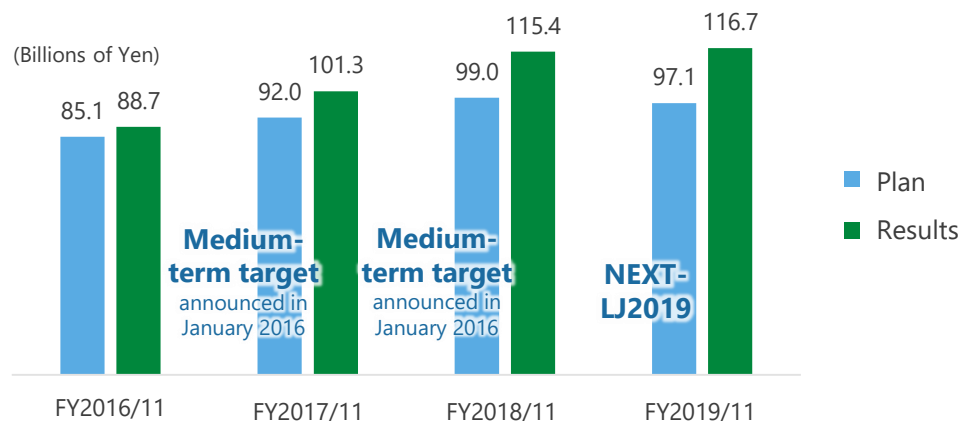
Structural changes in locations of suppliers

Firmly established demand for imported pork

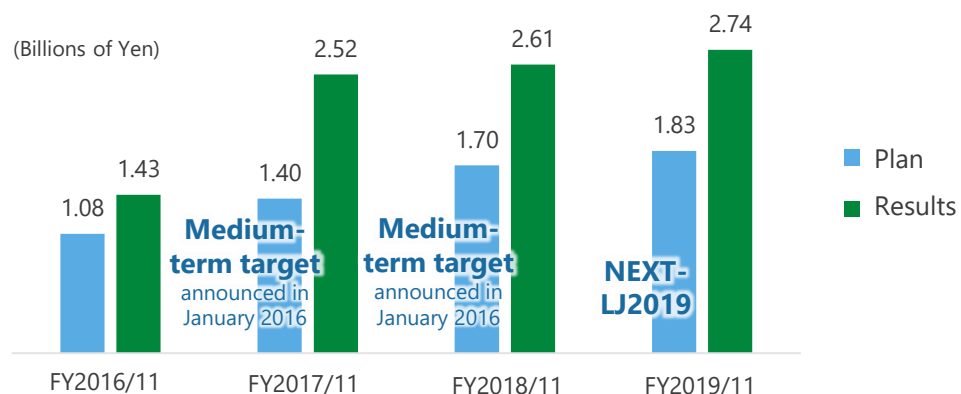
More than 50% of total supply volume in Japan

Changes in Japan's pork production and pork market due to swine diseases

Net sales

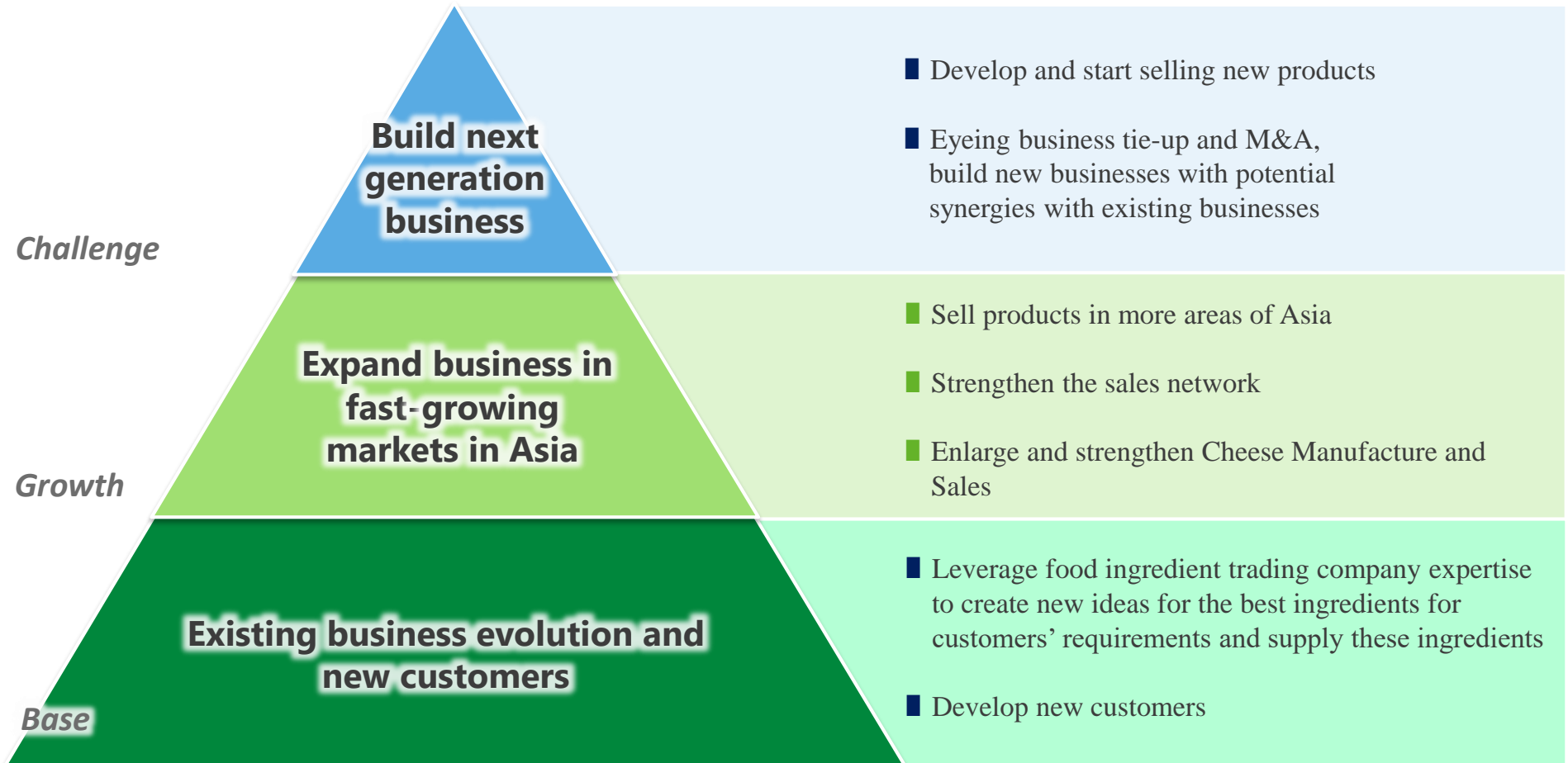


Ordinary income



Note: Medium-term plan targets are the plan's "after 3 years" targets.

The evolution of business with current customers and creation of next-generation businesses of the Lacto Japan Group



New Corporate Business Plan "NEXT-LJ2022": Numerical Targets

	FY2019/11 Actual		FY2022/11 Target	% change
Net sales	116.7 billion yen		141.0 billion yen	+20.7%
Ordinary income	2.74 billion yen	▶▶	3.5 billion yen	+27.7%
Consolidated net income attributable to owners of the parent	1.96 billion yen		2.5 billion yen	+27.4%

* Targets are consolidated sales and earnings

* This is a rolling medium-term plan with targets every year for 3 years later

Business climate

- Medium-term continuation of shortage of dairy ingredients produced in Japan
- Firm sales of imported ingredients due to tariff cuts and Japan/foreign price gap
- Progress with development of new ingredients (more advanced processing, more and better functions)
- More structural changes in locations of suppliers
- Increasing need for processed food products due to labor shortage and other reasons
- Growth of the dairy products market in Asia

Assumptions for numerical targets

- No change in the basic scenario, but a small revision in prices of products due to tariffs and other factors
- Expect more growth as well as some expenses to support growth, including increased recruiting and training activities

Existing business evolution and new customers

- Evolution of business with existing customers
- Business activities utilizing free trade agreements
- Continue to seek new suppliers
- Develop new customers

Expand business in fast-growing markets in Asia

- Expand sales channels for dairy ingredients and cheese
- Use the Lacto Approach* to increase sales to existing customers
- Enlarge and strengthen Cheese Manufacture and Sales

Build next generation business

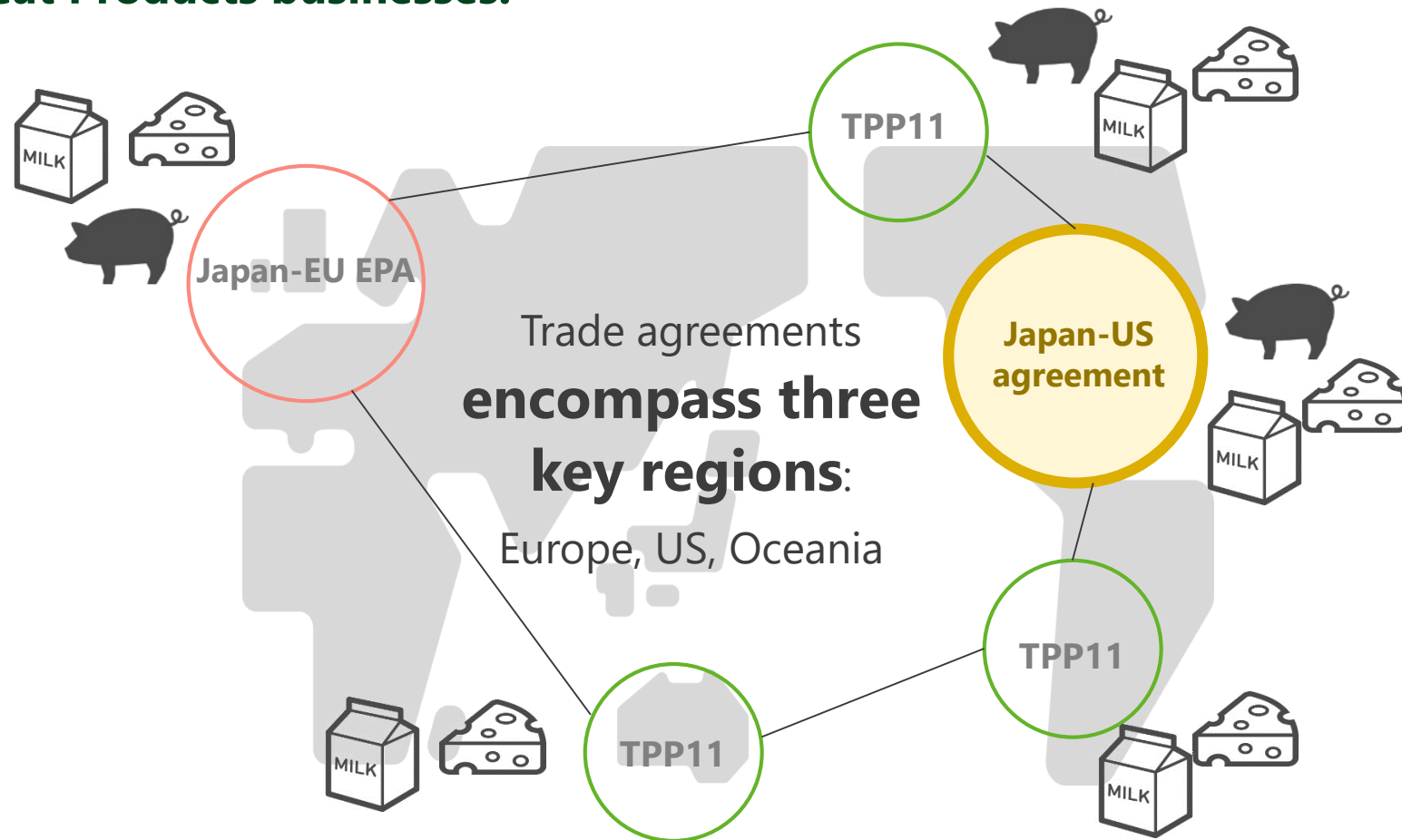
- Develop and start selling new products
New product development themes: Functional dairy ingredients, processed food, healthcare ingredients
- Add businesses that have significant synergies with existing operations

A sound foundation for sustained growth

- Larger and more skilled workforce, training activities
- Strengthen corporate governance
- Sustainable management

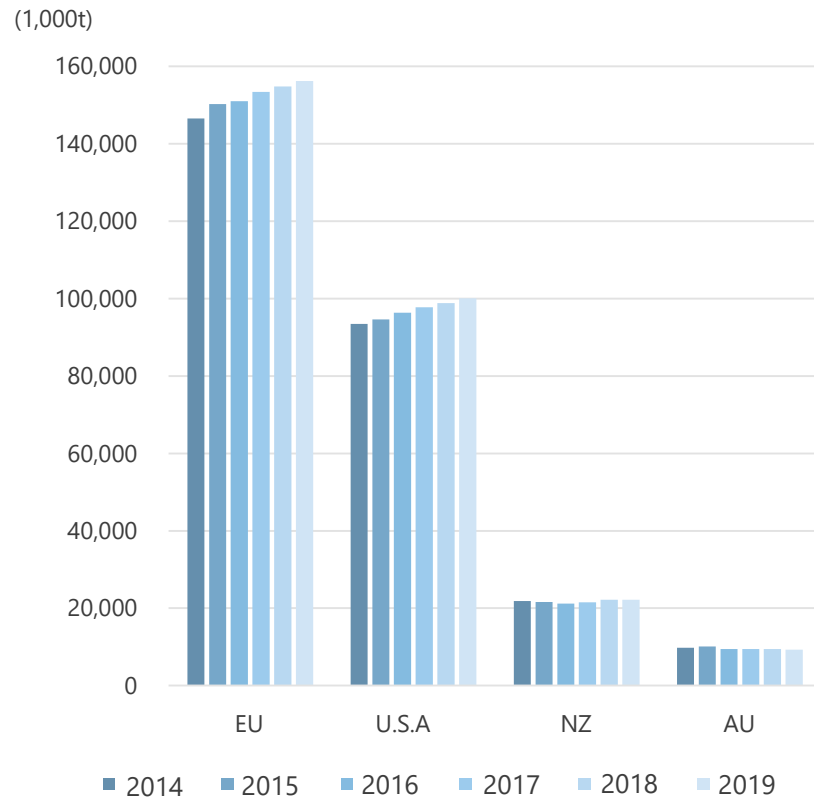
* Lacto Approach: This is a style of management that has the goal of precisely targeting the needs of customers in Japan that Lacto Japan has served for many years. Accomplishing this involves the use of a global supply network for the provision of information and the reliable supply of quality ingredients. Meeting customers' needs also entails the provision of a variety of knowledge and expertise by a team of professionals.

The start of the Japan-US trade agreement means that Lacto Japan can utilize all major sources of dairy products and meat worldwide. As a result, the new agreement creates benefits for the Dairy Ingredients and Cheese and Meat Products businesses.



The agreement makes Lacto Japan even more competitive due to the group's strong supply lines in the United States.

Selected milk producing countries and EU



Source: Japan Dairy Association "Production of Major Milk Producing Countries (2018)"

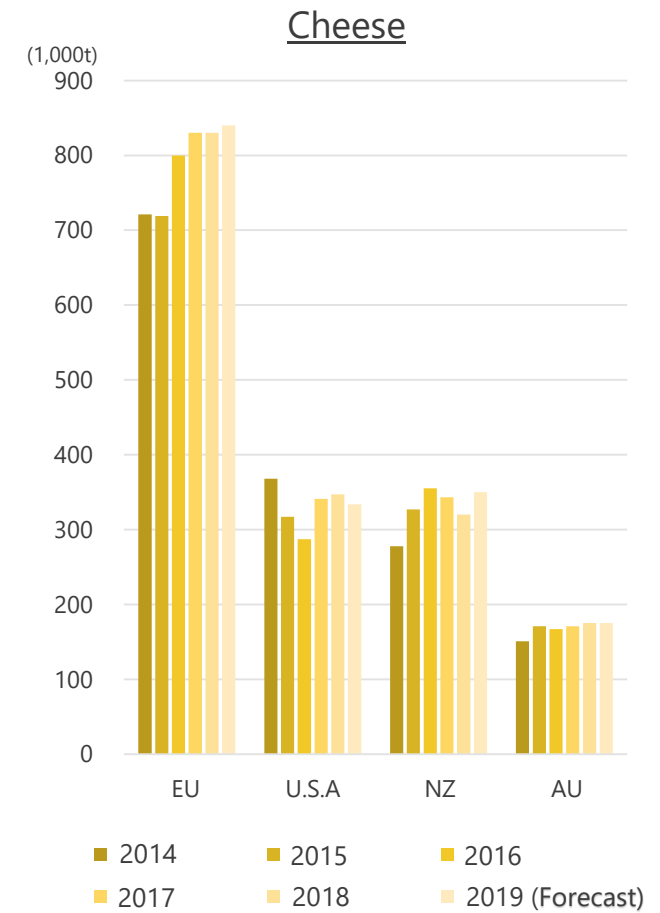
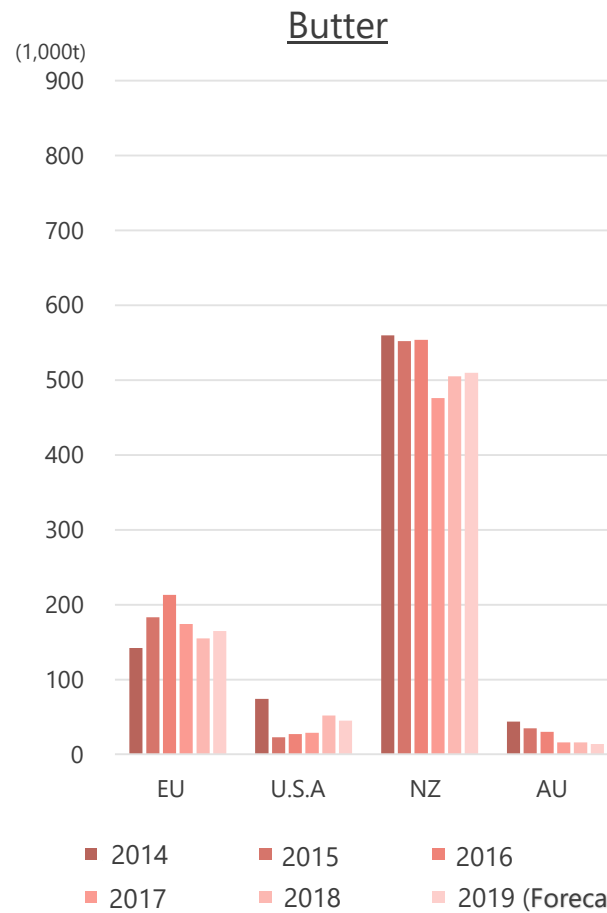
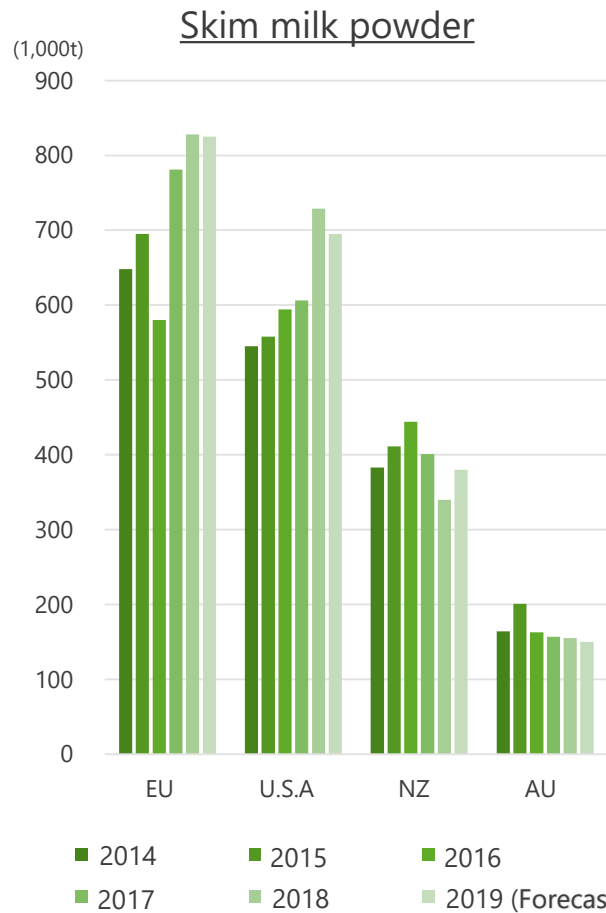
Strong relationships with US suppliers backed by years of business ties

- Lacto Japan is Japan's largest importer of U.S. dairy ingredients
- The United States is the Lacto Japan's largest source of chilled and frozen pork

Big potential of the United States as a supplier of dairy ingredients and cheese

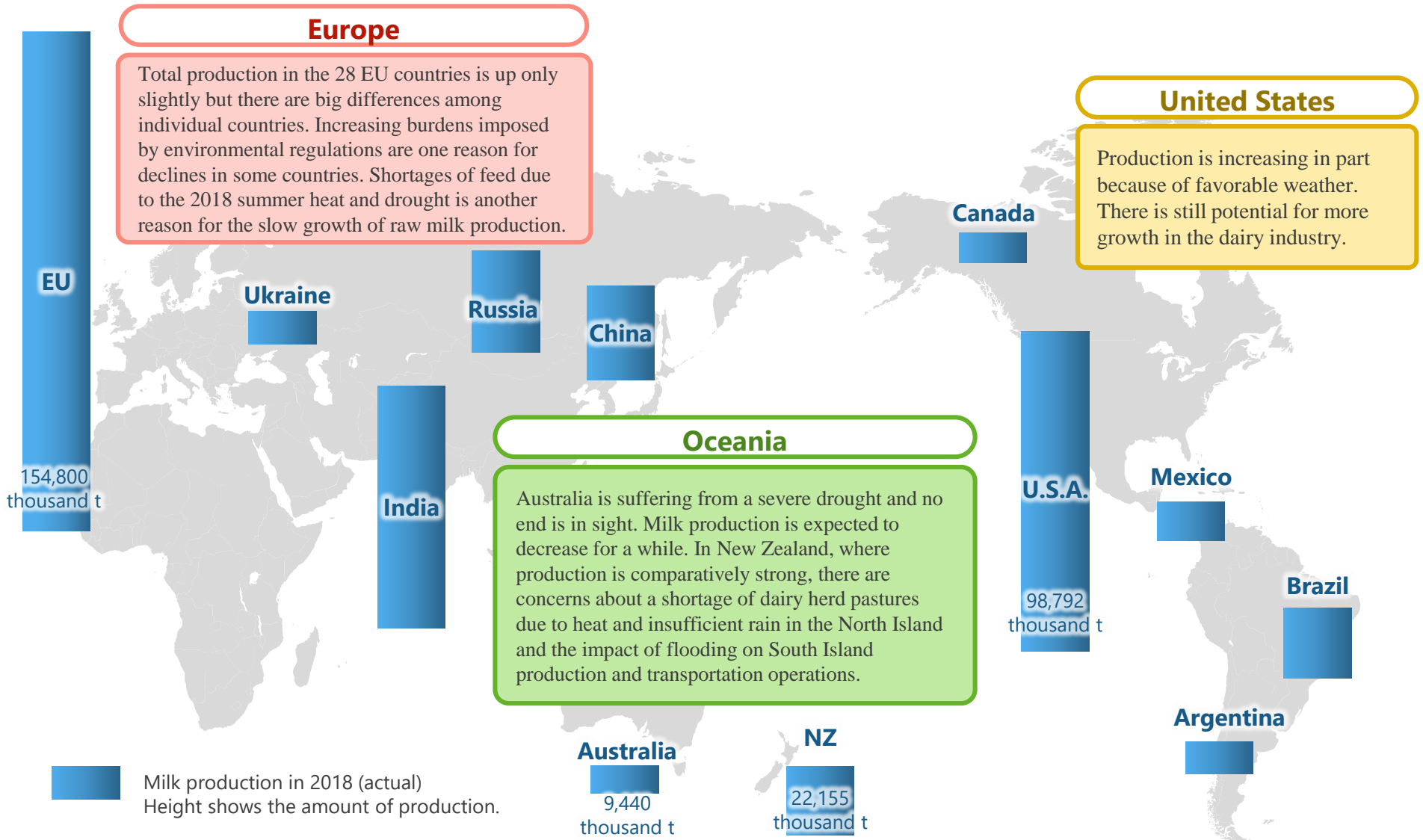
- The world's second-largest raw milk producer after the EU
- US raw milk production is increasing
- Significant potential for growth of the US dairy industry (ample land, water and other resources, large supplies of animal feed at a low cost)
- US West Coast dairy farms and dairy product manufacturers are very interested in increasing exports to Asia

Topics – Dairy Product Exports of Selected Milk Producing Countries and EU



Source: U.S. Department of Agriculture "Dairy: World Markets and Trade" and Japan Dairy Association "Production of Major Milk Producing Countries (2018)" 2019 forecasts are based on data from Japan Dairy Association

Milk Production in Major Countries and Regions



Source: U.S. Department of Agriculture "Dairy: World Markets and Trade"
 Japan Dairy Association "Production of Major Milk Producing Countries (2018)"

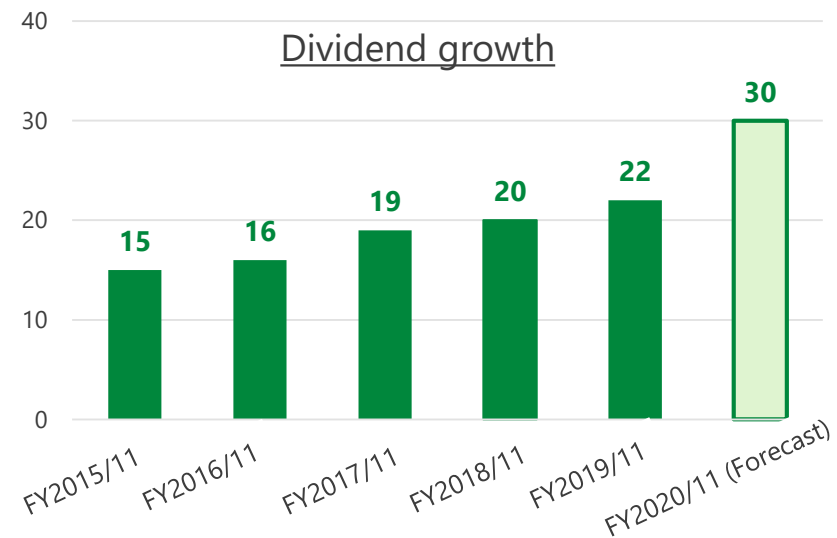
Outlook for medium-term use of funds

- Investments for growth of Cheese manufacture and Sales in Asia
 - Purchase of equipment and other facilities (Production line expansion, new factories and other projects)
- Further increase in financial soundness
 - Increase equity to build a sound base for the diversification of business operations (transition from a trading company model to a combination of trading and manufacturing)
 - *Raise the equity ratio from the high-30% level to about 40%
- Use funds to start new businesses

Dividend policy

Distributing earnings to shareholders is one of the highest priorities of Lacto Japan. The basic policy is to pay dividends in a stable and consistent manner.

The basis for the dividend policy is “stable dividends and higher dividends” while using funds as needed for medium to long-term growth that contributes to the growth of corporate value. In addition, Lacto Japan has the goal of making further increases in the dividend payout ratio.



Note: Annual dividends have been adjusted for the 2-for-1 stock split on May 1, 2019.

Reference Information

The risk of foreign exchange fluctuation



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

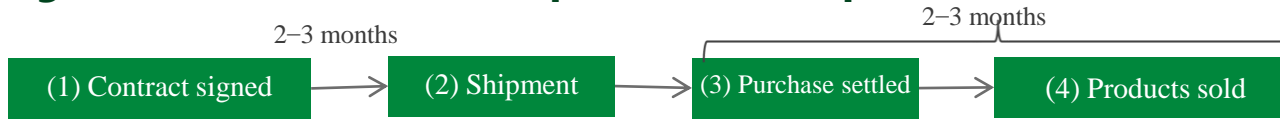
- Under Lacto Japan's basic business model, Lacto Japan enters into sales contracts with domestic customers at the same time as entering into foreign currency purchase contracts with overseas suppliers.
- By entering into a forward exchange contract with a financial institution upon concluding a contract 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.)

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)
- 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))

* 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

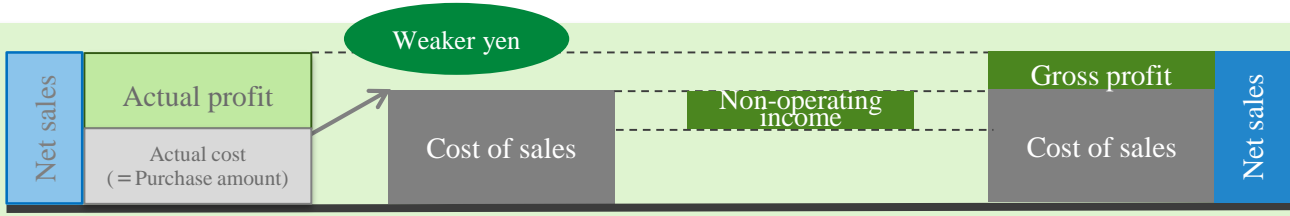
Products sold during the same financial period as that of the sales contract for the product:
 Sum the amounts from (1) to (4). The same amount as the actual profit/loss and cost at (1) is recorded.

Products 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

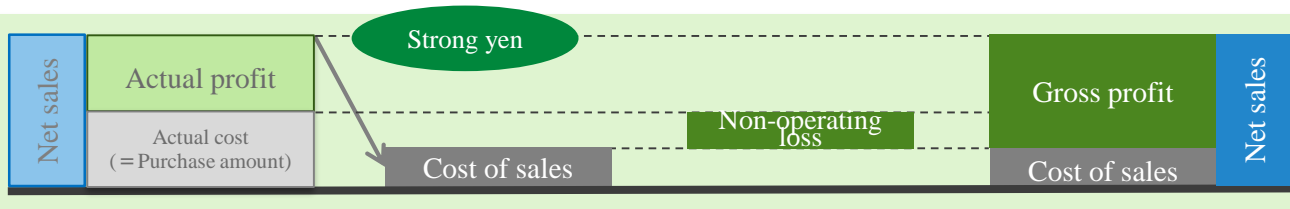


Currency Rate:
Weaker yen



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).