



FY2021 First Half
Financial Results
Briefing
July 2021

Lacto Japan Co., Ltd.

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and Revision of Full-Year Earnings Forecasts** P. 3
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FY2021 First Half Financial Results and Revision of Full-Year Earnings Forecasts



Although the severe business environment continued due to the impact of the prolonged COVID-19 pandemic, we limited the YoY declines in net sales and profit and profit exceeded our initial forecast.

Consolidated Net Sales: -9.1% YoY / -4.3% vs. initial forecast

- In the Dairy Ingredients and Cheese Business Division, the issuance of a series of state of emergency declarations and other factors delayed the reduction of domestic dairy ingredients inventories, resulting in a decrease in bids from the Agriculture and Livestock Industries Corporation ("ALIC") and sales to major dairy companies. However, the impact was kept to a minimum by making use of low-rate tariff quotas under the TPP, the Japan-EU EPA, etc. and by selling domestic dairy ingredients.
- The Meat Products Business Division performed strongly, as we captured home meal demand, and sales increased YoY.
- In the Asian Business Division, although sales of dairy preparation ingredients for the Japanese market decreased in the Dairy Ingredients Sales Business, the Cheese Manufacturing and Sales Business performed well.

Consolidated Ordinary Income: -1.5% YoY / +28.4% vs. initial forecast

- Although profit decreased YoY, the profit margin improved due to the supply of price-competitive products using our strength in procurement, amid rising international market prices, and the strong performance of the Cheese Manufacturing and Sales Business in Asia. Profit increased substantially versus our initial forecast.
- During the first half under review, there was a negative foreign exchange impact on ordinary income of ¥59 million, and after factoring this in, ordinary income increased 3.9% compared to the same period of the previous year.

FY11/2021 First Half Financial Results



(Millions of Yen)

	FY11/2020 1 st Half	Initial Forecast	FY11/2021 1 st Half		
			Actual	YoY Change (%)	vs. Initial Forecast Change (%)
Net sales	57,912	55,000	52,648	-9.1	-4.3
Ordinary income	1,433	1,100	1,412	-1.5	+28.4
Ordinary income ratio	2.5%	2.0%	2.7%	—	—
(Foreign exchange impact on ordinary income*)	(17)	—	(-59)	—	—
Net income attributable to owners of the parent	1,040	800	1,010	-2.8	+26.4
Net income ratio	1.8%	1.5%	1.9%	—	—
Net income per share (Yen)	105.81	81.00	102.52		
Exchange rate (Yen/USD)	108.55	—	106.65		
Exchange rate (Yen/EUR)	119.33	—	128.73		

Note: Amounts have been rounded down to the nearest million yen, and the ratios have been rounded to the first decimal place.

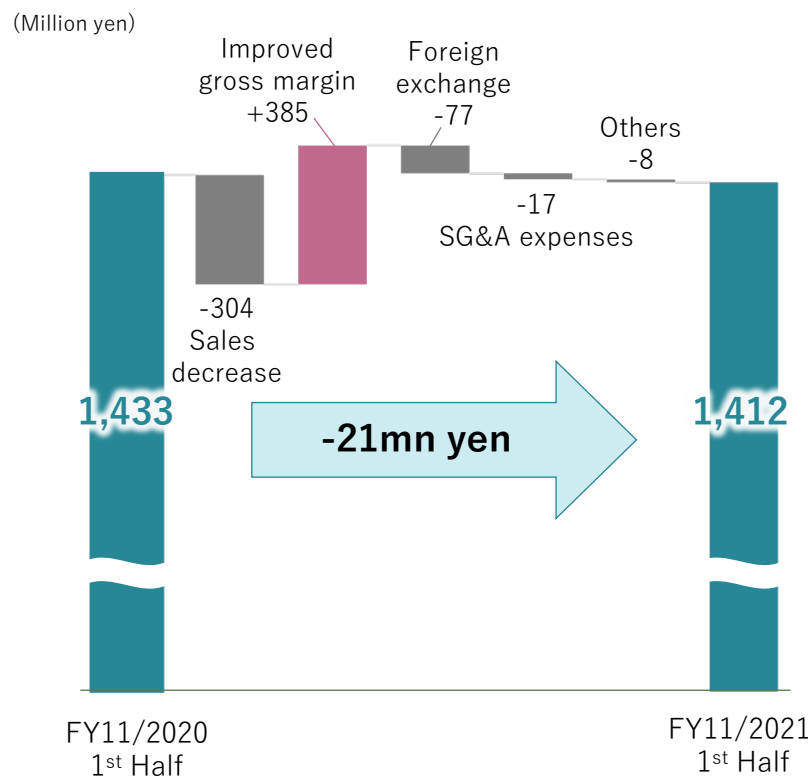
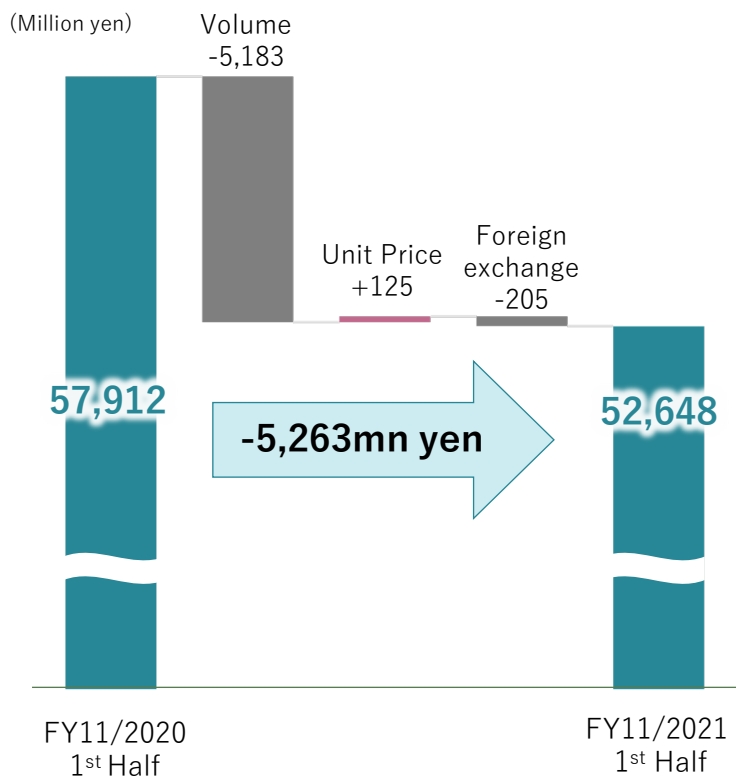
*Foreign exchange impact on ordinary income: As Lacto Japan applies "Separate accounting treatments," the impact of foreign exchange hedging is recorded in both cost of goods sold and non-operating income/loss. Therefore, the amount of impact of foreign exchange hedging on both cost of goods sold and non-operating income/loss is shown. (Please refer to P. 32-34)

Sales declined mainly due to a decrease in sales volume.

In the case of ordinary income, the impact of decreased sales was offset by an improvement in the gross margin and other factors.

□ Net sales

□ Ordinary income



Consolidated Balance Sheets



(Millions of Yen)

	FY11/2020-end	May 2021-end	Difference
Current assets	40,623	43,797	3,174
Cash and cash equivalents	5,004	5,273	268
Trade notes and accounts receivable	13,849	14,569	719
Inventories	21,383	23,387	2,003
Other	386	567	181
Non-current assets	2,746	2,754	8
Property, plant and equipment	690	691	0
Intangible assets	20	22	2
Investment and other assets	2,035	2,040	5
Total assets	43,369	46,552	3,182
Accounts payable	9,739	11,045	1,305
Interest-bearing liabilities	14,314	15,315	1,001
Other	1,724	1,471	-252
Total liabilities	25,777	27,831	2,053
Net assets	17,592	18,720	1,128
Total liabilities and net assets	43,369	46,552	3,182

Note: Amounts of less than one million yen have been rounded down and the breakdown shows only major items.

Major factors of change

Increase in inventories

Increase in products related to the Project to Mitigate Supply and Demand Conditions for Domestic Dairy Ingredients and increase in customer-oriented products using the TPP and Japan-EU EPA

Increase in accounts payable

As in the case of the reason for the increase in inventories, this was caused by an increase in purchases of customer-oriented products.

Increase in interest-bearing liabilities

In line with the increase in working capital, we diversified our financing methods and issued CP while reducing borrowings.

(Million yen)

	FY11/2021 1 st Half
Cash flows from operating activities	-283
Cash flows from investing activities	-102
Cash flows from financing activities	539
Effect of exchange rate changes on cash and cash equivalents	115
Change in cash and cash equivalents	268
Cash and cash equivalents at beginning of period	4,508
Cash and cash equivalents at end of period	4,777

Major factors of change

Decrease in cash flows from operating activities

Increase in accounts receivable and inventories related to the Project to Mitigate Supply and Demand Conditions

Decrease in cash flows from investing activities

Investment related to renovation of Singapore plant, etc.

Increase in cash flows from financing activities

Although borrowings were repaid and corporate bonds were redeemed, financing cash flow increased due to the issuance of commercial paper and other factors.

Note: Amounts of less than one million yen have been rounded down and the breakdown shows only major items.

Ordinary income forecast was revised upward. Ordinary income is projected to increase for the sixth consecutive fiscal year.

(Million yen)

	FY11/2020 Actual	FY11/2021			
		Initial Forecast	Revised Disclosed on 13 July	YoY Difference	YoY Change (%)
Net sales	110,837	115,000	115,000	+4,162	+3.6
Ordinary income	2,780	2,600	2,810	+29	+1.0
Ordinary income ratio (%)	2.5	2.3	2.4	—	—
Net income attributable to owners of the parent	2,062	1,850	2,010	-52	-2.6
Net income ratio (%)	1.9	1.6	1.7	—	—
Net income per share (Yen)	209.47	187.31	204.11	-5.36	
Dividends per share (Yen)	30.00	32.00	32.00	+2.00	

Overview of Business Divisions



Net Sales and Sales Volume by Business Division



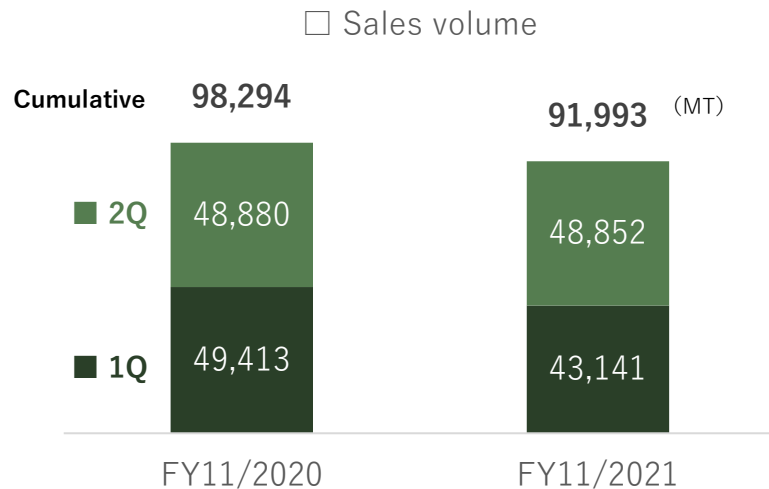
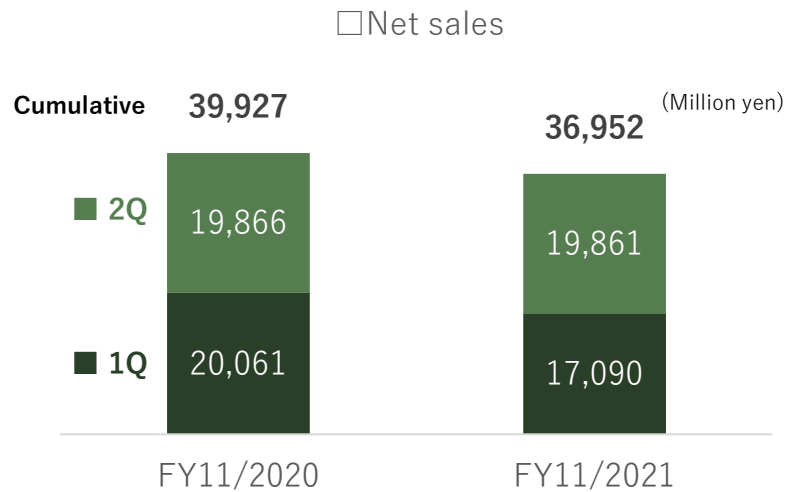
(Million yen)

□ Net sales	FY11/2020 2Q Cumulative	FY11/2021 2Q Cumulative	Difference	YoY Change (%)
Dairy Ingredients and Cheese Business	39,927	36,952	-2,975	-7.5%
Meat Products Business	6,107	6,769	+662	+10.8%
Asian Business (Dairy Ingredients)	10,138	6,809	-3,328	-32.8%
Asian Business (Cheese)	1,352	1,689	+336	+24.9%
Others	385	427	+41	+10.8%

(MT)

□ Sales volume	FY11/2020 2Q Cumulative	FY11/2021 2Q Cumulative	Difference	YoY Change (%)
Dairy Ingredients and Cheese Business	98,294	91,993	-6,301	-6.4%
Meat Products Business	11,453	12,567	+1,114	+9.7%
Asian Business (Dairy Ingredients)	34,921	22,690	-12,230	-35.0%
Asian Business (Cheese)	1,983	2,334	+350	+17.6%

Note: Amounts have been rounded down to the nearest million yen, and the ratios have been rounded to the first decimal place.

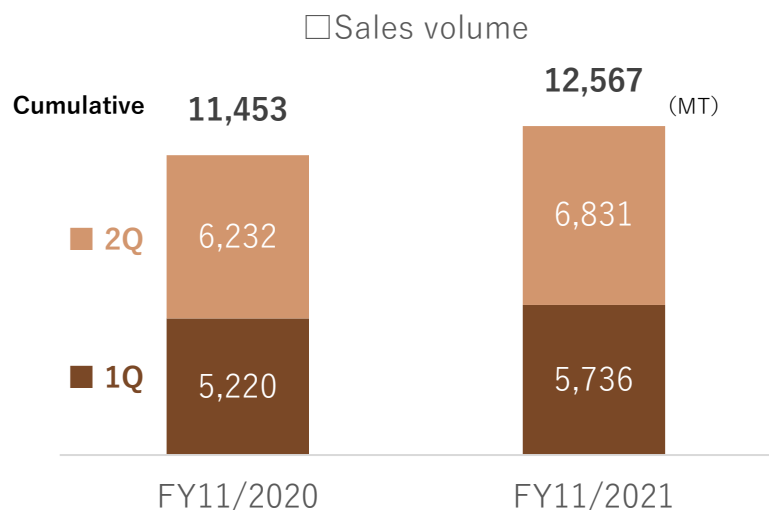
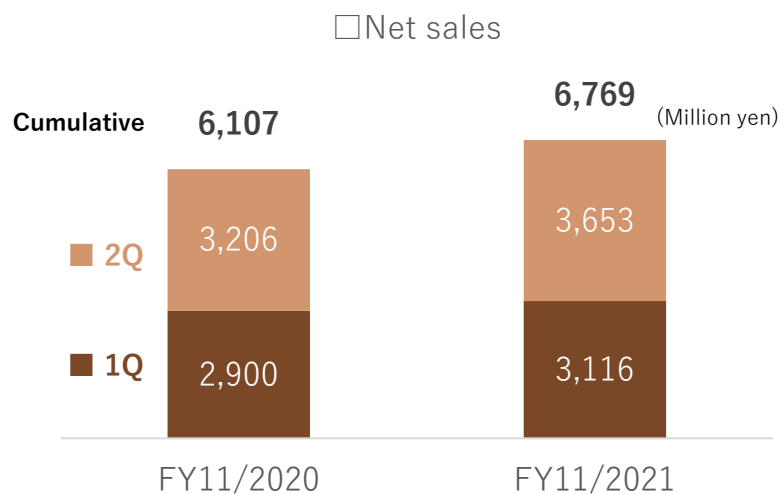


□ Business environment in the first half

- Owing to the issuance of a series of state of emergency declarations caused by the COVID-19 pandemic and other factors, demand, especially for commercial use, was weak and the state of excess inventories of domestic dairy ingredients continued.
- Japan's cheese import volume has recorded growth in demand mainly at restaurants in the past several years and imports have continued to expand but there has been a decrease recently due to the impact of the COVID-19 pandemic.

□ Sales trends

- Owing to the response to the countermeasures to reduce inventories of domestic dairy ingredients, sales of domestic dairy ingredients increased. (Sales to feed manufacturers, etc.)
- Import sales using the TPP and Japan-EU EPA increased. (Sales to non-dairy producers, etc.)
- In cheese sales, sales of commercial product ingredients were sluggish, but sales of retail product ingredients were strong, supported by home meal demand.



□ Business environment in the first half

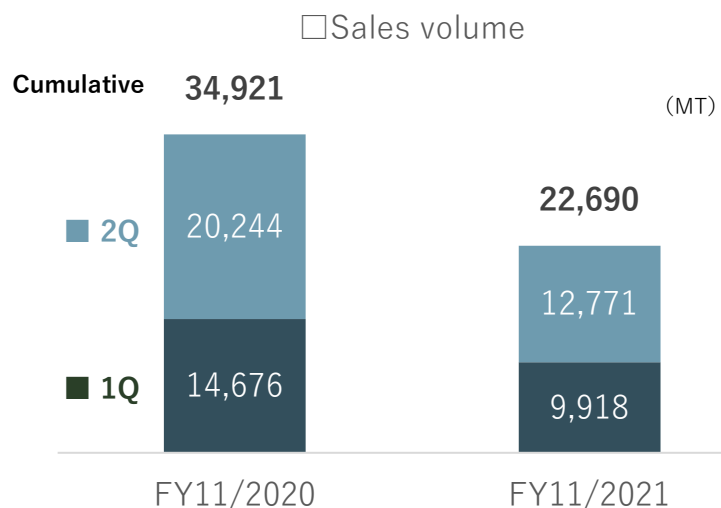
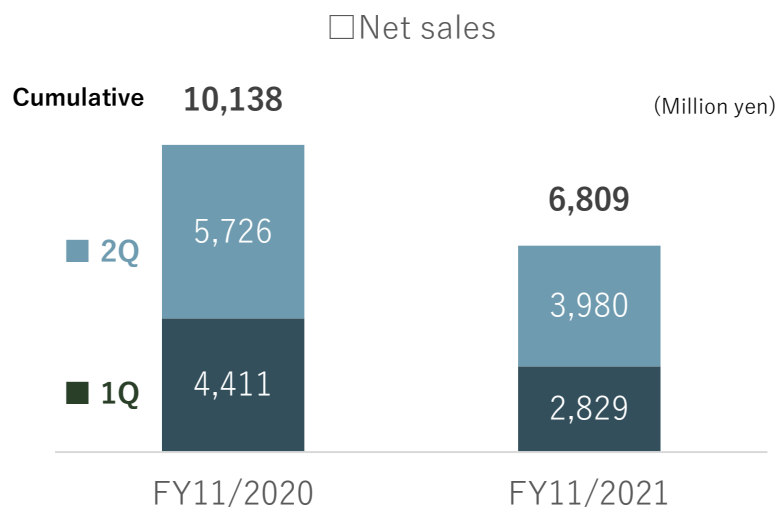
While restaurant-related demand was weak, demand for home meals and prepared foods remained strong.

□ Sales trends

Sales of chilled pork for supermarkets and other retail stores and pork preparations used as raw materials for ham and sausages also grew.

Processed meat products such as dry-cured ham and salami were sluggish due to weak demand from restaurants.

Sales of beef, a new product, also increased.

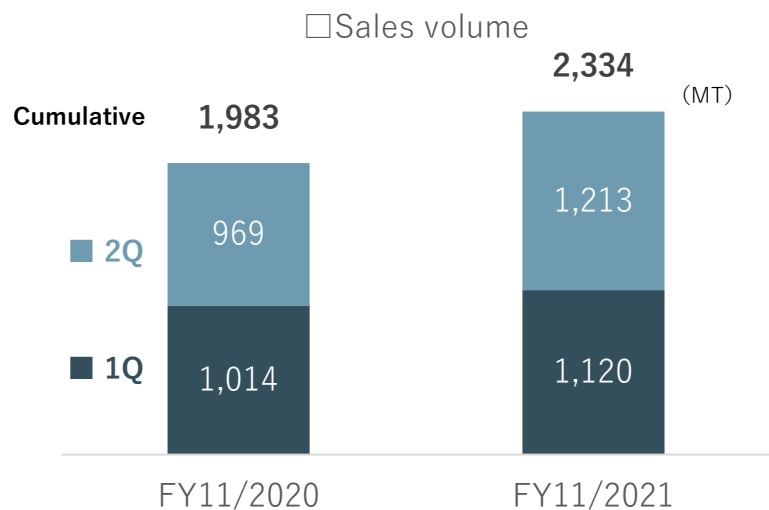
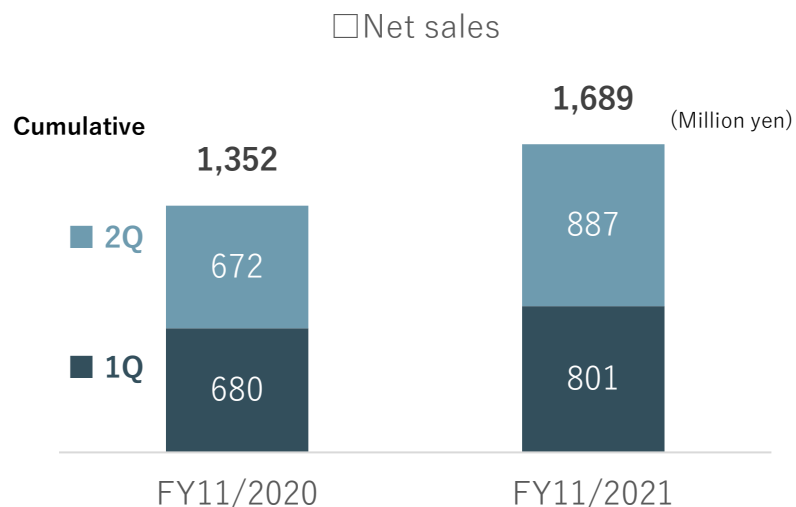


□ Business environment in the first half

- Due to excess inventories of domestic dairy ingredients in Japan, demand for dairy preparation ingredients for the Japanese market was weak.
- In some Southeast Asian countries such as the Philippines, Indonesia and Malaysia, the reemergence of COVID-19 infection was significant and affected demand.
- Due to a shortage of containers and disruptions in shipping schedules caused by the COVID-19 pandemic, delays occurred in the delivery of some cargo.

□ Sales trends

- Sales of prepared dairy mixtures for the Japanese market were weak.
- Demand for dairy products supplied to China and Taiwan expanded and sales increased. In the Philippines, the reemergence of COVID-19 infections was significant and sales to local food manufacturers were weak.



□ Business environment in the first half

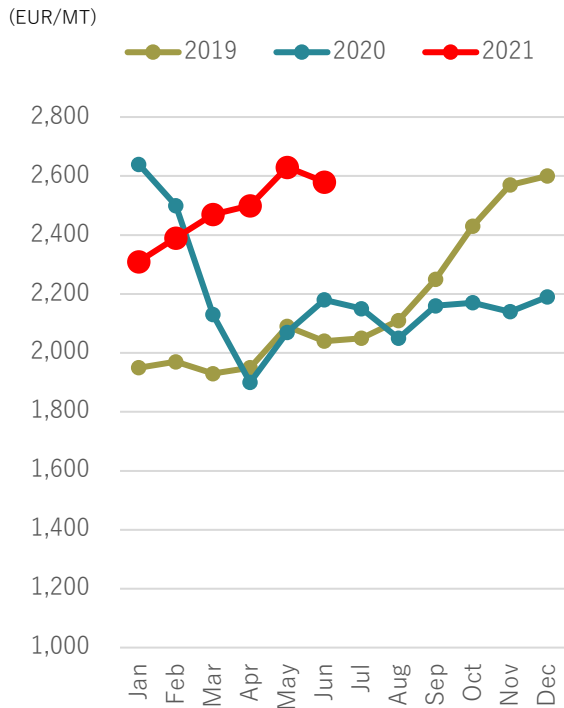
- | Owing to the impact of the spread of COVID-19, food service-related demand was sluggish in Thailand, Singapore, etc..
- | However, home meal demand remained firm.
- | Owing to the recovery from the COVID-19 pandemic, demand in China was robust.

□ Sales trends

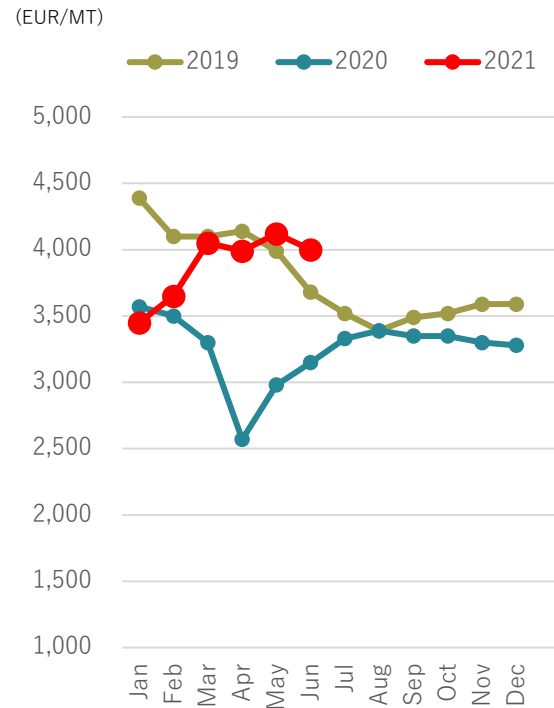
- | In Thailand and Malaysia, sales to restaurants remained weak but sales of processed cheese that are raw materials for processed foods used in home meals were strong.
- | Sales to Taiwan were robust. In addition, due to an increase in demand in China, sales to food manufacturers in Singapore that manufacture processed foods for China also increased.

International Prices of Dairy Products

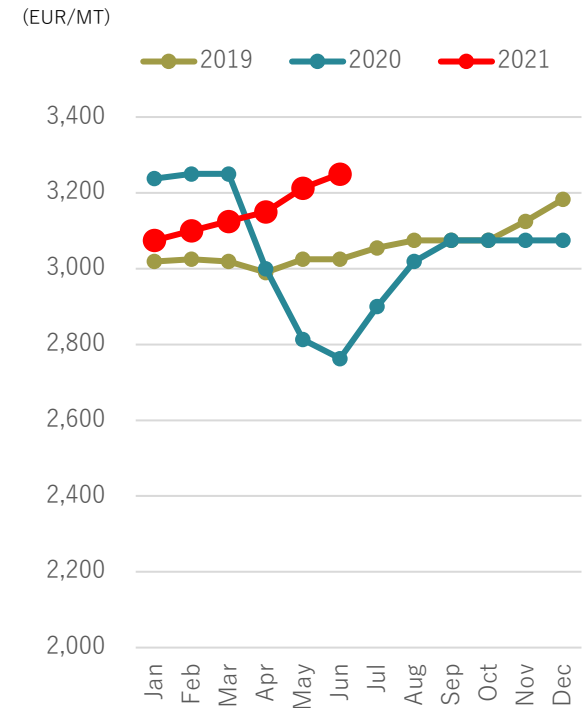
☐ Skim milk powder



☐ Butter



☐ Cheese



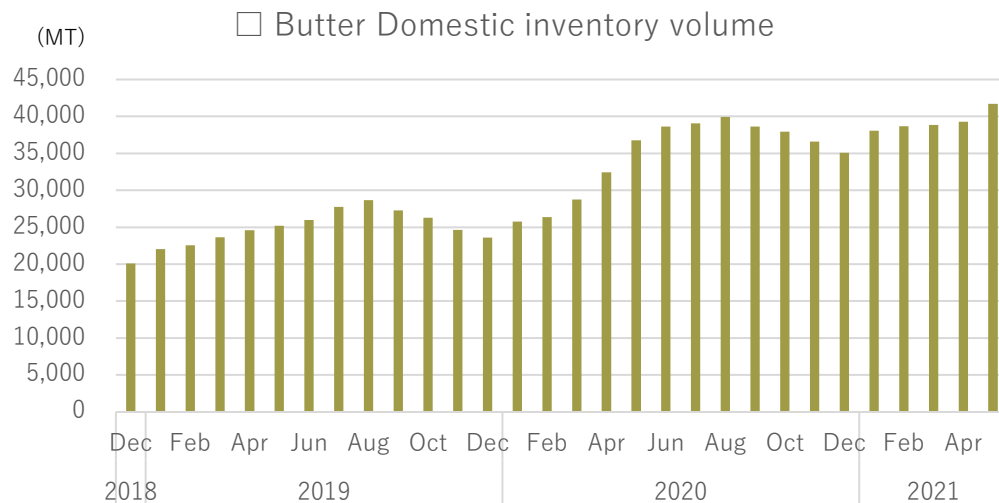
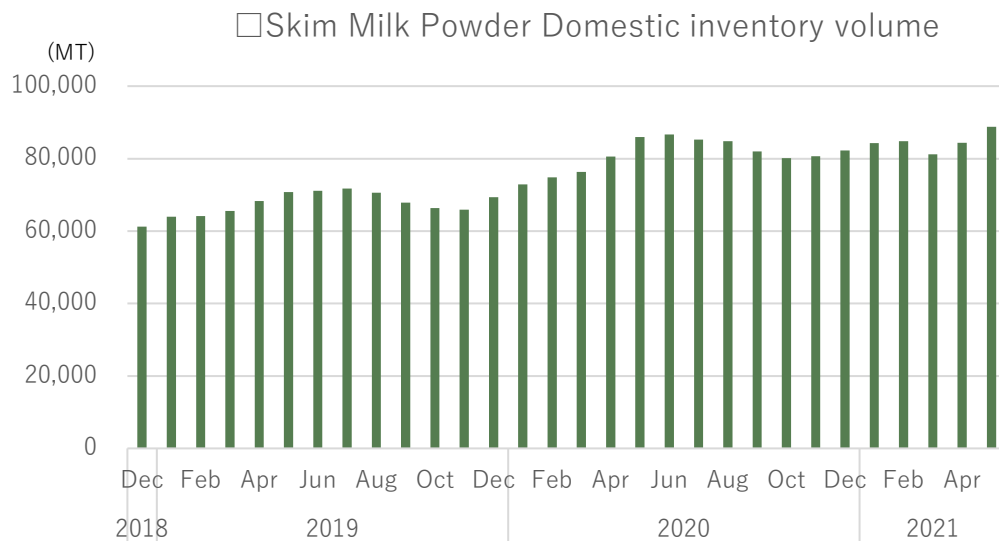
Note: Skim milk powder and butter: Dutch official price (pre-factory price) Cheese: German Edam cheese

Overview of Business Environment and Future Initiatives



Overview of Business Environment in Second Half

Business Divisions	Business environment expected in second half
Dairy Ingredients and Cheese Business Division	<ul style="list-style-type: none"> • Along with the progress of vaccination, demand from restaurants, which had been declining due to COVID-19, is likely to gradually recover from the end of this fiscal year to the next. • It is likely to take longer than expected to eliminate surplus inventories of domestic dairy ingredients. • Sales of domestic dairy ingredients should be strong in the second half as well, helping to compensate for the decline in sales of imported dairy ingredients and at the same time contributing to the expansion of customers. • We will start a dairy ingredient export business. We will focus on developing this as a new business with an eye on the situation after-COVID-19
Meat Products Business Division	<ul style="list-style-type: none"> • We expect continued steady home meal demand. • Inquiries for new products, which started in earnest last fiscal year, have been strong. • In North America, the main producer of pork and pork products, we will monitor moves to reduce production due to COVID-19.
Asian Business Division / Others	<ul style="list-style-type: none"> • Strong demand in China is expected to continue to drive the Asian Business. Even in Asia, where there is concern about the spread of COVID-19, demand for home meals should be firm. (Dairy Ingredients Sales Business/Cheese Manufacturing and Sales Business) • Sales of raw materials used in food preparations for the Japanese market are likely to be weak in the near term. (Dairy Ingredients Sales Business) • In functional food ingredient sales, demand for milk protein is expected to increase due to demand for at-home physical training. (Others)



Reasons for delay in inventory reduction

- Prolongation of COVID-19 pandemic
- Series of state of emergency declarations
- Strong domestic raw milk production
- Implementation of free trade agreements

Source: ALIC

ALIC*: Emergency Countermeasures Project to Expand Demand for Domestic Dairy Products (FY2020-FY2021)

FY2020 Third Supplementary Budget amount: **¥1.69 billion**

Countermeasures will support dairy industry organizations, etc. in their efforts to promote the use of skim milk powder and butter for new commercial demand in order to expand domestic demand.

*ALIC: Agriculture and Livestock Industries Corporation

HOKUREN*: Raw milk sales countermeasures (exit measures) (FY2021)

Countermeasure project costs: **¥8 billion**

Implementing raw milk sales countermeasures to support the replacement of imported dairy products in order to eliminate inventories and ensure demand for raw milk produced in Hokkaido.

*HOKUREN: HOKUREN Federation of Agricultural Cooperatives

(Reference) Project to Promote Improvement of Raw Milk Supply and Demand (FY2020): **¥5 billion**

***Ended in March 2021**

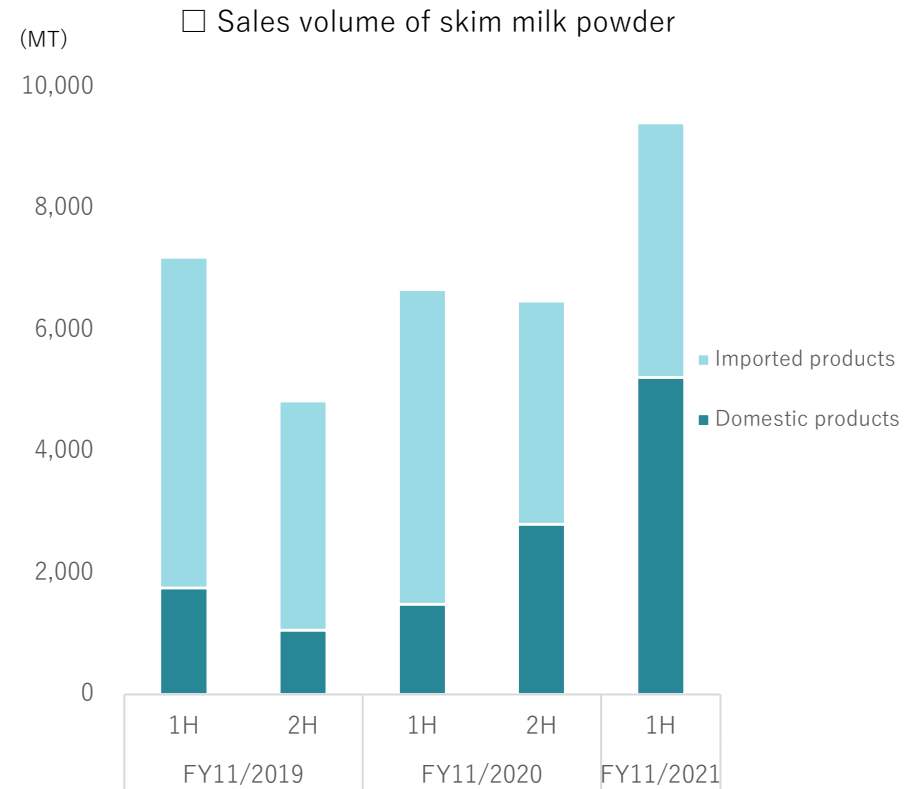
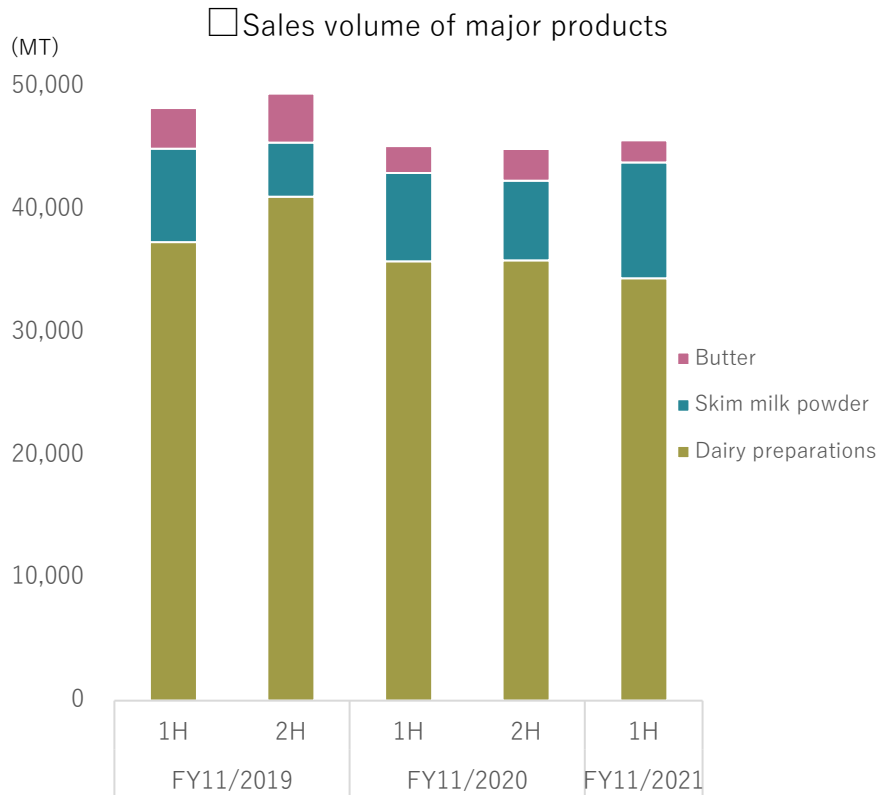
To maintain the supply-demand adjustment function, the project supports the price difference when skim milk powder and whole milk powder are used as substitutes for feed or imported preparations.

The handling of domestically produced dairy ingredients, triggered by the countermeasure project, not only supplements sales of imported raw materials, but also serves as a foothold for the development of post-COVID-19 business.

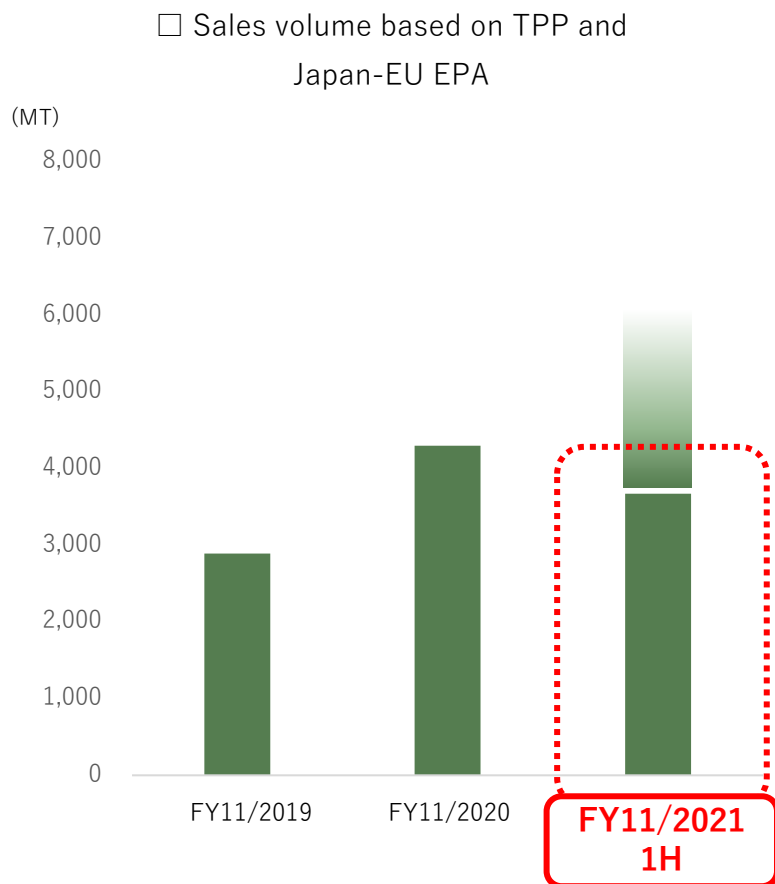


Imported dairy preparations are being replaced by domestic products but the decline in sales of imported dairy preparations has been limited

Domestic skim milk powder will make up for the decline in the volume of imported products



Sales of dairy ingredients using the TPP and Japan-EU EPA quotas increased sharply. This is expected to continue in 2H as well.

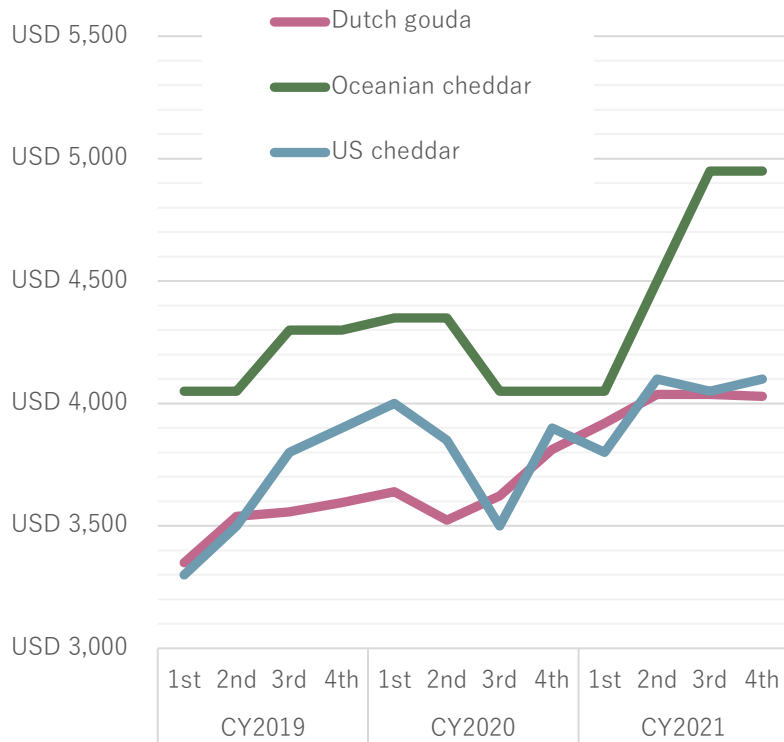


- Strong demand for imported dairy ingredients due to the domestic/overseas price gap and other factors
- In addition to supplementing the decrease in ALIC bids, will also contribute to the development of new customers and new business

Prices of cheese produced in Oceania are rising due to strong demand in China
We are focusing on sales expansion by leveraging our strength of having supply sources outside Oceania

□ International market prices of cheese

(Unit: Price per MT)

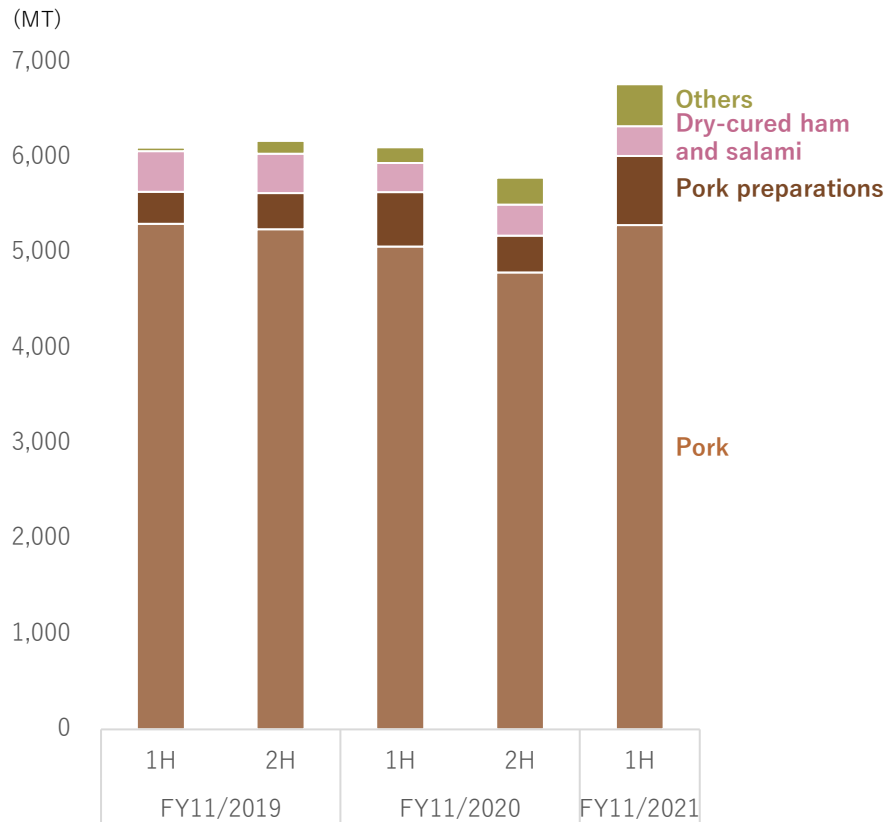


- Procuring price-competitive products produced in Europe, US, etc.
- Procurement and sales in line with fluctuating market conditions by making good use of our information capabilities

Source: Lacto Japan survey based on trade statistics

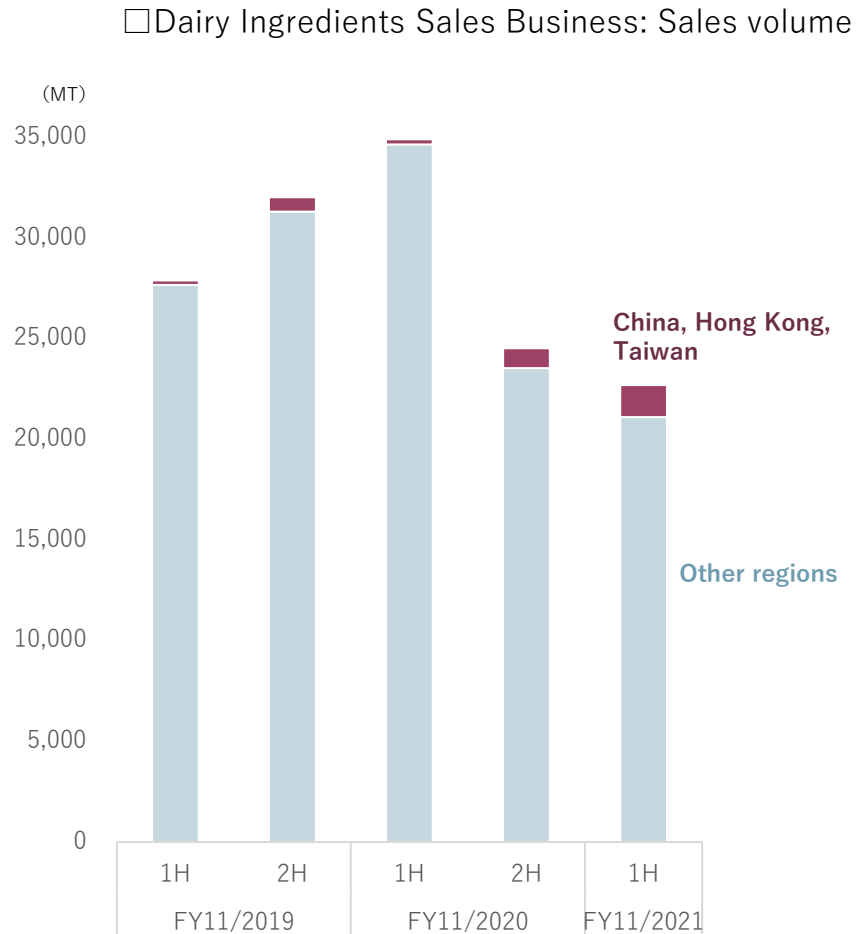
While working to further diversity products handled, we aim to raise profitability

□ Meat Products Business Division: Sales volume



- Stable procurement of pork, including diversification of supply sources
- Further progress in diversification of products handled
- In 2H, in the US, concerns about downsizing of production system due to COVID-19 pandemic

We will strengthen the dairy ingredient sales system and begin full-scale expansion of sales channels in China.



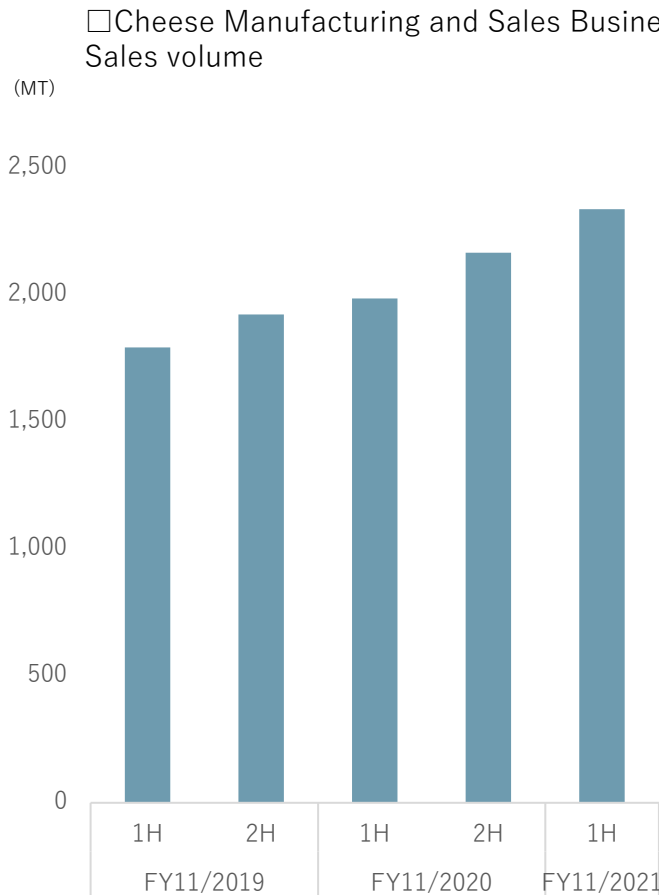
■ Focus on capturing Chinese demand and sales expansion

- This fiscal year, dispatch representative in charge of dairy products from HQ to Shanghai subsidiary
- Strengthening of cooperation with Singapore base

■ Steadily respond to at-home demand in areas where COVID-19 contagion continues to expand

■ Focus on expanding transactions with local companies and Japanese firms operating local businesses

Steadily implementing growth-oriented initiatives in line with the medium-term plan despite the challenging environment



Sales expansion strategy in major regions

- **China:** Use powerful agents, strengthen cooperation with Group companies
- **Thailand:** In addition to home meal demand, add restaurant demand after COVID-19
- **Malaysia:** Bring competitive products to market by developing new products and reducing cheese raw material and production costs

Bring new products to market

- Launch of low-cost diced cheese (March-)
- Plan to launch several new products from 2H of this FY to next FY

Reinforcement of production system

- Completion of capacity expansion of Singapore plant (started operation at end of June)

Production capacity (annual production volume) 2,300 tons → 3,000 tons

- Acquisition of international certification at manufacturing plants

Singapore plant FSSC2200 acquisition

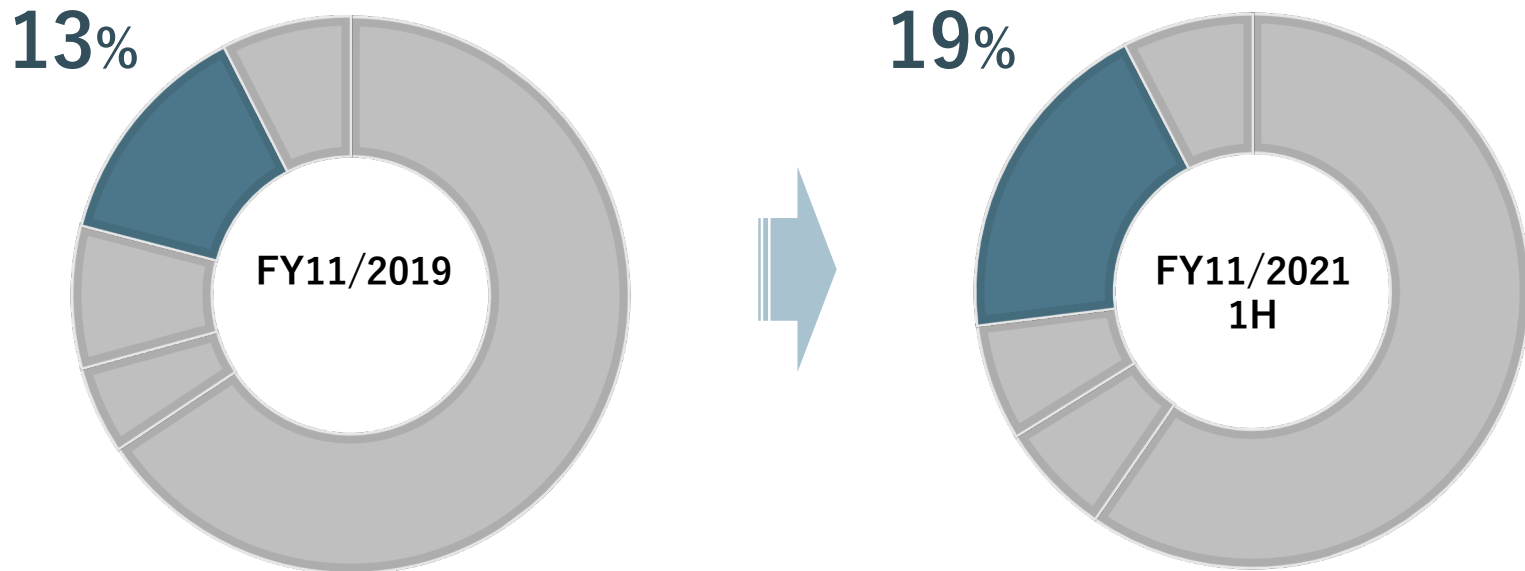
Thai plant ISO29001 acquisition

Indonesian plant (shredding plant) ISO22000 acquisition

Profit contribution reached nearly 20% in 1H FY11/2021

□ Composition of profit*

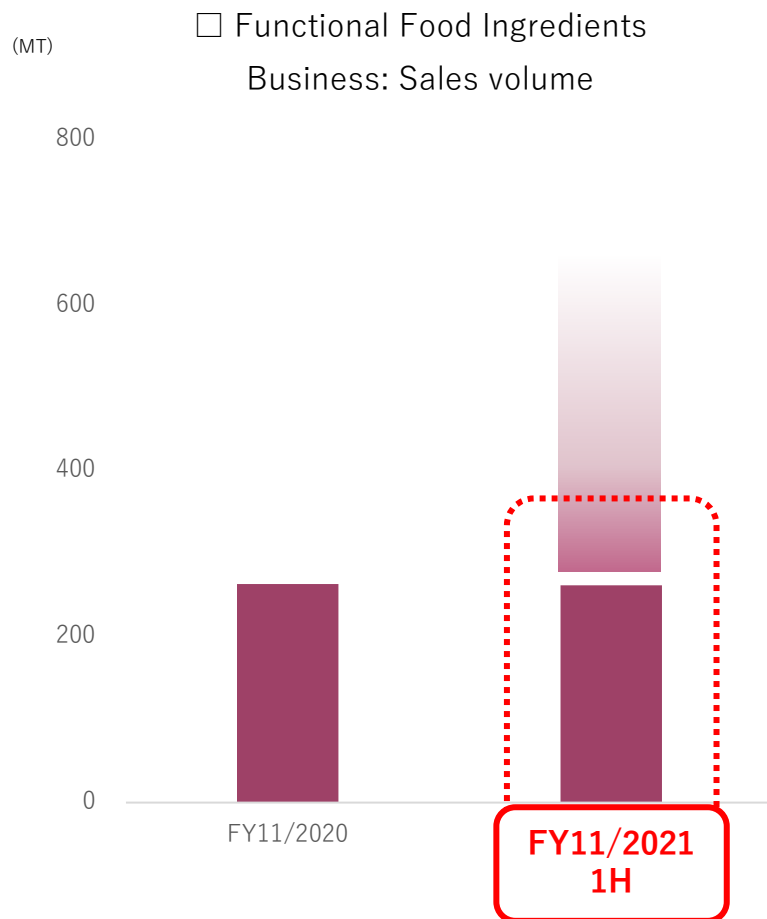
Cheese Manufacturing and Sales Business



*Profit in management accounting, concept similar to gross profit

Although sales of new products are sluggish due to the effects of the COVID-19 pandemic, sales volume is on an upward trend, especially for milk protein.

Strengthening marketing to expand sales.



■ Sales of milk protein for sports nutrition are strong

■ Strengthening marketing through external cooperation

- Providing protein powder that is highly digestible and absorbable in the body to the University of Tokyo rowing team in cooperation with Biogenic Co., Ltd. (head office: Chuo-ku, Tokyo)
- Started development of original lactic acid bacteria in cooperation with Hirosaki University and a venture company originating from the same university

Dairy Ingredients and Cheese Business Division

- Establish a firm foothold in new businesses, while expanding sales channels and improving profit margins
- Aim to further expand sales by leveraging our strength of having diverse supply sources

Meat Products Business Division

- Promote diversification of supply sources and production areas
- Continue to focus on expanding sales of new products to improve profit margins

Asian Business Division (Dairy Ingredients)

- Strengthen sales to local companies and Japanese group companies operating in the region
- Develop business more deeply with new business partners

Asian Business Division (Cheese)

- Strengthen sales in China, Thailand and Malaysia
- Bring new products to market

Functional food ingredients

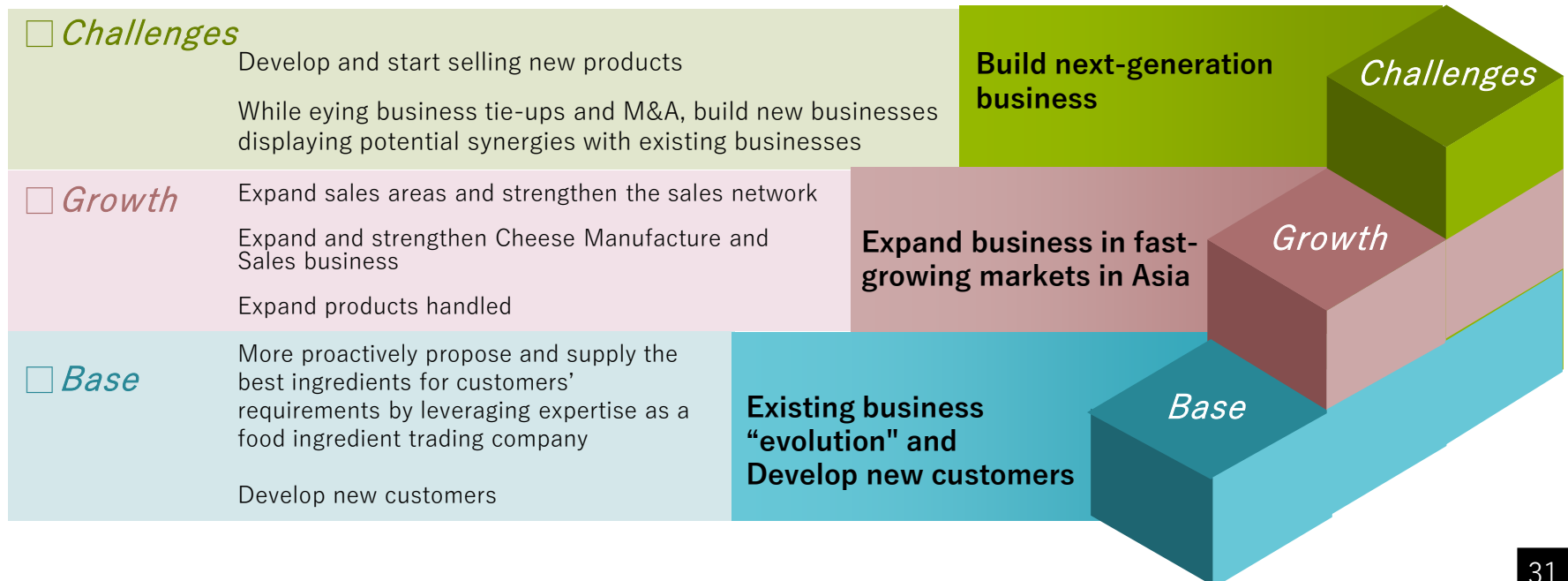
- Expand sales by focusing mainly on milk protein
- Expand handling of proprietary materials and new products

"Evolve" businesses of existing customers and build new businesses to support next **generation** of Lacto Japan Group

	FY11/2023 Targets
Net sales	¥141.0 bn
Ordinary income	¥3.5 bn
Net income attributable to owners of the parent	¥2.5 bn

*Target figures are on a consolidated basis.

*This rolling medium-term plan is revised every year and the targets for the third year are then disclosed



Reference Information

Risk of Foreign Exchange Fluctuation



In principle, Lacto Japan's business model does not bear foreign exchange risk.

Lacto Japan enters into sales contracts with domestic customers at the same time as entering into foreign currency purchase contracts with overseas suppliers.

In such cases, Lacto Japan hedges the foreign exchange risk by entering into a forward exchange contract for the amount of foreign currency purchased.

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

There is always an impact on the presentation of gross profit and non-operating income/losses (foreign exchange gains/losses.)

Transactions that straddle the end of the financial period (sales during and after the next financial period) will have an impact on the presentation of periodic profit and loss.

Characteristics of presentation

Since the exchange rate used for recording differs depending on the stage of the transaction, foreign exchange gains and losses occur at intermediate stages of the transaction.

Ultimately, there is no impact on actual profit because sales and cost of sales are recorded based on the original exchange rate.

However, at intermediate stages prior to the recording of sales,

- ① there is an impact on the presentation of gross profit and non-operating income/losses, and
- ② as recording straddles financial periods, there is an impact on periodic profit and loss.

Illustration of Business Flow (Impact of Foreign Exchange Fluctuation)

Foreign exchange fluctuations have no impact on actual profit.



Accounting	Foreign exchange contract is signed (Rate as of ①) * Following 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	Cost of sales recorded = Actual rate of exchange (Rate as of ②)	Exchange difference resulting from fluctuation between Rate ① and ② is recorded as foreign exchange gain/loss	Sales recorded (Yen amount contracted at ①)
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Completion of transaction (completed up to ④)
When completed up to sale at ④, treatments at time of ① to ④ are aggregated and **the same amount as the actual profit/loss and cost at ① is recorded.**

If the end of the financial period arrives during the transaction
If the end of the financial period (quarter) is between the time of ③ and ④, the foreign exchange difference (non-operating profit/loss) is recorded in advance in the current financial period.

Currency Rate:
No change



Currency Rate:
Weaker yen



Forex gain is recorded in advance as non-operating profit at time of ③.
The purchase price at ② is higher than the amount of the forward exchange contract at ①.

Currency Rate:
Yen appreciation



Forex loss is recorded in advance as non-operating loss at time of ③.
The purchase price at ② is cheaper than the yen amount of the contract at ①.

A wide-angle photograph of a rural landscape. In the foreground, a lush green field is filled with several black cows grazing. The field slopes gently upwards towards the right. In the middle ground, a large, dark barn with a gabled roof sits on a slight rise to the left. The sky is filled with dramatic, layered clouds, with a bright sun low on the horizon to the right, creating a warm, golden glow and long shadows across the field. Utility poles are visible in the distance.

Caution

This report contains projections of performance and other projections based on information currently available and certain assumptions judged to be reasonable. Actual performance may differ materially from these projections as a result of changes in the business environment and other risks and uncertainties.