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Delicious, Fun, and Healthy

MORINAGA

First Quarter, Fiscal Year Ending March 31, 2025

Results Briefing

August 8, 2024
MORINAGA & CO., LTD.

About forward-looking statements

This material includes forward-looking statements, such as forecasts, plans, and targets for the Company and its consolidated subsidiaries. These statements are based on judgments and assumptions on the basis of information that the Company has obtained and may be different from actual results and developments in the future.

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Takagi: Hello, everyone. I am Takagi from Morinaga & Co., Ltd. Thank you very much for taking time out of your busy schedule to participate in Q1 financial results briefing for the fiscal year ending March 2025.

First, I will review key points of Q1 results, followed by an explanation of specific details.

Overview

- **Record high Q1 net sales and every level of profit**
  - **Net sales increased by 11.4% YoY, driven by Confectionery & Foodstuffs, Frozen Desserts, and U.S. Businesses**
  - **Operating income increased by a high 16.2% YoY, with sales growth and the effects of price revisions offsetting the impact of soaring raw material costs, etc.**
  - **Profitability in the Confectionery & Foodstuffs Business improved, driven by growth in sugar confectionery**

- **No revision to full-year results forecast**
  - **Outlook for the external environment, such as raw material prices and exchange rates, remains uncertain**
  - **Promote flexible and agile response with agility to changes in the environment**

- **Decision made to build second U.S. factory based on the 2024 MTBP**
  - **Strengthen supply system by increasing production bases to accelerate global strategies centered on *HI-CHEW***

First, there are three points that I would like to convey to you today.

The first point is that both consolidated net sales and profits at all levels reached record highs for Q1 of the current financial year. Net sales increased in all businesses, with particularly strong growth in the Confectionery and Foodstuffs Business and Frozen Desserts Business, as well as in the U.S. Business. Consolidated net sales showed double-digit growth of 11.4% compared to the same period last year. Operating profit was also up 16.2% YoY to JPY6.7 billion, achieving double-digit growth. We made a good start to the 2024 Medium-Term Business Plan, MTBP.

The business has been affected by the rising cost of cacao-related raw materials. Soaring raw material costs were mainly offset by growth in sales and the positive effects of price revisions. The Confectionery and Foodstuffs Business was also affected by the raw material cost hikes, but strong growth in the highly profitable sugar confectionery category was the driving force, resulting in a significant improvement in the overall profitability of this business.

The second point is the full-year earnings forecast. Our performance in Q1 was robust, but we have not revised our forecasts, disclosed in May this year, at this time. We will implement effective measures in each of our businesses with the aim of achieving full-year sales growth, but we still need to take into account the possible decline in sales volume following the additional price revisions scheduled for this September.

The outlook for raw material markets and exchange rates is uncertain and unstable, and we need to closely monitor the impact of the current sharp fluctuations in stock prices and exchange rates on consumption trends.

Third point is the decision to build our second plant in the U.S. in accordance with the 2024 MTBP. In order to accelerate our global strategy centered on *HI-CHEW*, we will steadily strengthen our supply system by reinforcing our production bases, with the aim of increasing our corporate value over the medium to long term.

Consolidated Results for FY2024 Q1

Made a steady start for the first year of the 2024 MTBP, with record high Q1 net sales and all levels of profit.

(Billion yen)	FY2024 Q1	Y/Y change	
Net sales	**56.9**	**+5.9**	**111.4%**
Gross profit 〔gross profit margin〕	**23.5** 〔41.4%〕	**+2.3** 〔(0.2pt)〕	**110.7%**
Operating income 〔operating income margin〕	**6.7** 〔11.8%〕	**+0.9** 〔+0.4pt〕	**116.2%**
Ordinary income	**6.9**	**+1.0**	**115.9%**
Profit attributable to owners of parent	**4.8**	**+0.5**	**112.9%**
EBITDA[*1]	**9.0**	**+0.9**	**112.2%**

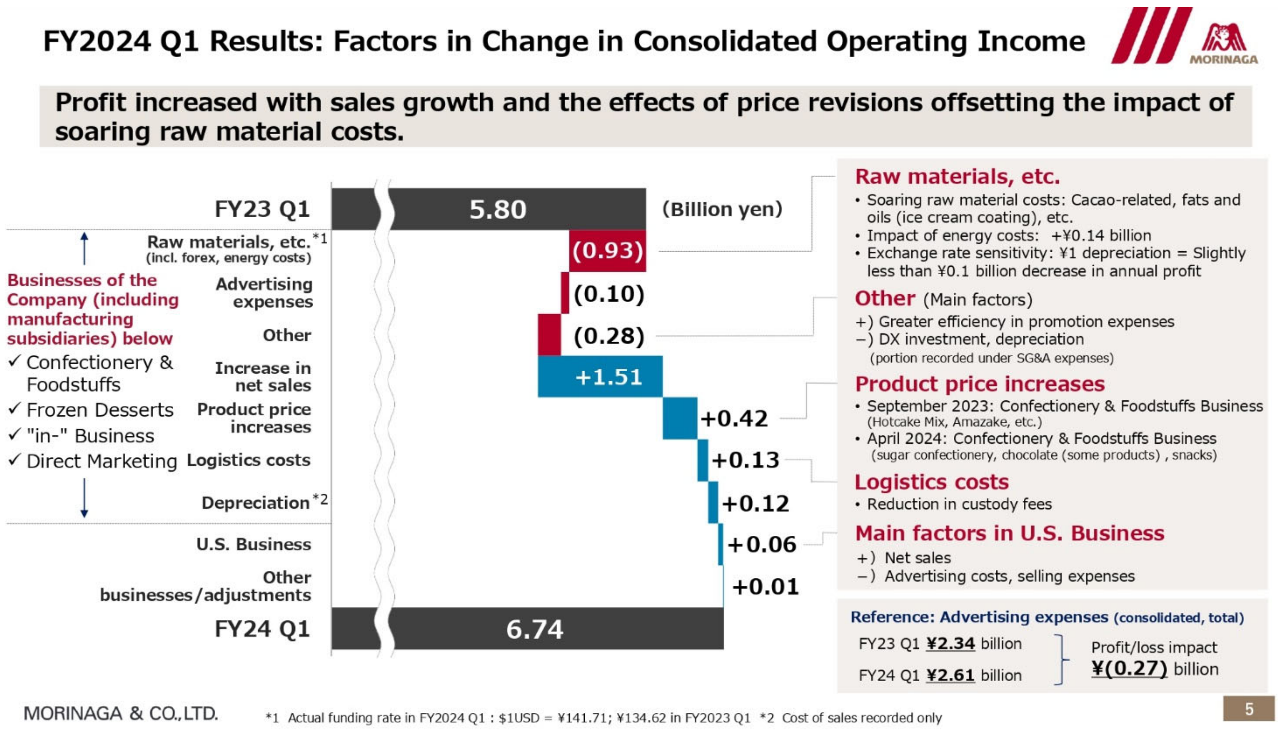
*1 Simple calculation method used for EBITDA: operating income + depreciation and amortization
*2 The yen conversion rate at overseas subsidiaries in FY2024 Q1: $1USD = ¥148.61; ¥132.34 in FY2023 Q1

I will now explain about specific business results.

First, here are the consolidated results for Q1. Net sales were JPY56.9 billion, up JPY5.9 billion YoY, with a double-digit growth rate of 11.4%. As for gross profit, the effect of price revisions in response to rising costs was limited, resulting in a slight decline in the gross profit margin. Gross profit amount itself increased due to the growth in sales.

As for SG&A expenses, while advertising expenses and investment in intangible assets such as DX increased, SG&A ratio improved due to absorption of fixed costs resulting from increased revenue, a decrease in storage fees due to inventory reduction, and a decrease in selling expenses due to a reduction in overdue goods.

Operating profit amounted to JPY6.7 billion, up 16.2% compared to the previous year, and the operating profit margin improved by 0.4 percentage points to 11.8%. Profit attributable to owners of parent was JPY4.8 billion, up 12.9% YoY, with each stage of profit reaching a record high for Q1 and cumulative period.



This shows the factors affecting changes in consolidated operating income. Factors contributing to a decrease in income are shown in red, and factors contributing to an increase in income are shown in blue.

Firstly, costs increased by JPY 0.93 billion due to higher raw material-related costs, including the impact of the weak yen and energy costs. Most of the raw material cost hikes are due to the impact of cacao-related products, oils and fats, sugar, etc.

The actual funding rate is 141.71 yen/$, which is a depreciation of the yen from 134.62 yen/$ of the same period last year. The Company's sensitivity to exchange rate fluctuations is affected by a depreciation of the yen by 1 yen, resulting in a decrease in profit of less than 0.1 billion yen per year. Energy costs are working in the direction of higher profits due to lower unit costs for utilities. Overall, the impact in Q1 was within the scope of the Company's plan.

These negative effects were offset by the growth in sales, resulting in an increase in profit. As for the outlook for Q2 onwards, the impact of rising raw material costs is expected to intensify further, particularly for cacao-related products and oils and fats. The outlook for raw material markets and foreign exchange rates is also uncertain, and in light of current trends, we are taking into consideration the possibility that the impact of these factors may be greater than planned at the beginning of the fiscal year.

FY2024 Q1 Results: Summary by Business

Net sales growth achieved in all businesses.
Increased profit was driven by improved profitability in the Confectionery & Foodstuffs Business.

(Billion yen)		Net sales FY2024 Q1	Net sales Y/Y change		Operating income FY2024 Q1	Operating income Y/Y change		Operating income margin FY2024 Q1	Operating income margin Y/Y change
Food Manufacturing	Confectionery & Foodstuffs*1	19.1	+1.7	109.4%	1.5	+0.7	186.1%	8.3%	+3.4pt
	Frozen Desserts*1	13.4	+1.8	115.2%	1.4	(0.1)	94.7%	10.7%	(2.3pt)
	"in-" Business*1	8.4	+0.2	102.0%	1.9	+0.4	126.0%	23.6%	+4.5pt
	Direct Marketing	2.8	+0.2	107.8%	0.0	(0.2)	6.4%	0.5%	(7.7pt)
	Operating Subsidiaries, etc.	2.8	+0.3	113.4%	0.1	(0.1)	56.6%	4.8%	(4.9pt)
	Domestic Total	46.7	+4.1	109.7%	5.1	+0.7	117.1%	11.0%	+0.7pt
	U.S. Business*2*3	5.1	+1.0	123.4%	1.0	+0.1	106.2%	20.1%	(3.3pt)
	China, Taiwan, exports, etc.	2.4	+0.3	118.9%	0.3	+0.0	111.9%	14.0%	(0.9pt)
	Overseas Total	7.6	+1.4	121.9%	1.3	+0.1	107.6%	18.2%	(2.4pt)
	Subtotal	54.4	+5.5	111.3%	6.5	+0.8	114.9%	12.0%	+0.3pt
Food Merchandise		1.8	+0.3	119.6%	0.1	+0.1	384.6%	8.7%	+6.0pt
Real Estate and Services		0.4	+0.0	100.1%	0.2	+0.0	106.9%	47.7%	+3.0pt
Other		0.2	+0.1	116.3%	0.0	+0.0	122.6%	24.5%	+1.2pt
adjustments, etc.					(0.2)	(0.1)	—		
Total		56.9	+5.9	111.4%	6.7	+0.9	116.2%	11.8%	+0.4pt

* In order to clearly show the actual status of the Group's business management, the classification and aggregation methods have been changed from the fiscal year ending March 31, 2025. The figures for FY2023 Q1 have had the changes retroactively applied and are based on the new method.
*1 Sugar confectionery, chocolates, and other products under the "in" brand are included in Confectionery & Foodstuffs, Frozen desserts under the "in" brand are included in Frozen desserts
*2 Includes income resulting from exports from China and Taiwan to the U.S. Business *3 Year-on-year net sales on a local currency basis is 109.9%

Looking at results by business segment, sales growth was achieved in all businesses. In particular, the Confectionery and Foodstuffs, Frozen Desserts, and U.S. Businesses mainly contributed to the growth in sales of the entire consolidated group.

The domestic Confectionery and Foodstuffs Business recorded an increase in revenue and profit, with the operating profit margin in particular improving significantly by 3.4 percentage points YoY, to 8.3%.

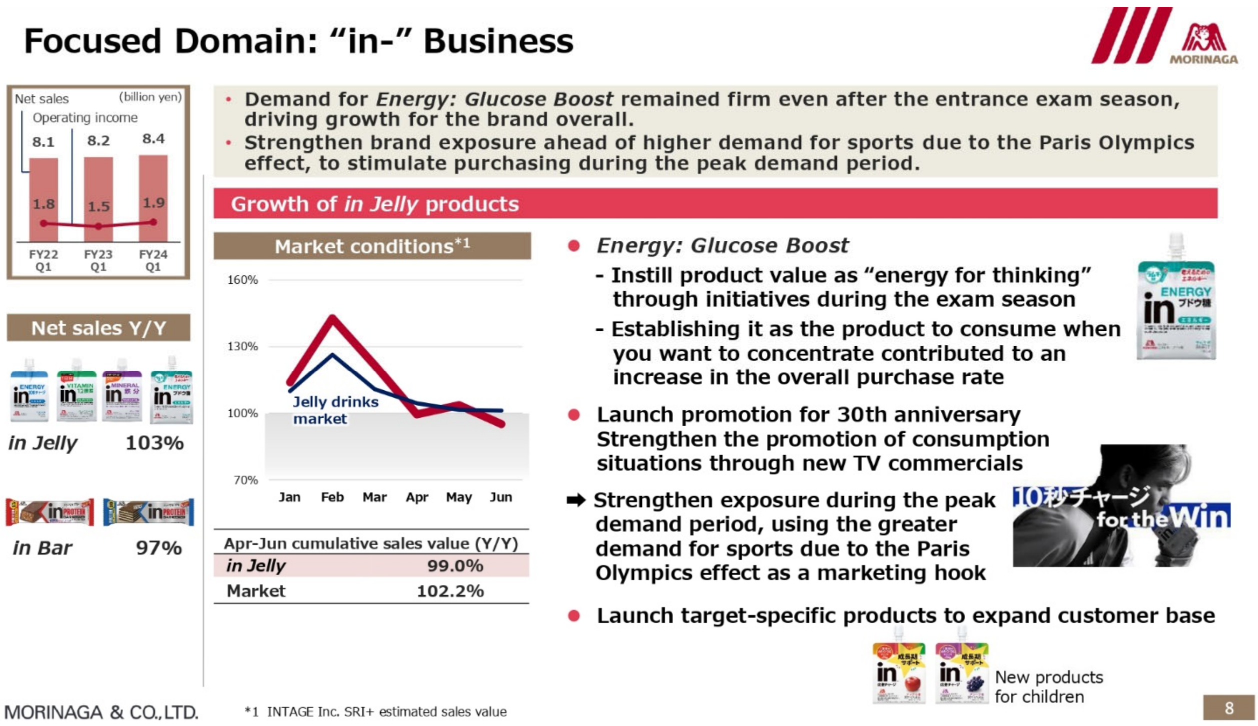
The sugar confectionery category, which has relatively high profitability, continued to perform well after the April price revision, contributing to improved profitability. In the Frozen Desserts Business, sales of *Ita Choco Ice* and *The Crepe*, in particular, made a breakthrough as the store handling rate and purchase rate expanded through quality appeals and the introduction of limited-time-only products.

On the other hand, profitability has been declining due to the impact of rising raw material costs. Sales in the U.S. Business continued to grow at a high rate of 123.4% of the previous year's level, partly due to the effect of the weaker yen. Excluding exchange rate effects, growth in local currency terms was 109.9%.

The expansion of SKUs through the development of new products and variations with different capacities, the development of new sales channels to handle more products, and the handling of event products also contributed to the increase in sales. While the growth in revenue was evident, operating profit posted a slight increase due to higher advertising, sales promotion and other expenses, as well as the impact of higher ocean freight rates and raw material costs.

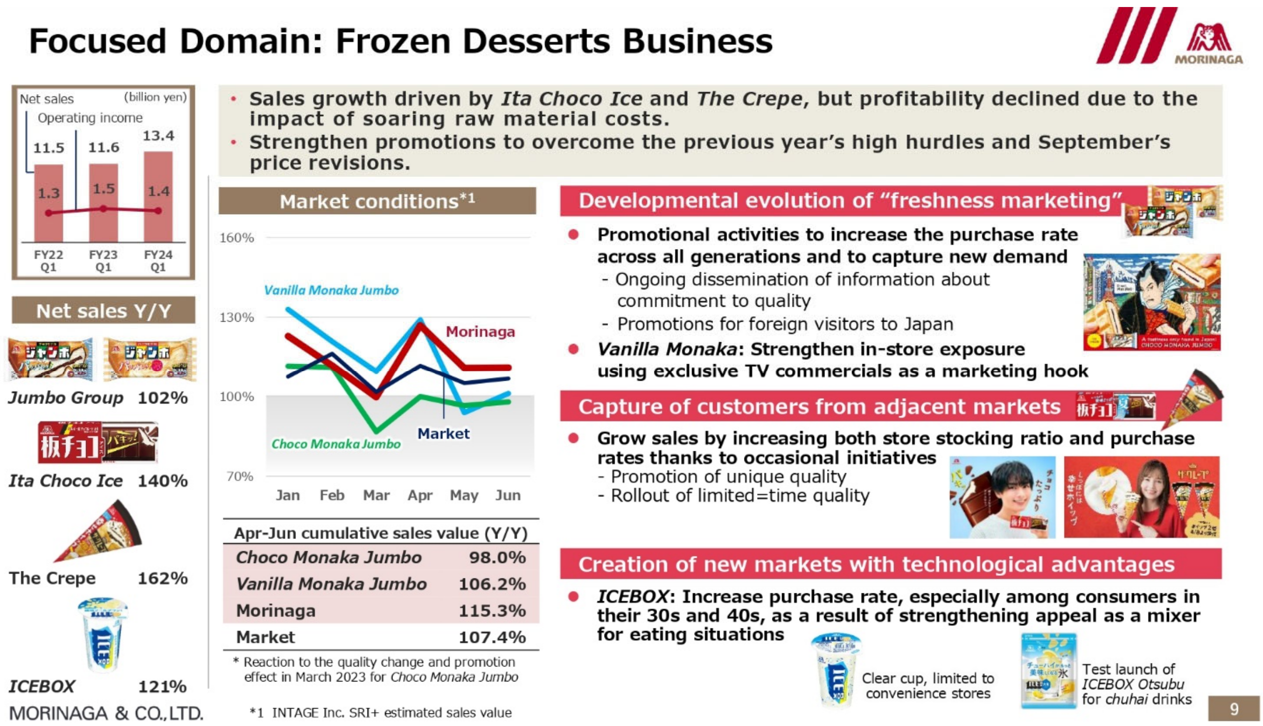
Progress on Business Strategies

Next, I would like to explain some key points regarding the progress of our major business strategies and the direction of future initiatives.



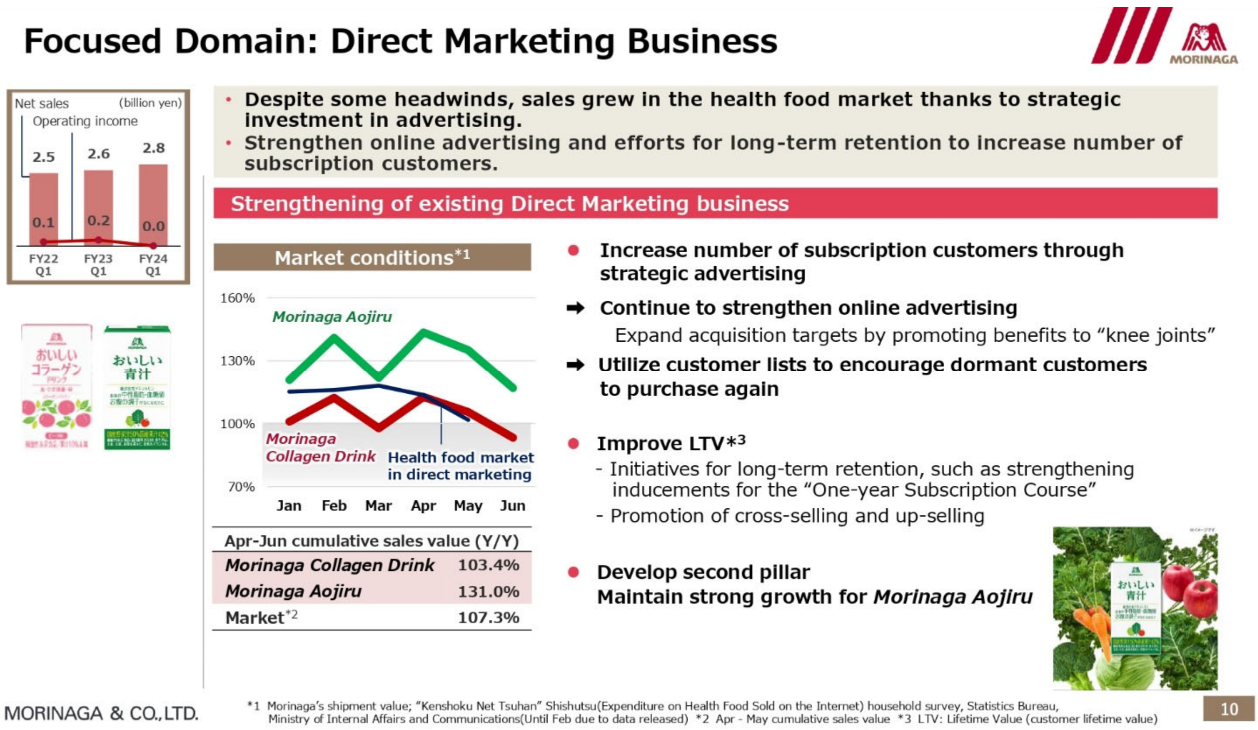
Of our focused domains, in the "in-" Business, *Energy: Glucose Boost*, for which demand is firmly established even after the exam season, is driving the overall growth of the brand.

In this fiscal year, we will strengthen brand exposure following the rise in demand for sports due to the Paris Olympics effect. We will seek to stimulate purchasing during the peak demand period. We will develop measures based on our basic strategy of expanding consumption situations and targets.

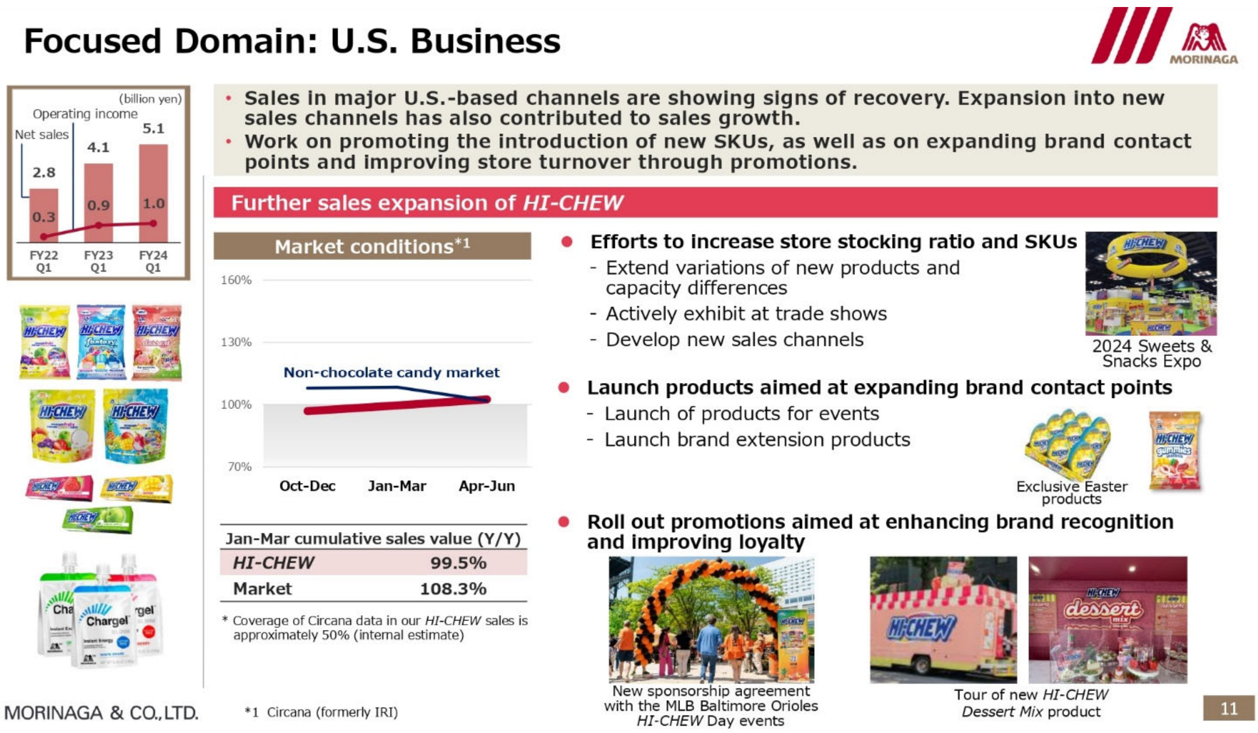


Next is the Frozen Desserts Business. Net sales increased by double digits, driven by products such as *Ita Choco Ice* and *The Crepe*. On the other hand, profitability has been declining due to the impact of rising raw material costs.

As part of our efforts this fiscal year, we plan to implement a price revision in September in order to improve profitability. We will strengthen our promotional activities to limit the impact of sales volume slowdown after the implementation. However, since Q2 of the previous year was very strong, we do not expect the growth rate in Q2 of this fiscal year to be as high as in Q1.

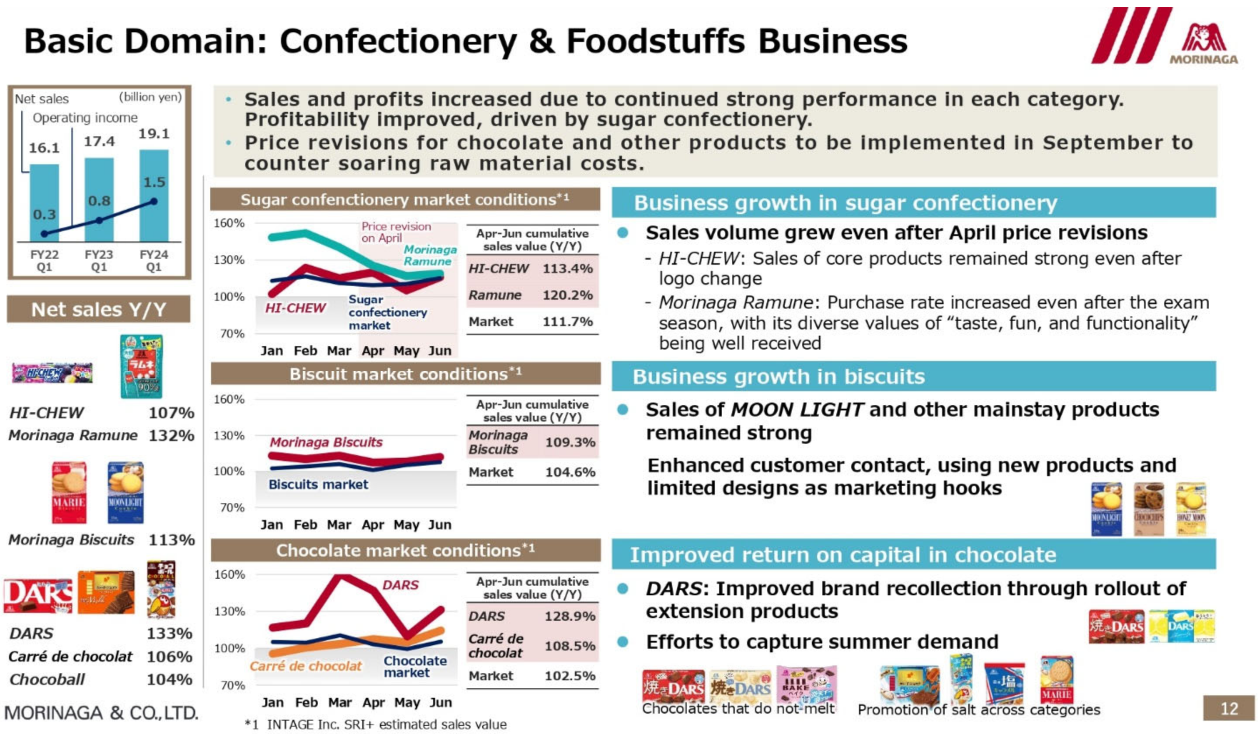


In the Direct Marketing Business, despite some headwinds in the health food market, the number of subscription customers is growing due to strategic investment in advertising, especially online. As for future efforts, we will continue to strengthen advertising investments with a view to long-term retention of subscription customers and expansion of business scale.



Next, I would like to discuss the U.S. Business. The increase in sales in the period from January to March was partly due to foreign exchange factors, but the development of new sales channels also contributed, and net sales on the local currency basis were 109.9% of the previous year's level. There are signs of a recovery in sales through major U.S.-based channels, but it is difficult to foresee an upturn in the consumption environment in the short term, and a certain amount of time is needed to build further relationships with distributors and other parties.

We believe that sustainable business growth can be achieved by continuing medium- to long-term initiatives, such as promoting the introduction of new SKUs, expanding brand contact points and improving store turnover through promotions.



The Confectionery & Foodstuffs Business, our basic domain, achieved an increase in both sales and profits due to the continued strong performance of each category. Although affected by the rising cost of raw materials, the product mix has improved, especially driven by sugar confectionery, and overall profitability of the business has improved significantly.

As part of our efforts in the current fiscal year, we plan to revise prices in September to address soaring raw material costs. We will closely monitor the impact of these changes on sales volume and consumption trends in general. We will continue to promote the transformation of our category portfolio and aim to improve profitability while strengthening product development and initiatives that leverage our strengths.

Establishment of Global Production System for *HI-CHEW*

Decision made to build a second U.S. factory to accelerate global strategies centered on *HI-CHEW*.
Aiming for further growth, especially in the U.S. Business, by strengthening the supply system and increasing production efficiency.

Morinaga America Foods, Inc. builds second factory

While the U.S. market for non-chocolate candy is projected to continue growing, Morinaga is expanding its production bases in anticipation of growth that exceeds that of the market.


Image of completed facility

Investment:	Approx. 136 million USD (approx. ¥19.6 billion)
Financial plan:	Own funds
Product:	*HI-CHEW* pouches
Construction plan:	October 2024: Start of construction January 2027: Start of operation

- ✓ Aiming to **strengthen the supply system** through coordination with the existing factory, and **increase production efficiency** by improving manufacturing equipment and introducing greater automation

We have decided to build our second U.S. factory. We will continue to steadily implement our key measures in accordance with the 2024 MTBP, with a view to business growth and increased corporate value over the medium to long term.

Thank you for your attention.

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