August 9, 2023

Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2024
<Japanese GAAP>

Listed company: Morinaga Milk Industry Co., Ltd.
Listed stock exchange: Tokyo
Securities code: 2264
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Submission of quarterly report: August 10, 2023
Dividend payment commencement date: –
Preparation of explanatory materials for quarterly financial results: Yes
Holding of a briefing on quarterly financial results: Yes

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the Cumulative First Quarter of the Fiscal Year Ending March 31, 2024 (April 1, 2023 to June 30, 2023)

(1) Consolidated operating results (Cumulative) (% figures show year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2023	139,738	7.2	9,645	53.3	10,499	49.0	52,942	–
Three months ended June 30, 2022	130,300	1.6	6,289	(36.2)	7,044	(31.7)	2,942	(68.2)

(Note) Comprehensive income: Three months ended June 30, 2023: ¥51,913 million / –%
Three months ended June 30, 2022: ¥4,638 million / (50.3)%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2023	1,176.80	1,175.42
Three months ended June 30, 2022	65.09	64.98

(2) Consolidated financial position

	Total assets	Net assets	Shareholders’ equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	536,597	272,255	50.0
As of March 31, 2023	485,116	227,124	45.9

(Reference) Shareholders’ equity: As of June 30, 2023: ¥268,391 million
As of March 31, 2023: ¥222,902 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	–	–	–	90.00	90.00
Fiscal year ending March 31, 2024	–				
Fiscal year ending March 31, 2024 (Forecast)		–	–	90.00	90.00

(Note) Amendment to forecasts of dividends recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(% figures show year-on-year change for the full year and quarter)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Second quarter-end (Cumulative)	285,000	5.6	13,200	(9.7)	13,700	(12.9)	54,100	538.0	1,202.53
Full year	550,000	4.6	20,000	(16.5)	20,600	(18.3)	57,700	241.9	1,282.55

(Note) Amendment to forecasts of consolidated financial results recently announced: None

*** Notes**

(1) Changes in significant subsidiaries during the three months ended June 30, 2023: None
(changes in specified subsidiaries affecting the scope of consolidation)
New: - (Company name:) Excluded: - (Company name:)

(2) Application of special accounting for preparing quarterly consolidated financial statements: Yes
For details, refer to page 11 of the attached materials, "2. Quarterly Consolidated Financial Statements and Notes (3) Note regarding the quarterly consolidated financial statements (Application of special accounting for preparing quarterly consolidated financial statements)."

(3) Changes in accounting policies and estimates, and retrospective restatements
(i) Changes in accounting policies in accordance with revision of accounting standards: None
(ii) Changes in accounting policies other than item (i) above: None
(iii) Changes in accounting estimates: None
(iv) Retrospective restatements: None

(4) Number of shares issued (common stock)
(i) Number of shares outstanding at end of period (including treasury shares)

As of June 30, 2023	47,845,343 shares
As of March 31, 2023	47,845,343 shares

(ii) Number of treasury shares at end of period

As of June 30, 2023	3,139,917 shares
As of March 31, 2023	2,607,118 shares

(iii) Average number of shares during period

For the three months ended June 30, 2023	44,988,669 shares
For the three months ended June 30, 2022	45,205,153 shares

* Quarterly financial results are not subject to audit by a certified public accountant or audit corporation.

* Proper use of earnings forecasts, and other special matters
The above forecasts of consolidated financial results are based on information currently available to the Company and on certain assumptions on market trends, etc. deemed to be reasonable, and are subject to uncertainties. Consequently, actual business and other results may differ substantially due to various factors. For details on the above forecasts of consolidated financial results, refer to page 6 of the attached materials, "1. Qualitative Information on Quarterly Results (3) Explanation of forward-looking information including consolidated earnings forecasts."

[Attached Materials]

Index

1. Qualitative Information on Quarterly Results

(1) Explanation of consolidated operating results

In the first quarter of the consolidated fiscal year under review, the prolonged situation in Ukraine, tight monetary policy around the world, and other factors had various impacts on international society and posed downside risks to the global economy. In Japan, economic activity picked up as a result of the easing of rules related to infectious disease countermeasures, and although a moderate recovery in business conditions is expected to continue owing to rising demand for labor, higher wages, and a resurgence in inbound tourist demand, the negative impact of higher prices on household finances and companies could also continue. Given such developments, the trends in the domestic and global situation will continue to require close monitoring.

Under these circumstances, based on the new Medium-term Business Plan 2022–2024, which began in the previous fiscal year, the Morinaga Milk Group is striving to provide health value and tastiness and delightfulness that are unique to it. In particular, against the backdrop of increasing health needs in and outside Japan, the Group has been expanding products in the "five domains of wellness," including yogurt and functional ingredients, that take into consideration various health issues.

In the Global Business, as well as the core MILEI GmbH business, we are moving forward with further initiatives aimed at achieving growth over the medium to long term, such as by steadily getting business plans underway at the M&A implemented in the previous fiscal year in Pakistan, the U.S., and Vietnam.

On the other hand, we continued to be affected by higher costs, such as increased dairy ingredient, raw material and energy prices, as well as various operation costs. To counter this situation, further efforts were made to absorb the costs such as by revising prices, improving the product mix through expansion of high-profit-margin businesses and products, expanding the Global Business, and reviewing Group-wide costs. As a result, while both net sales and profit increased in the three months ended June 30, 2023, we expect the environment to remain difficult.

<Morinaga Milk Group's 10-year vision and Medium-term Business Plan 2022–2024>

The Group established the Morinaga Milk Group 10-year Vision in April 2019, setting out its vision for the next 10 years. Under the vision, the Morinaga Milk Group sees itself one decade ahead in terms of becoming:

- "a company that balances 'delicious and pleasurable food' with 'health and nutrition',"
- "a global company that exerts a unique presence worldwide," and
- "a company that persistently helps make social sustainability a reality,"

based on which we have established targets for the fiscal year ending March 31, 2029, aiming to achieve:

- an "operating profit margin of at least 7%," an "ROE of at least 10%," and a "Global Business sales ratio of at least 15%."

Underpinned by this vision, we have established three basic policies for the three-year Medium-term Business Plan 2022–2024 that extends through the fiscal year ending March 31, 2025, which are:

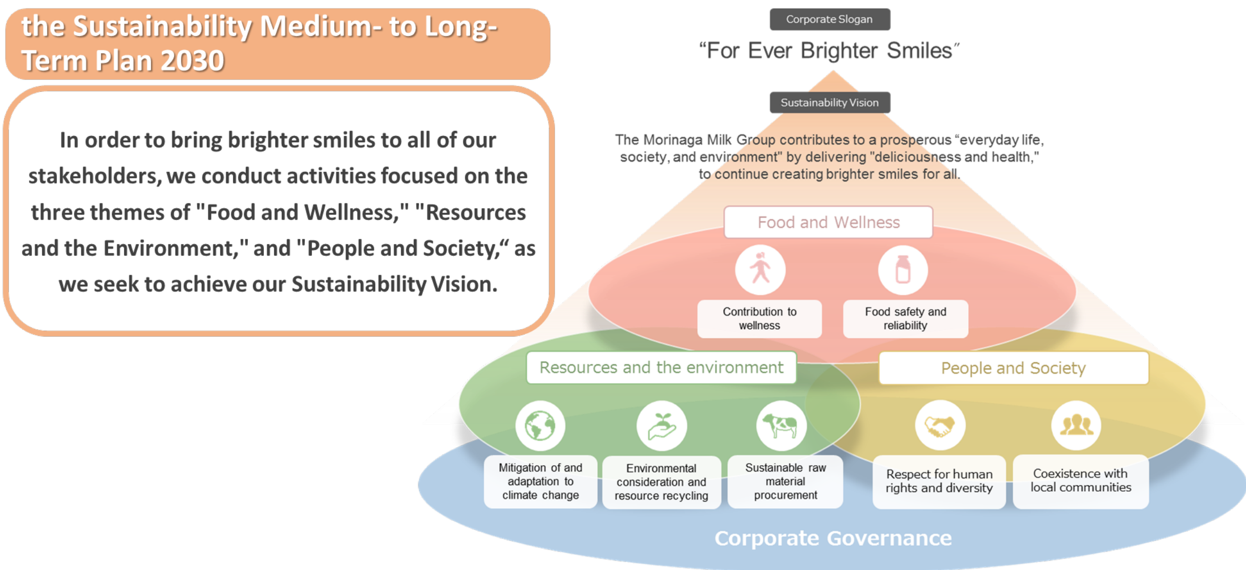
- "achieving sustainable growth by increasing the added value of our business,"
- "further strengthening our business base with an eye on the future," and
- "financial strategies focused on efficiency,"

and aim to balance resolution of social issues and improvement of profitability as we pursue the plan. Additionally, we have formulated the "Sustainability Medium- to Long-Term Plan 2030," in which 2030 targets and KPIs have been set for the three themes of "Food and Wellness," "Resources and the Environment," and "People and Society." It is placed at the core of management and is carried out in conjunction with the Medium-term Business Plan.

With respect to numerical targets for the final fiscal year of the Medium-Term Business Plan (ending March 31, 2025), we are aiming for net sales of ¥540.0 billion, operating profit of ¥25.0 billion, profit attributable to owners of parent of ¥16.0 billion, operating profit to net sales ratio of 4.6 %, ROE of 6%, and global business sales ratio of 13%.

(Reference material 1) Overview of the Medium-term Business Plan 2022–2024

(Reference material 2) Sustainability Medium- to Long-Term Plan 2030



The first basic policy of the Medium-term Business Plan is "Achieving sustainable growth by increasing the added value of our business," to which end we have reconfigured our business structure by combining the previous business fields of the B-to-C and Wellness businesses and reorganizing them as (1) the Nutrition and Healthcare Foods Business and (2) the Core Dairy Foods Business, which together with (3) the B-to-B Business and (4) the Global Business comprise the four new pillars of our business. We are working on expanding these pillars individually and are also seeking in particular to accelerate the provision of health value laterally across the four pillars by expanding products in the "five domains of wellness," as well as striving for renewed growth of our proprietary functional ingredients and bacteria and portfolio transformation of the Global Business. Through our business activities, we will contribute to the "wellness" and "happiness" of consumers by providing "health value" and "tastiness and delightfulness."

The second basic policy is "Further strengthening our business base with an eye on the future," which is being pursued from the perspectives of structural reform, strategic investments, and asset utilization. Structural reform is being carried out by strengthening resilience to changes in the external environment and other measures. As strategic investments, our plan includes strengthening of R&D functions and growth investments and environment-related investments that are in line with our 10-year vision. In terms of asset utilization, we are strengthening our intellectual property base and promoting utilization of domestic milk resources.

The third basic policy of "Financial strategies focused on efficiency" aims to carry out strategic investments for growth and make use of funds by paying attention to shareholder returns and financial position, to be pursued in tandem with improvement of ROE focusing on capital efficiency. With respect to shareholder returns, we maintain the basic policy of paying stable and long-term dividends, and will raise the target payout ratio to 30% from the previous target of 20%. Additionally, we will take measures that give due consideration to total payout ratio. Treasury shares that we hold will, in principle, be canceled, except for a certain portion that will be retained to allow for a flexible capital policy in the future. Based on this policy, we announced "Notice Concerning Decision on Matters Relating to Acquisition of Treasury Shares and Cancellation of Treasury Shares" in May 2023.

<Key initiatives for the fiscal year under review>

The fiscal year ending March 31, 2024, has been positioned as an important year for preparations to achieve the Medium-Term Business Plan 2022–2024. While continuing to forge ahead with various initiatives and responding to dramatic changes in the environment, we will endeavor to further strengthen our corporate structure and business.

- Deal with cost increases driven by higher raw materials and energy prices.
  - Minimize the impact of cost increases through price revisions, product mix improvement, rationalization, and other measures
- Promote initiatives in line with the policies of Medium-term Business Plan 2022–2024 and Sustainability Medium- to Long-Term Plan 2030.
  - Provide products that meet the needs of customers, offer high-value-added products, and promote the value of products by pursuing "health value" and "tastiness and delightfulness" that are unique to the Morinaga Milk Group
  - Expand products in the "five domains of wellness," including yogurt and functional ingredients, that take into account various health issues, mainly in the Nutrition and Healthcare Foods Business
  - Promote initiatives for further expansion of the Global Business
  - Strengthen the profit base of the Core Dairy Foods Products that constitute the Group's business foundation and implement a recovery in the B-to-B Business (commercial dairy products)
  - Invest in growth areas to further strengthen the business base
    (Planned start of operation in April 2024: expanded manufacturing building at the Kobe Plant and other initiatives)
  - Strengthen shareholder returns

("Notice Concerning Decision on Matters Relating to Acquisition of Treasury Shares and Cancellation of Treasury Shares" announced in May 2023)

- Efforts to promote sustainability management
  (Contribution to wellness through our main business, measures to address environmental issues such as climate change and the problem of plastics, giving due consideration to human rights and diversity, promotion of sustainability awareness throughout the Group, etc.)

As a result, consolidated net sales increased. In the Nutrition and Healthcare Foods Business and the Core Dairy Foods Business, we made efforts to revise prices of yogurt, infant formula, beverages, cheese, chilled desserts, and other products, and to provide high-value-added products such as functional yogurt, "Mt. RAINIER CAFFÈ LATTE," and ice cream. Overall net sales increased due to the increase in revenue in the B-to-B Business following the recovery in consumption, and growth in the Global Business, which was in part the result of a solid performance by MILEI GmbH and the contribution of newly consolidated overseas subsidiaries.

In terms of consolidated profit, we continued to be affected by higher costs in a range of areas, but centered on raw material and energy prices, and various operation costs. For raw materials in particular, the trading price of raw milk for dairy products was hiked in April 2023. There have also been new cost increases, such as the temporary tax burden associated with the sale of the former Tokyo Plant site that took place in April 2023, and the amortization of goodwill from M&A deals. In response, we promoted price revisions, improved product mix through expansion of high-profit-margin businesses and products, expanded the Global Business, and conducted Group-wide cost reviews. As a result, profit increased in the three months ended June 30, 2023, but we expect the environment to remain difficult.

Also, due in part to the recording of ¥65.7 billion in extraordinary income from the sale of the former Tokyo Plant, profit attributable to owners of parent increased significantly, by 1,699.2% year on year, to ¥52,942 million.

Consolidated net sales	¥139,738 million	(+7.2% YoY)
Consolidated operating profit	¥9,645 million	(+53.3% YoY)
Consolidated ordinary profit	¥10,499 million	(+49.0% YoY)
Profit attributable to owners of parent	¥52,942 million	(+1,699.2% YoY)

(Other important operating indicators)

Operating profit to net sales	6.9%
ROE	21.6%
Global Business sales ratio	12.6%

(Reference) Overview of the results by business field (four pillars of business) in the Medium-term Business Plan 2022–2024

1. Nutrition and Healthcare Foods Business: In addition to working to revise selling prices for yogurt, we continued to focus on expanding functional yogurt sales against the background of a rise in health awareness, and "Bifidus Yogurt Improves Bowel Movement" performed particularly well. Net sales increased for the business as a whole, due in part to the contribution of nutritional food products such as infant formula and CLINICO Co., Ltd., which sells liquid foods and other items.

   In terms of profits, although we were affected by the rise in prices for raw materials and energy and increased operational costs, we endeavored to revise selling prices and improve the product mix and cut costs, and succeeded in increasing profits.

Nutrition and Healthcare Foods Business net sales	¥31,991 million	(+2.3% YoY)
Nutrition and Healthcare Foods Business operating profit	¥1,966 million	(+¥116 million YoY)

2. Core Dairy Foods Business: Although we were affected by the rise in prices for raw materials and energy and increased operational costs, we achieved higher net sales and profits for the business as a whole by revising selling prices for beverages, cheese, chilled deserts, and other products, working to improve the product mix by expanding sales of high value-added products such as “Mt. RAINIER CAFFÈ LATTE” and ice cream, and cutting costs.

Core Dairy Foods Business net sales	¥45,315 million	(+1.0% YoY)
Core Dairy Foods Business operating profit	¥2,839 million	(+¥913 million YoY)

3. B-to-B Business: Although we were affected by the rise in prices for raw materials and energy and increased operational costs, in the commercial dairy products that account for a high percentage of sales, we moved forward with sales expansion following the recovery in consumption, and with revisions to selling prices, which resulted in higher sales and profits for the business as a whole. We continue to see high interest in functional ingredients, including the Company’s own bacteria, as a result of increasing health needs.

B-to-B Business net sales	¥24,085 million	(+5.7% YoY)
B-to-B Business operating profit	¥1,077 million	(+¥539 million YoY)

4. Global Business: In addition to a strong performance by MILEI GmbH, which manufactures and sells dairy ingredients, contributions by new subsidiaries NutriCo Morinaga (Pvt.) LTD. and Turtle Island Foods Holdings, Inc., which were consolidated due to M&A, led to higher sales for the business as a whole.

In terms of profits, despite the rise in prices for raw materials and energy, and the increase in amortization of goodwill resulting from M&A and other factors, the impact of higher sales contributed to higher profit for the business as a whole.

Global Business net sales	¥17,629 million	(+29.5% YoY)
Global Business operating profit	¥2,781 million	(+¥1,156 million YoY)

(2) Explanation of consolidated financial position

Total assets at the end of the first quarter of the consolidated fiscal year under review increased by ¥51,481 million to ¥536,597 million compared with the end of the previous fiscal year. This was mainly the result of an increase in cash and deposits and an increase in notes and accounts receivable–trade and contract assets from seasonal factors.

Total liabilities were ¥264,342 million, up ¥6,350 million from the end of the previous fiscal year. This was mainly due to an increase in income taxes payable, despite a decrease in commercial papers.

Net assets were ¥272,255 million, up ¥45,131 million from the end of the previous fiscal year. This was mainly attributable to an increase in retained earnings.

As a result, the shareholders’ equity ratio was 50.0%, compared with 45.9% at the end of the previous fiscal year.

(3) Explanation of forward-looking information including consolidated earnings forecasts

There is no amendment to consolidated earnings forecasts for the fiscal year ending March 31, 2024 disclosed on May 15, 2023.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	21,096	60,391
Notes and accounts receivable - trade, and contract assets	65,354	75,051
Merchandise and finished goods	49,482	51,437
Work in process	1,221	1,039
Raw materials and supplies	23,679	25,201
Other	18,676	12,374
Allowance for doubtful accounts	(322)	(542)
Total current assets	179,189	224,953
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	84,255	83,609
Machinery, equipment and vehicles, net	94,294	94,214
Land	53,959	53,756
Other, net	15,879	19,165
Total property, plant and equipment	248,388	250,745
Intangible assets		
Goodwill	11,127	13,212
Other	10,112	9,775
Total intangible assets	21,239	22,988
Investments and other assets		
Investment securities	21,760	24,203
Other	14,682	13,773
Allowance for doubtful accounts	(145)	(65)
Total investments and other assets	36,298	37,911
Total non-current assets	305,926	311,644
Total assets	485,116	536,597

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable–trade	53,844	58,028
Electronically recorded obligations–operating	4,600	5,114
Short-term borrowings	5,233	8,158
Current portion of long-term borrowings	7,952	7,994
Commercial papers	10,000	—
Current portion of bonds payable	—	10,000
Income taxes payable	2,927	18,247
Accrued expenses	35,991	34,170
Deposits received	15,733	15,494
Other	20,324	15,792
Total current liabilities	156,607	173,000
Non-current liabilities		
Bonds payable	55,000	45,000
Long-term borrowings	20,196	19,491
Retirement benefit liability	21,483	21,734
Other	4,704	5,116
Total non-current liabilities	101,384	91,341
Total liabilities	257,991	264,342
Net assets		
Shareholders' equity		
Share capital	21,821	21,821
Capital surplus	19,985	19,993
Retained earnings	186,518	235,389
Treasury shares	(14,316)	(17,022)
Total shareholders' equity	214,009	260,182
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,591	10,282
Deferred gains or losses on hedges	(49)	26
Foreign currency translation adjustment	1,549	(964)
Remeasurements of defined benefit plans	(1,198)	(1,134)
Total accumulated other comprehensive income	8,893	8,209
Share acquisition rights	124	124
Non-controlling interests	4,097	3,739
Total net assets	227,124	272,255
Total liabilities and net assets	485,116	536,597

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

(Consolidated statements of income)

(April 1, 2023 – June 30, 2023)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net sales	130,300	139,738
Cost of sales	100,324	106,264
Gross profit	29,975	33,473
Selling, general and administrative expenses	23,686	23,828
Operating profit	6,289	9,645
Non-operating income		
Interest income	1	7
Dividends income	367	376
Rental income from buildings	69	70
Foreign exchange gains	448	834
Other	154	239
Total non-operating income	1,041	1,528
Non-operating expenses		
Interest expenses	174	252
Share of loss of entities accounted for using equity method	37	2
Loss on valuation of derivatives	2	356
Other	72	62
Total non-operating expenses	286	673
Ordinary profit	7,044	10,499
Extraordinary income		
Gain on sale of non-current assets	127	65,685
Other	－	146
Total extraordinary income	127	65,832
Extraordinary losses		
Loss on disposal of non-current assets	166	41
Contributions to the public interest incorporated foundation Hikari Kyokai	470	470
Impairment losses	1,226	－
Rebuilding-related losses	191	172
Other	89	40
Total extraordinary losses	2,143	724
Profit before income taxes	5,028	75,608
Income taxes	2,053	22,635
Profit	2,975	52,972
Profit attributable to non-controlling interests	32	29
Profit attributable to owners of parent	2,942	52,942

(Consolidated statements of comprehensive income)
(April 1, 2023 – June 30, 2023)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit	2,975	52,972
Other comprehensive income		
Valuation difference on available-for-sale securities	589	1,693
Deferred gains or losses on hedges	68	81
Foreign currency translation adjustment	928	(2,902)
Remeasurements of defined benefit plans, net of tax	47	63
Share of other comprehensive income of entities accounted for using equity method	29	3
Total other comprehensive income	1,663	(1,059)
Comprehensive income	4,638	51,913
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,587	52,258
Comprehensive income attributable to non-controlling interests	50	(345)

(3) Note regarding the quarterly consolidated financial statements

(Notes on premise of going concern)
No items to report.

(Notes on significant changes in the amount of shareholders' equity)
In accordance with a resolution of the Board of Directors taken on May 15, 2023, the Company acquired 532,300 treasury shares. As a result of this and other factors, treasury shares increased by ¥2,706 million during the first quarter of the fiscal year, leading to treasury shares of ¥17,022 million as of June 30, 2023.

(Application of special accounting for preparing quarterly consolidated financial statements)
(Assessment of tax expenses)
The Company and its consolidated subsidiaries apply the method that reasonably estimates an effective tax rate to be assessed on profit before income taxes for the fiscal year ending March 31, 2024, including this first quarter of the fiscal year under review after accounting for the tax effects, and multiplies profit before income taxes during the first quarter of the fiscal year ending March 31, 2024 by said estimated effective tax rate.