



FY2020 Second Quarter Financial Results Briefing

July 21, 2020



Lacto Japan Co.,Ltd.



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FY2020 Second Quarter Financial Results and Full-Year Earnings Forecasts



Amid the severe economic environment caused by the coronavirus pandemic, we minimized the impact and secured YoY revenue and profit growth

Consolidated Net Sales: +0.3% YoY / -6.6% vs. initial forecast

- Although net sales decreased in the Dairy Ingredients and Cheese Business due to a decline in international prices and a drop in sales volume, reflecting the impact of the coronavirus pandemic, consolidated net sales grew YoY because of the strong Asian Business.
- Sales of ingredients for restaurants and for commercial use declined both domestically and in Asia, but this was offset by increased sales of ingredients for foods consumed at home and prepared foods, reflecting the consumption of goods at home.
- Amid a large fluctuation in supply and demand, the ability to respond precisely to business partners' needs and supply products in a stable manner led to an increase in sales.

Consolidated Ordinary Income: +14.5% YoY / +2.4% vs. initial forecast

- In the face of fluctuation in international market prices, Lacto Japan (“the Company”) supplied price-competitive products using its strength in procurement, while the effects of foreign exchange rates also contributed to an increase in profit on both a YoY basis and the initial forecast.
- During the quarter under review, there was a positive foreign exchange impact on ordinary income of ¥17 million, and even compared to ordinary income after excluding the foreign exchange impact in the previous quarter, ordinary income was up 4.7%.

FY2020 Second Quarter Financial Summary



(Millions of Yen)

	FY11/2019 2Q	FY11/2020 2Q		
		Actual	YoY Difference	YoY Change (%)
Net sales	57,712	57,912	+199	+0.3
Ordinary income	1,252	1,433	+181	+14.5
Ordinary income ratio	2.2%	2.5%	-	-
(Foreign exchange impact on ordinary income*)	(-99)	(17)	-	-
Net income attributable to owners of the parent	887	1,040	+152	+17.2
Net income ratio	1.5%	1.8%	-	-
Net income per share (Yen)	90.55	105.81	+15.26	
Exchange rate (Yen/USD)	110.78	108.55	-2.23	
Exchange rate (Yen/EUR)	125.30	119.33	-5.97	

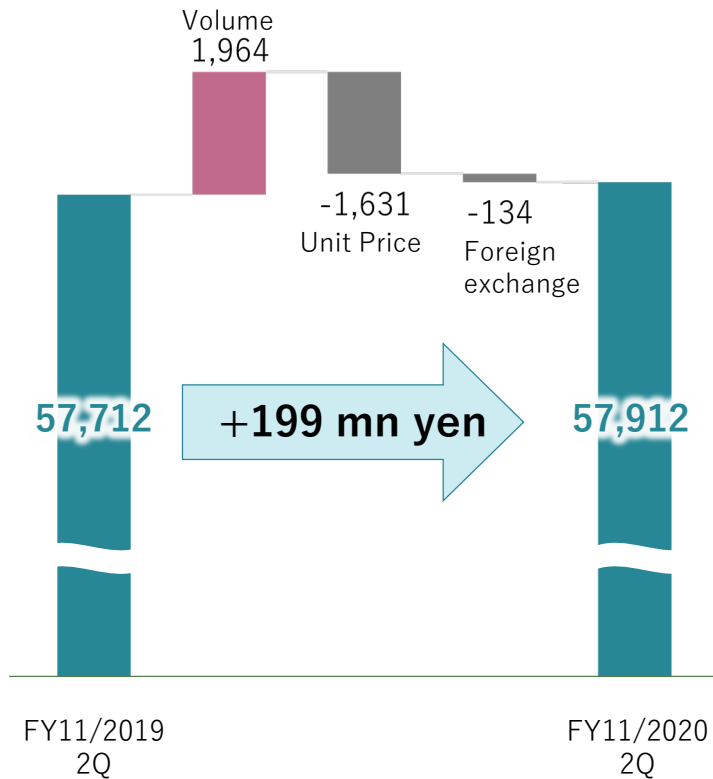
Note: Amounts of less than one million yen have been omitted and YoY Change (%) has been rounded off.

*Foreign exchange impact on ordinary income: As Lacto Japan applies "Separate Accounting Treatments," the impact of foreign exchange hedging is recorded in both the cost of sales and non-operating income. Therefore, the impact of foreign exchange hedging on both the cost of sales and non-operating income has been stated (see reference materials on P. 27 onward for details).

Sales rose due to an increase in sales volume. Ordinary income increased due to an improvement in the gross margin and the foreign exchange impact.

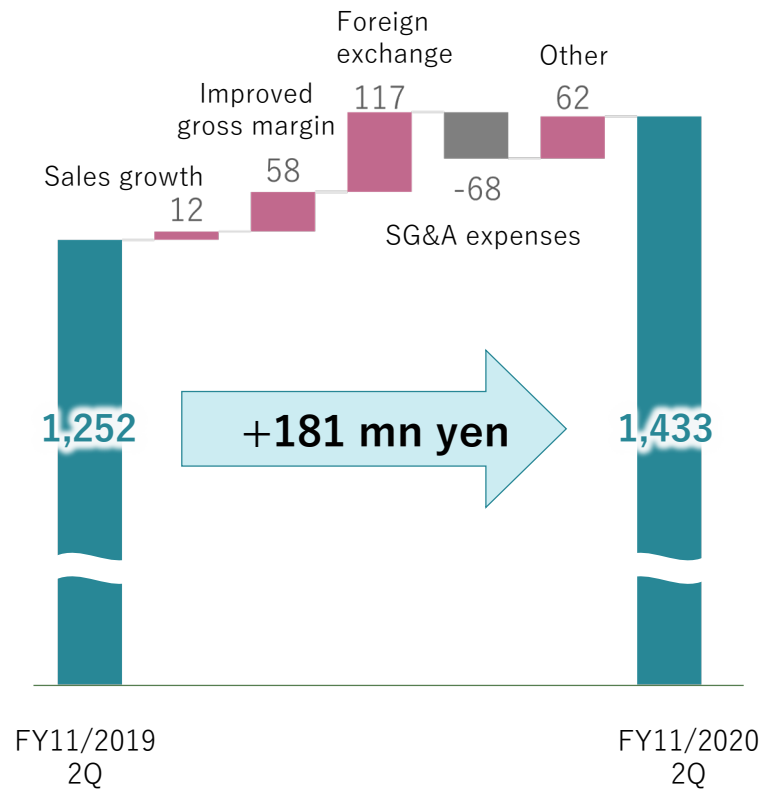
Net sales

(Millions of Yen)



Ordinary income

(Millions of Yen)



(Millions of Yen)

	FY11/2019-end	May 2020-end	Difference
Current assets	45,774	48,222	2,447
Cash and cash equivalents	4,474	5,068	593
Increase in trade notes and accounts receivable	17,852	18,632	780
Inventories	22,946	24,043	1,097
Other	501	477	-23
Non-current assets	2,360	2,542	182
Property, plant and equipment	568	647	78
Intangible assets	29	24	-4
Investment and other assets	1,761	1,870	108
Total assets	48,134	50,765	2,630
Accounts payable	12,649	13,216	567
Interest-bearing liabilities	17,641	19,202	1,560
Other	1,879	1,550	-329
Total liabilities	32,170	33,969	1,798
Net assets	15,964	16,795	831
Total liabilities and net assets	48,134	50,765	2,630

(Amounts of less than one million yen have been omitted and breakdown shows only major items.)

Major factors of change

Increase in trade notes and accounts receivable

Increase in accounts receivable due to increased sales in Asian Business

Increase in inventories

Increase in customer-oriented products

Increase in interest-bearing liabilities

Increase in short-term loans due to increase in working capital

(Millions of Yen)

	FY11/2019 2Q	FY11/2020 2Q	Difference
Cash flows from operating activities	2,506	-569	-3,075
Cash flows from investing activities	233	-4	-237
Cash flows from financing activities	-2,250	1,229	3,480
Effect of exchange rate changes on cash and cash equivalents	-55	-40	14
Change in cash and cash equivalents	434	615	181
Cash and cash equivalents at beginning of period	3,477	3,946	469
Cash and cash equivalents at end of period	3,911	4,562	651

(Amounts of less than one million yen have been omitted and breakdown shows only major items.)

Major factors of change

Decrease in operating CF

Increase in accounts receivable and inventories

Increase in financing CF

Increase in short-term loans due to increase in working capital

FY11/2020 Consolidated Earnings Forecasts



(Millions of Yen)

	FY11/2019 Actual	FY11/2020		
		Forecasts	YoY Difference	YoY Change (%)
Net sales	116,794	130,000	+13,205	+11.3
Ordinary income	2,746	3,000	+253	+9.2
Ordinary income ratio	2.4	2.3	-	-
Net income attributable to owners of the parent	1,963	2,100	+136	+7.0
Net income ratio	1.7	1.6	-	-
Net income per share (Yen)	200.11	213.43	+13.32	
Dividends per share (Yen)	22	30	+8	

Overview of Business Divisions



Net Sales and Sales Volume by Business Division

Although the Dairy Ingredients and Cheese Business was affected by the coronavirus pandemic, the Asian business was strong

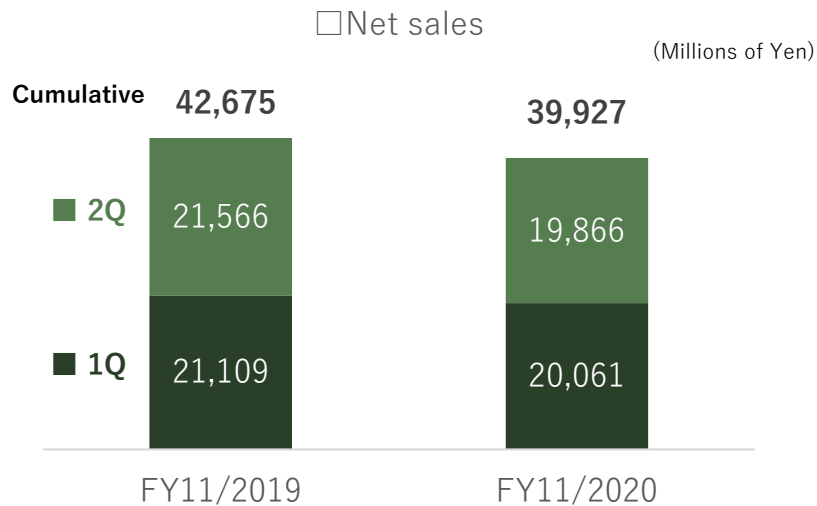
(Millions of Yen)

□ Net sales	FY11/2019 2Q Cumulative	FY11/2020 2Q Cumulative	Difference	YoY Change (%)
Dairy Ingredients and Cheese Business	42,675	39,927	-2,747	-6.4
Meat Products Business	6,104	6,107	2	0.0
Asian Business (Dairy Ingredients)	7,303	10,138	2,834	38.8
Asian Business (Cheese)	1,284	1,352	67	5.3
Other	343	385	41	12.2

(MT)

□ Sales volume	FY11/2019 2Q Cumulative	FY11/2020 2Q Cumulative	Difference	YoY Change (%)
Dairy Ingredients and Cheese Business	100,139	98,294	-1,844	-1.8
Meat Products Business	10,511	11,453	942	9.0
Asian Business (Dairy Ingredients)	27,892	34,921	7,028	25.2
Asian Business (Cheese)	1,804	1,983	179	9.9

(Note) Figures for both sales and sales volume have been rounded off. YoY Change (%) has been rounded off.

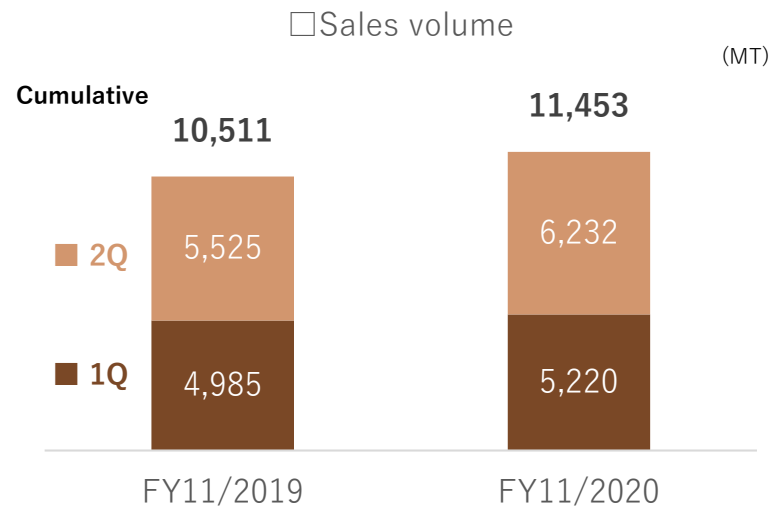
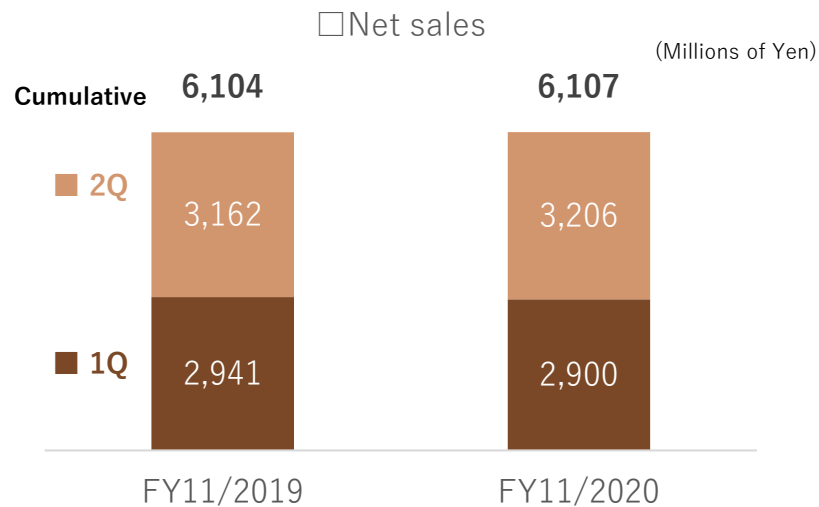


□ Business environment in the first half

- Demand for dairy ingredients used in restaurants and souvenir confectionery declined. However, demand related to home meals and prepared foods was strong.
- As the supply-demand balance for domestic dairy products was disturbed by the suspension of meal services at elementary and junior high schools, inventories of skim milk powder and butter increased.

□ Sales trends

- We maintained sales, as we actively promoted sales of internationally competitive products by leveraging our strength in procurement in the face of fluctuation in international market prices for dairy ingredients and cheese.
- Although sales of ingredients for restaurant and business use were sluggish, this was offset by ingredients for home meals and prepared foods, so sales volume and sales value both declined only slightly YoY.
- Sales to leading dairy manufacturers declined due to increased domestic inventories of skim milk powder and butter, but sales to non-dairy food and beverage manufacturers were strong. Sales to feed manufacturers also remained strong.

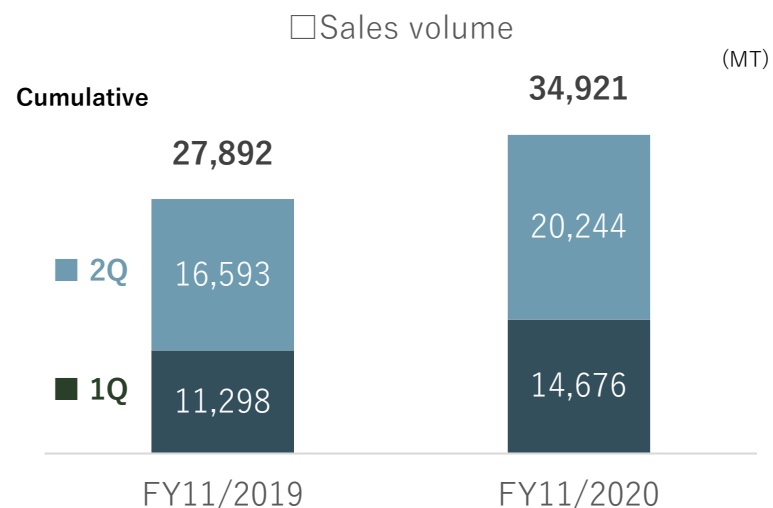
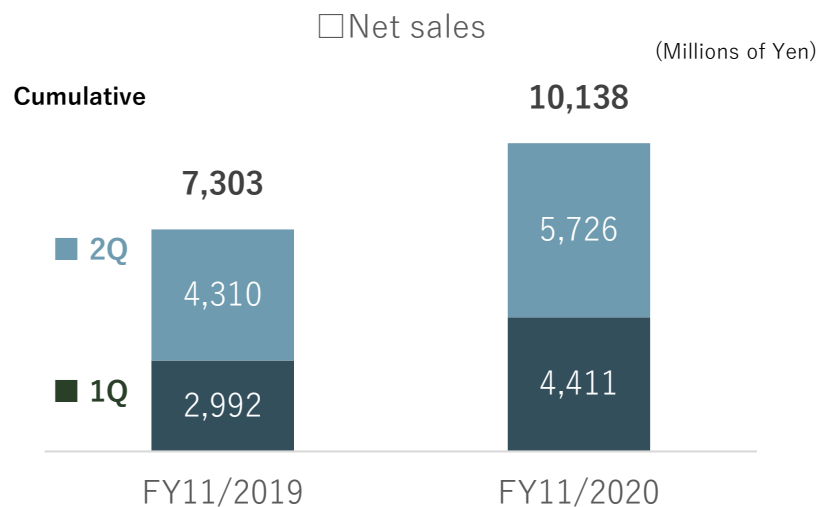


□ Business environment in the first half

- While restaurant-related demand decreased, demand related to home meals and prepared foods was strong.
- In the second half of April, U.S. pork manufacturers successively shut down their factory operations, raising concern about supply in the industry, but our supplier maintained production so there was no impact on procurement.

□ Sales trends

- In the case of home meal-related products, sales of chilled pork for supermarkets and other retail stores and pork products used as raw materials for ham and sausages also grew. In particular, sales of pork products increased significantly. New customer development was also successful.
- Processed meat products such as ham and salami were sluggish due to weak demand from restaurants.

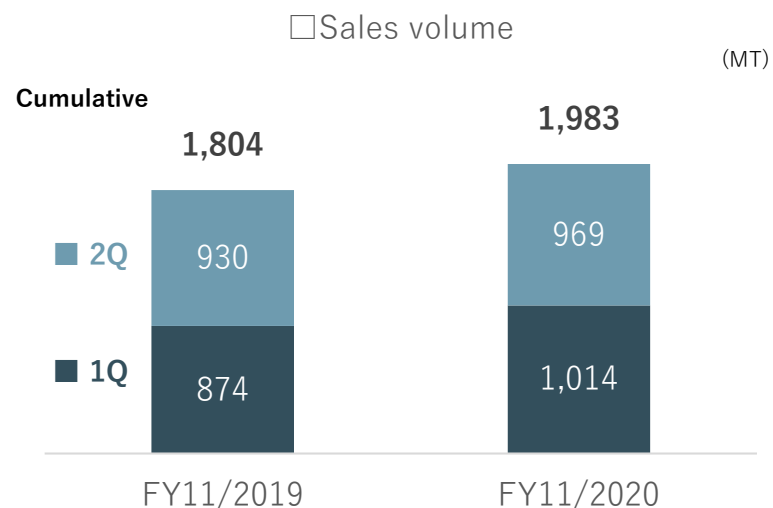
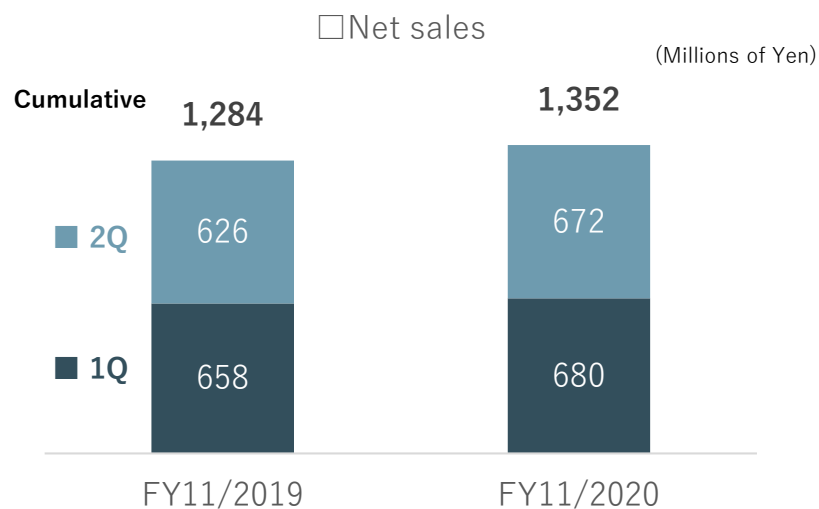


□ Business environment in the first half

- | In Singapore and the Philippines, movement restrictions against the coronavirus pandemic were stricter than in Japan, but production by food manufacturers continued and home meal-related demand was strong.

□ Sales trends

- | As the percentage of sales related to food services such as restaurants and bakeries is low, the impact of COVID-19 was limited.
- | Sales remained strong in the Philippines, which had strengthened its sales activities. An increase in items sold to major business partners contributed. In addition, sales to existing business partners in Indonesia increased.
- | We newly commenced sales of dairy ingredients in Thailand from this quarter. (Result of efforts to expand areas for dairy ingredient sales)



□ Business environment in the first half

- | Demand for food services, including restaurants and bakeries, was sluggish especially from the second quarter onward due to the impact of COVID-19. On the other hand, demand for home meals was strong and offset the slump in demand for food services.

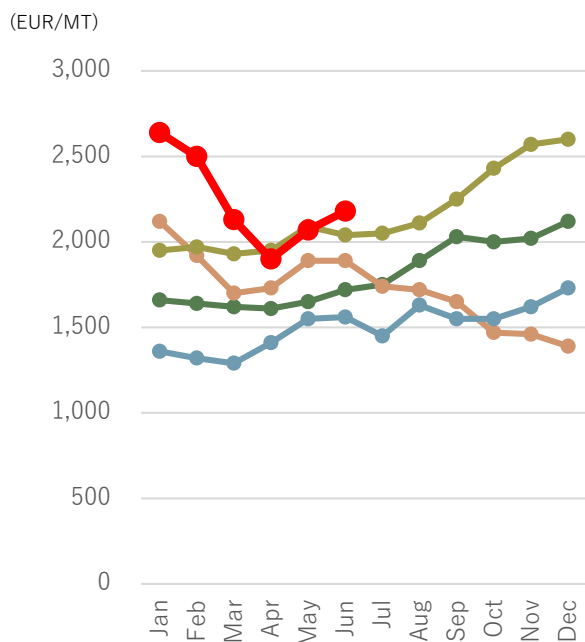
□ Sales trends

- | Food service-related sales in Thailand and Singapore were sluggish. In Thailand, cheese sales to food manufacturers were strong.
- | Demand in China turned back upward in the second quarter and sales volume increased.

International Prices of Dairy Products

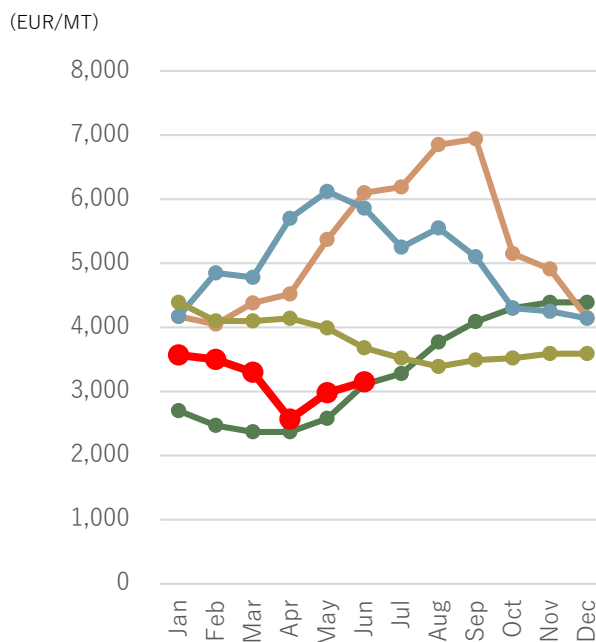
Skim milk powder

2016 2017 2018
2019 2020



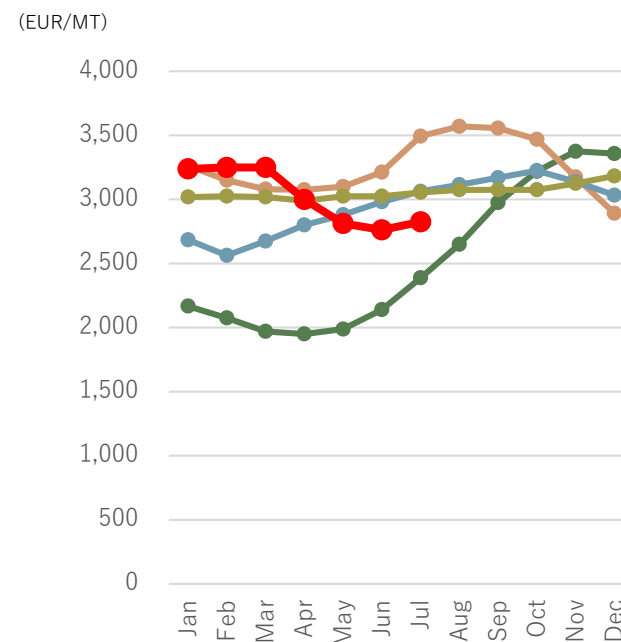
Butter

2016 2017 2018
2019 2020



Cheese

2016 2017 2018
2019 2020



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

Initiatives Related to Impact of
Spread of COVID-19 and Growth



Business Divisions	Business environment expected in second half
Dairy Ingredients and Cheese Business	<ul style="list-style-type: none"> • Aim to eliminate surplus inventories of domestic dairy ingredients through government countermeasures • Fears of tight supply and demand for raw milk due to shorter summer holidays in elementary and junior high schools • Demand for dairy products will remain firm • Demand related to restaurants, which had been declining due to COVID-19, will gradually recover
Meat Products Business	<ul style="list-style-type: none"> • Continued steady home meal demand • Demand related to restaurants, which had been declining due to COVID-19, will gradually recover • In the US, the main producer of pork and pork products, there will also be a move to reduce production due to COVID-19
Asian Business	<ul style="list-style-type: none"> • Despite a lull in special demand for home meals, demand will be firm (dairy ingredients/cheese) • Demand related to restaurants will be on recovery trend due to revenge consumption associated with gradual lifting of restrictions on behavior (dairy ingredients/cheese) • Strong recovery in demand in China will be a tailwind (cheese) • Expansion of production at Singapore plant is expected to be postponed to next fiscal year. However, the earnings impact in the current fiscal year remains the same as initially expected (cheese).

Summary of measures	Cost of measures	Total
① Support for price difference when changing school milk related demand to skim milk powder and butter related demand, etc.	¥9.1 bn	¥19.0 bn
② Subsidies to promote sale of domestic skim milk powder for feed use and sale as substitute for imported preparations	¥5.0 bn	
③ Support for continued operation of dairy farms with infection outbreaks	¥0.8 bn	
④ Financial assistance for increased production of cheese, butter and whole milk powder (within 50 yen/kg)	¥1.9 bn	
⑤ Support for provision of free milk to medical welfare facilities, child welfare facilities, etc.	¥2.2 bn	

(Sources) Ministry of Agriculture, Forestry and Fisheries, Agriculture & Livestock Industries Corporation (ALIC) publication

- The aim is also to contribute to the early improvement of the business environment by contributing to the elimination of domestic inventories of skim milk powder
- Securing a certain quantity of dairy ingredient sales volume by undertaking countermeasure projects

Supply and demand relaxation project associated with suspension of supply of milk for school meals (countermeasures aimed at dairy workers)

1. **Producer countermeasures associated with change from supply of milk for school meals to skim milk powder, etc.**
 - ① Support for milk price difference for producers
 - ② Support for increased expenses required for wide-area transportation due to change of shipment destination to factories that process skim milk powder, etc.

2. Measures for dairy workers in response to changes in use of skim milk powder, etc., and processing of milk for school meals

- ① Support for price difference, etc. related to change in use of skim milk powder, etc. to feed
 - a. Support for price difference due to change in use of skim milk powder from commercial to feed use
 - b. Support for storage fees, etc. for increased inventories of commercial-use skim milk powder, etc.
 - c. Support for transport expenses for skim milk powder used in feed, etc.

Countermeasure projects we are involved in

- ② Additional expense support associated with processing of milk for school meals manufactured before cancellation

(Source) Partial excerpts from "Supply-Demand Relaxation Measures Associated with Suspension of Milk for School Meals" (PDF), published by the Ministry of Agriculture, Forestry and Fisheries

* Period of activities undertaken by ALIC: From February 27 to June 12, 2020

□ Environmental changes

- The key word for product development across the entire food industry is "health"
- Stability of supply chain increasingly important
- In Asia as well, awareness of "food" and "health" is increasing



Using our strengths and making our response to changes in the environment a driving force for new growth



Lacto Japan's Strengths

□ Making our response to changes in the environment a driving force for new growth

Key word for product development across the entire food industry is "health"



We will accelerate development of new products, including functional food ingredients

- Accelerate development and expansion of products for functional food ingredients
- Invigorate product development by strengthening cooperation with suppliers

Stability of supply chain is increasingly important



Taking advantage of our strength of having diverse supply sources, we will expand our share of dairy ingredient sales

- Endeavor to expand sales by contributing to "stability of supply chain"
- Further strengthen supply source development
- Strengthen roles and functions of local subsidiaries

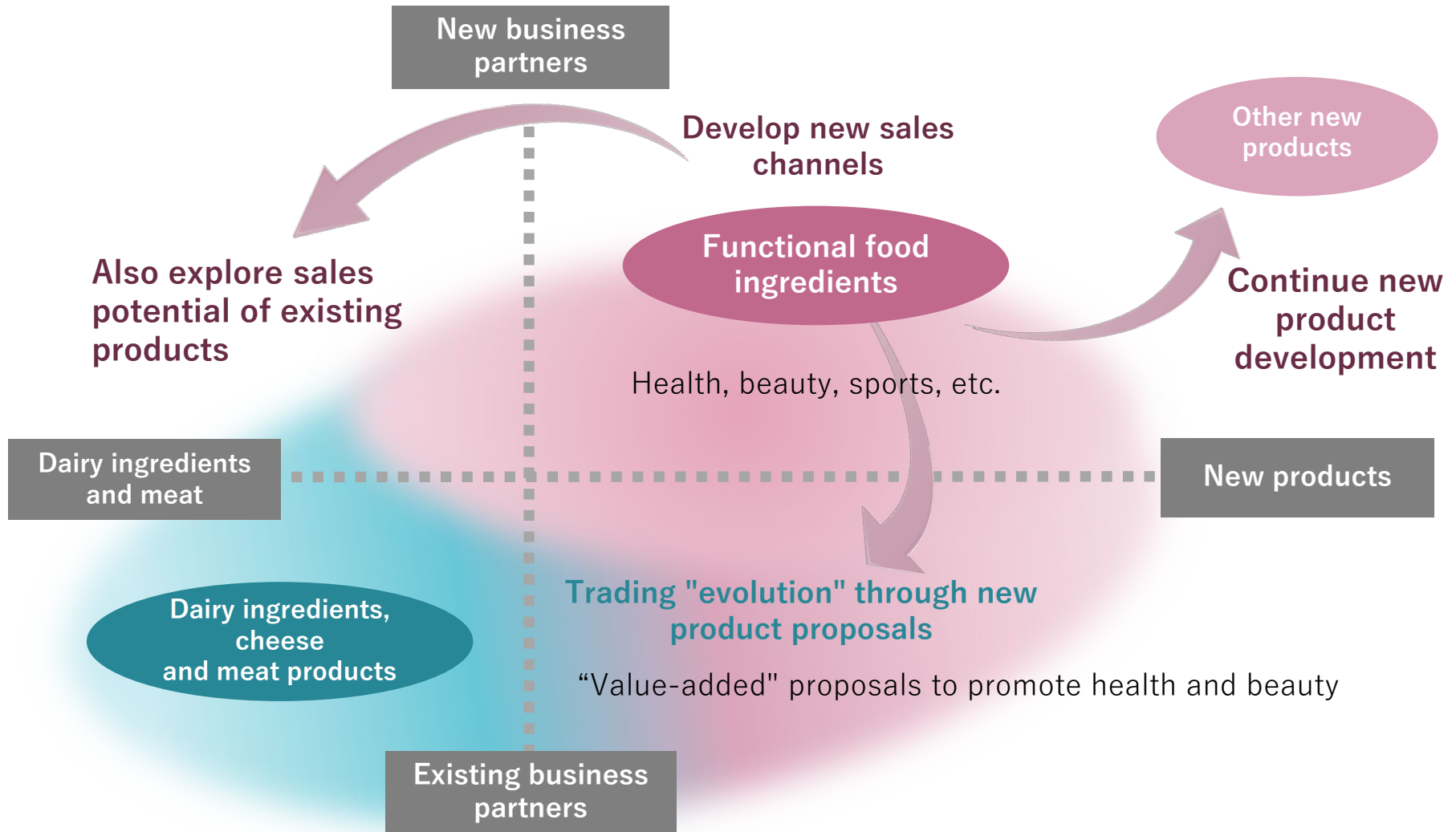
In Asia as well, awareness of "food" and "health" is increasing



Further development of the Asian dairy market

- Promote dairy products as "health-contributing foods" and strive to expand market further
- Display dominance through locally oriented marketing style using local subsidiaries
- Also look for ways to expand business beyond existing concepts

- Accelerate efforts to respond to growing product development needs of business partners focusing on "health"



- The policy of the corporate business plan will remain unchanged**
- We will implement measures in line with policies according to changes in the business environment with COVID-19 and after COVID-19**

Corporate Business Plan "Next-LJ2022" Basic Policy

Challenges

Develop and start selling new products

While eyeing business tie-ups and M&A, build new businesses displaying potential synergies with existing businesses

Growth

Expand sales areas

Strengthen the sales network

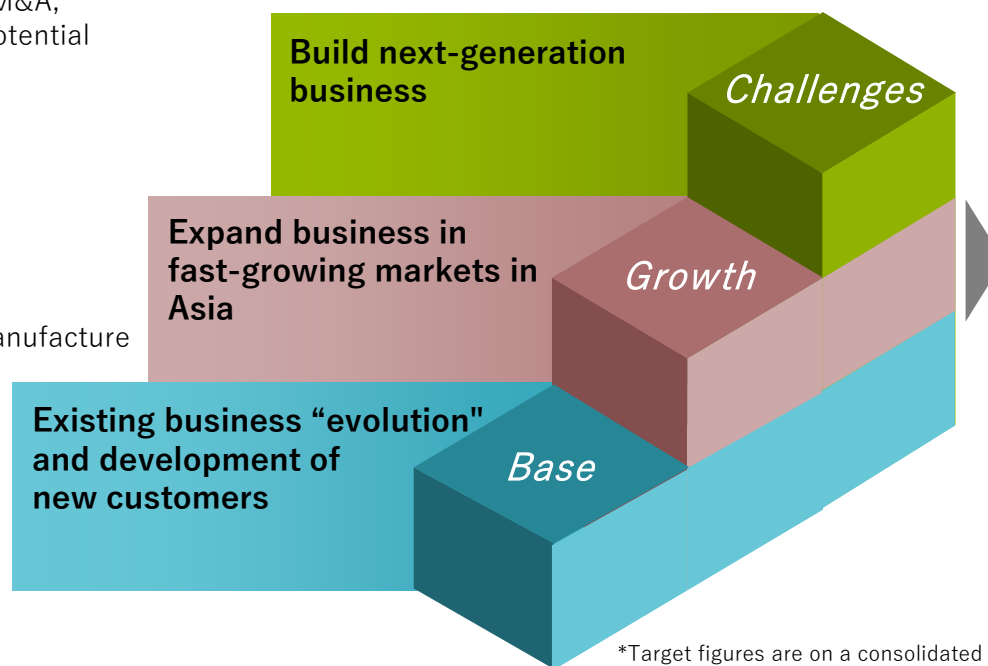
Expand and strengthen Cheese Manufacture and Sales

Base

Leverage food ingredient trading company expertise to create new ideas for the best ingredients for customers' requirements and supply these ingredients

Develop new customers

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



FY11/2022 targets (Billions of Yen)	
Net sales	141.0
Ordinary income	3.5
Net income	2.5

*Target figures are on a consolidated basis.
 *This is a rolling medium-term plan with targets every year for 3 years later.
 * The above targets were announced in January 2020.

Regarding business partners

To ensure a stable supply of products to our business partners, we are strengthening our cooperation with our suppliers while also making use of our overseas subsidiaries.

Regarding employees

For the safety of employees and their families, we are establishing work systems such as telecommuting and staggered commuting hours to reduce the risk of infection.

In our business activities, we are continuing to communicate with our business partners and suppliers through telephone and web-based meetings while avoiding unnecessary and nonurgent business trips and interviews.

At our Asian cheese manufacturing plants, we are maintaining production with thorough hygiene control and a safe working environment.

Regarding shareholders and investors

We will continue to disclose appropriate information and disclose it promptly if it has a significant impact on business performance.

We will collect information and take appropriate measures to minimize the impact of COVID-19 on our business activities and business performance.

A wide-angle photograph of a rural landscape at sunset. The sky is filled with dramatic, wispy clouds, and the sun is low on the horizon, casting a warm, golden glow. In the foreground, a green grassy field is populated by several dark-colored cows. In the background, a large barn with a corrugated metal roof sits on a slight rise, with utility poles and power lines stretching across the horizon.

Please note

This report contains projections of business 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 economic environment and other risks and uncertainties.

Reference Information:
Foreign Exchange
Fluctuation Risk



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

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 the 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.

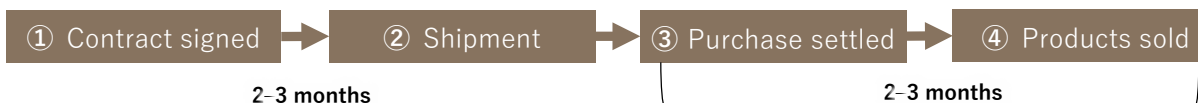
It is of note here that under Japanese accounting standards Lacto Japan applies “separate accounting treatments” to foreign currency exchange accounts.

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, 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 fluctuations 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	Exchange difference resulting from fluctuation between Rate ① and ② is recorded as foreign exchange gain/loss	Recorded sales
	<ul style="list-style-type: none"> * 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 	Actual rate of exchange (Rate as of ② time)		(Contract in yen amount entered into at ①)

Products sold during the same financial period as that of the sales contract for the product:
Sum of 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:
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



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

Currency Rate:
Stronger yen



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

