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April 12, 2024

Consolidated Financial Results for the Three Months Ended February 29, 2024 (Under Japanese GAAP)

Company name: Lacto Japan Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 3139
 URL: <https://www.lactojapan.com/en/>
 Representative: Motohisa Miura, President
 Inquiries: Kenji Bundo, Executive Vice-President
 Scheduled date to file quarterly securities report: April 12, 2024
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the three months ended February 29, 2024 (from December 1, 2023 to February 29, 2024)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	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								
February 29, 2024	39,720	2.5	1,251	23.5	1,116	50.1	819	61.1
February 28, 2023	38,745	22.0	1,013	36.9	743	3.5	509	(2.8)

Note: Comprehensive income For the three months ended February 29, 2024: ¥ 1,316 million [105.0%]
 For the three months ended February 28, 2023: ¥ 642 million [(4.6)%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
February 29, 2024	82.20	81.61
February 28, 2023	51.45	50.88

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
February 29, 2024	78,937	25,826	32.7
November 30, 2023	72,038	24,724	34.2

Reference: Equity

As of February 29, 2024: ¥ 25,793 million
 As of November 30, 2023: ¥ 24,655 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended November 30, 2023	–	24.00	–	24.00	48.00
Fiscal year ending November 30, 2024	–				
Fiscal year ending November 30, 2024 (Forecast)		31.00	–	31.00	62.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Forecast of Financial Results for Fiscal Year Ending November 30, 2024 (December 1, 2023 through November 30, 2024)

	Net sales		Ordinary income		Net income attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ended May 31, 2024	80,000	(0.6)	1,800	33.8	1,300	40.9	130.44
Fiscal year ended November 30, 2024	160,000	1.1	3,400	19.4	2,400	17.2	240.90

Note: Revisions to the forecast of financial results most recently announced: Yes

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement:
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None
- (4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of February 29, 2024	10,021,600 shares
As of November 30, 2023	9,961,200 shares

- (ii) Number of treasury shares at the end of the period

As of February 29, 2024	5,052 shares
As of November 30, 2023	5,052 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Three months ended February 29, 2024	9,974,748 shares
Three months ended February 28, 2023	9,894,422 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Cautionary Statement)

The consolidated business results forecasts contained in this report are based on information available at the present time and certain premises thought to be reasonable. Accordingly, the final results may change substantially due to various factors.

(How to obtain supplementary materials for financial results)

Supplementary materials for financial results will be posted on our website.

(<https://www.lactojapan.com/en/ir>)

(Changes to monetary unit)

Previously, the monetary unit used for items and other matters contained in the Company's quarterly consolidated financial statements were recorded in thousands of yen. However, the monetary unit has been changed to be shown in millions of yen from the current first quarter consolidated accounting and cumulative period. For ease of comparison, figures for the previous consolidated fiscal year and cumulative first quarter have also been changed to units of millions of yen.

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Qualitative Information on Quarterly Financial Results

(1) Operating Results

During the current first quarter consolidated cumulative period (the “first quarter”), despite the continued rise in the cost of living, Japan's economy experienced a moderate recovery trend due to normalization of economic activity and an increase in inbound tourism consumption. On the other hand, the outlook for the global economy remained uncertain due to the economic downturn in China and rising geopolitical risks among other factors.

In the domestic food industry, demand for various food products remained strong against the backdrop of economic recovery. Among foods made from dairy products, while consumption of some products such as yogurt was sluggish due to successive price increases, there were some products, such as ice cream, confectionery, and proteins, that saw strong consumption, so overall demand for dairy ingredients was steady. Since the COVID-19 pandemic, excess inventory of domestically produced skim milk powder, which has been a problem in the dairy farming and dairy industries, has been adjusted. Consequently, demand for imported dairy products is expected to recover relatively quickly.

Under these circumstances, the Lacto Japan Group continued to implement various measures with the aim of achieving its Corporate Business Plan titled, NEXT-LJ 2025. In the Group's domestic business during the first quarter, demand for food products in a wide range of fields was on a recovery trend. As such, both sales volume and net sales in all divisions were higher than the previous year's first quarter. In our Asian business, despite a significant decline in business related to the export of skim milk powder from Japan in the Dairy Ingredients Sales Division (trading company), the Cheese Manufacturing & Sales Division (manufacturer) saw growth in terms of both sales volume and net sales as signs of recovery began to appear in regional economies outside of China.

In sales of dairy ingredients in Japan, profits for the first quarter were better than expected. This is thanks to stronger than expected sales at the beginning of the fiscal year of our mainstay powdered milk mixtures, and higher than expected profit margins on sales of dairy ingredients in Asia. Furthermore, profit margins in cheese manufacturing & sales improved due to lower cheese ingredient prices and the effect of revised selling prices.

As a result of the above, net sales for the first quarter were 39,720 million yen (up 2.5% year on year). Operating income was 1,251 million yen (up 23.5% year on year), ordinary income was 1,116 million yen (up 50.1% year on year), and net income attributable to owners of parent was 819 million yen (up 61.1% year on year).

Performance by division is as follows:

(Dairy Ingredients and Cheese Business Division)

In dairy ingredients, sales of ingredients for ice cream and chocolate were strong. And while dairy manufacturers continued to prioritize the use of domestic ingredients in an effort to control inventories of skim milk powder in Japan, sales of imported powdered milk mixtures to non-dairy manufacturers showed a faster than expected recovery thanks to the decrease in skim milk stock.

In terms of cheese sales, demand for cheese ingredients has not yet fully recovered due to the impact of the previous year's price increases on both commercial and household use. And although there were supply chain disruptions and significant changes in international market prices since the COVID-19 pandemic, we expanded business with multiple major clients by leveraging our procurement capabilities to continue to supply ingredients in a timely manner, resulting in steady sales.

As a result, first quarter sales volume for the Dairy Ingredients and Cheese Business Division was 45,583 tons (up 12.3% year on year) with net sales of 28,124 million yen (up 1.9% year on year).

(Meat and Ingredients Division)

In the Meat and Ingredients Division, sales volumes of both meat and processed meat products increased compared to the same quarter last year. In meat sales, pork sales grew thanks to increased demand for frozen pork from North America. In addition, in sales of chicken and processed chicken products, which we have been working to expand since last year, sales volume increased due to steady progress in existing business and developing new sales channels.

As a result, first quarter sales volume for the Meat and Ingredients Division was 7,766 tons (up 29.3% year on year) with

net sales of 5,111 million yen (up 25.8% year on year).

(Functional Food Ingredients Division)

In the Functional Food Ingredients Division, sales of milk proteins, which are ingredients for protein products, continued to grow, with increased sales volume compared to the same quarter last year. There is strong demand for protein products, especially in the field of sports nutrition, helping to expand the market in Japan. As well as maintaining a stable supply of dairy products by utilizing our procurement network cultivated through the import of dairy products, business is steadily growing with more business partners thanks to recipe ideas that meet customer needs and additional proposals for functional ingredients.

As a result, first quarter sales volume for the Functional Food Ingredients Division was 584 tons (up 42.7% year on year) with net sales of 744 million yen (up 19.1% year on year).

Please note that sales volume and net sales for this division were included in the Asian Business, Others up until the previous fiscal year. However, from the first quarter of this year, sales volume and net sales will be disclosed as a separate, independent division.

(Asian Business, Others)

In the Asian Dairy Ingredients Sales Division (trading company), both net sales and sales volume decreased year on year due to a significant drop in transactions for the export of skim milk powder from Japan and large one-off sales in the previous fiscal year. However, owing to the Group's solid capability to procure ingredients and address needs locally, sales in local markets have been steady with the acquisition of new business and the sale of competitive products to major suppliers. Profit margins also increased due to improved product mix.

As a result, first quarter sales volume was 8,286 tons (down 20.1% year on year) with net sales of 4,207 million yen (down 19.8% year on year).

In the Asian Cheese Manufacturing & Sales Division (manufacturer), sales of processed cheese to China remained sluggish due to the continued impact of the economic downturn. However, sales volume increased in the first quarter compared to the previous year due to a gradual recovery in demand for processed cheese in Thailand, where the economy has seen an upturn, and increased demand for processed natural cheese products for pizza chains and Japanese restaurants, in addition to steady sales to bakeries in Singapore and Malaysia. Moreover, in addition to an improved cost of sales ratio due to a drop in raw material cheese prices, the division's profit margin increased owing to the effects of price revisions implemented in the previous fiscal year.

As a result, first quarter sales volume was 1,228 tons (up 6.4% year on year) with net sales of 1,264 million yen (up 16.3% year on year).

As a result, sales in the Asian Business, Others for the first quarter amounted to 5,739 million yen (down 11.2% year on year).

(2) Financial Position

Total assets at the end of the first quarter increased by 6,898 million yen from the end of the previous consolidated fiscal year to 78,937 million yen.

(Current assets)

The balance of current assets at the end of the first quarter was 73,753 million yen, an increase of 6,685 million yen compared to the end of the previous consolidated fiscal year. This was mainly due to an increase of 3,092 million yen in merchandise and finished goods.

(Non-current assets)

The balance of non-current assets at the end of the first quarter was 5,183 million yen, an increase of 213 million yen

compared to the end of the previous consolidated fiscal year. This was mainly due to an increase of 236 million yen in property, plant and equipment.

(Current liabilities)

The balance of current liabilities at the end of the first quarter was 44,006 million yen, an increase of 6,973 million yen compared to the end of the previous consolidated fiscal year. This was mainly due to an increase in short-term borrowings of 6,005 million yen and accounts payable of 867 million yen due to an increase in merchandise and finished goods.

(Non-current liabilities)

The balance of non-current liabilities at the end of the first quarter was 9,103 million yen, a decrease of 1,177 million yen compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease in long-term borrowings of 1,128 million yen.

(Net assets)

The balance of net assets at the end of the first quarter was 25,826 million yen, an increase of 1,102 million yen compared to the end of the previous consolidated fiscal year. This was mainly due to increases of 580 million yen in retained earnings, 252 million yen in deferred gains or losses on hedges, and 183 million yen in foreign currency translation adjustments.

(3) Consolidated Earnings and Other Forecasts

In light of the recent business environment and performance trends, net sales, ordinary income, and net income attributable to owners of parent in the consolidated earnings forecast for the second quarter of the fiscal year ending November 30, 2024 have been revised from the figures previously announced on January 12, 2024. Please note that there will be no revisions to the dividend forecast in conjunction with this revision to the earnings forecast. Additionally, the forecast figures for the full-year consolidated results remain unchanged.

For details, please see the "Notice Regarding Revisions to Consolidated Earnings Forecast for the First Half of the Fiscal Year Ending November 2024" released on April 12, 2024.

Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2023 As of November 30, 2023	1st Quarter of FY2024 As of February 29, 2024
Assets		
Current assets		
Cash and deposits	7,779	9,399
Notes and accounts receivable	18,700	20,426
Merchandise and finished goods	38,798	41,890
Raw materials and supplies	1,008	963
Other	783	1,074
Allowance for doubtful accounts	(1)	(1)
Total current assets	67,068	73,753
Non-current assets		
Property, plant and equipment	2,185	2,421
Intangible assets	73	132
Investments and other assets		
Other	2,731	2,650
Allowance for doubtful accounts	(21)	(21)
Total investments and other assets	2,710	2,629
Total non-current assets	4,969	5,183
Total assets	72,038	78,937

Consolidated Balance Sheet

(Millions of yen)

	FY2023 As of November 30, 2023	1st Quarter of FY2024 As of February 29, 2024
Liabilities		
Current liabilities		
Accounts payable	14,033	14,901
Short-term borrowings	14,380	20,386
Commercial papers	3,000	3,000
Current portion of long-term borrowings	4,402	4,402
Income taxes payable	252	387
Other	964	928
Total current liabilities	37,033	44,006
Non-current liabilities		
Long-term borrowings	9,125	7,997
Retirement benefit liability	432	445
Asset retirement obligations	55	59
Other	667	602
Total non-current liabilities	10,281	9,103
Total liabilities	47,314	53,110
Net assets		
Shareholders' equity		
Share capital	1,178	1,209
Capital surplus	1,179	1,210
Retained earnings	20,066	20,647
Treasury shares	(14)	(14)
Total shareholders' equity	22,409	23,051
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	276	337
Deferred gains or losses on hedges	(56)	195
Foreign currency translation adjustment	2,025	2,208
Total accumulated other comprehensive income	2,245	2,741
Share acquisition rights	68	33
Total net assets	24,724	25,826
Total liabilities and net assets	72,038	78,937

(2) Quarterly Consolidated Income Statements

Consolidated Statement of Income

First Quarter Consolidated Cumulative Period

(Millions of yen)

	Three months ended February 28, 2023	Three months ended February 29, 2024
Net sales	38,745	39,720
Cost of sales	36,638	37,145
Gross profit	2,106	2,575
Selling, general and administrative expenses	1,093	1,323
Operating income	1,013	1,251
Non-operating income		
Interest income	2	19
Dividend income	2	3
Share of profit of entities accounted for using equity method	5	4
Insurance return	0	5
Miscellaneous income	10	5
Total non-operating income	22	37
Non-operating expenses		
Interest expenses	42	63
Commission expenses	3	9
Foreign exchange losses	242	88
Miscellaneous losses	3	11
Total non-operating expenses	291	172
Ordinary income	743	1,116
Income before income taxes	743	1,116
Income taxes	234	296
Net income	509	819
Net income attributable to owners of parent	509	819

Consolidated Statement of Comprehensive Income
First Quarter Consolidated Cumulative Period

(Millions of yen)

	Three months ended February 28, 2023	Three months ended February 29, 2024
Net income	509	819
Other comprehensive income		
Valuation difference on available-for-sale securities	(9)	60
Deferred gains or losses on hedges	232	252
Foreign currency translation adjustment	(91)	183
Share of other comprehensive income of entities accounted for using equity method	1	0
Total other comprehensive income	133	496
Comprehensive income	642	1,316
(Breakdown)		
Comprehensive income attributable to owners of parent	642	1,316
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable

(Significant Changes in Shareholder's Equity)

Not applicable

(Adoption of Accounting Treatment Specific to Preparation of the Quarterly Consolidated Financial Statements)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of tax effect accounting on net income before taxes for the consolidated fiscal year (that includes the first quarter under review) and by multiplying quarterly net income before taxes by the estimated effective tax rate.

(Significant Subsequent Events)

(Purchase of Treasury Shares)

At the Board of Directors meeting held on January 23, 2024, Lacto Japan resolved to acquire its own shares in accordance with Article 156 of the Companies Act, which is applied by replacing terms pursuant to Article 165.3 of the Companies Act.

1. Reasons for share repurchase

To enhance shareholder returns and improve capital efficiency, as well as implement a flexible capital policy.

2. Details of acquisition

- | | |
|--------------------------------------|---|
| (1) Type of shares acquired: | Common stock |
| (2) Total number of shares acquired: | 70,000 |
| (3) Total acquisition price: | ¥165,830,000 |
| (4) Acquisition date: | March 15, 2024 |
| (5) Acquisition method: | Purchases through off-auction share repurchase transactions (ToSTNeT-3) on the Tokyo Stock Exchange |

(Disposal of Treasury Shares as Restricted Stock Compensation)

At the Board of Directors meeting held on March 14, 2024, Lacto Japan resolved to and disposed of treasury stock as restricted stock compensation as follows.

Outline of disposal

- | | |
|--|-------------------------------|
| (1) Disposal date: | April 12, 2024 |
| (2) Type and number of shares disposed: | 11,861 shares of common stock |
| (3) Disposal price: | ¥2,350 per share |
| (4) Total value of share disposal | ¥27,873,350 |
| (5) Grantees of shares and number thereof;
number of shares to be allotted: | 4 directors, 11,861 shares |