

Fiscal Year Ending March 31, 2017

Results Briefing

Nov 17, 2016

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.

Six Months Ended September 30, 2016 (2Q)

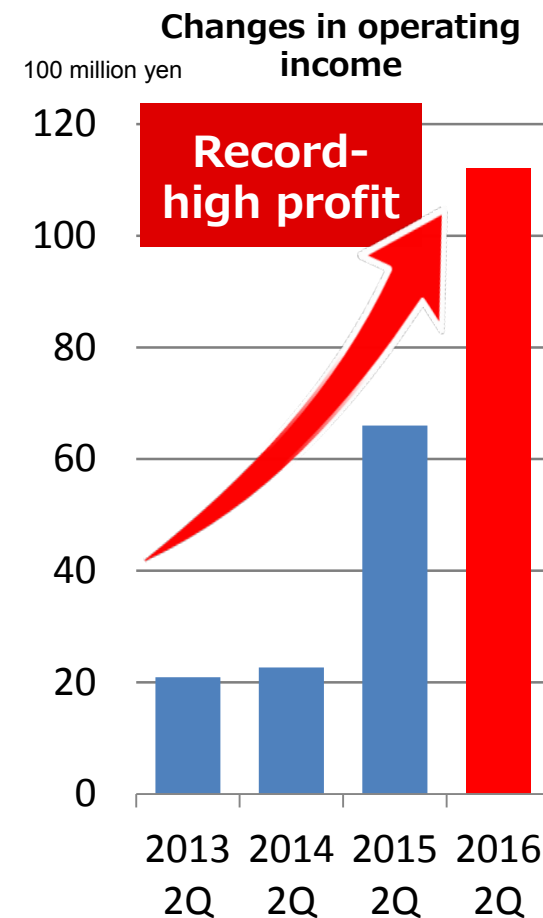
Financial Results

(April 2016 to September 2016)

Consolidated Results for 2Q 2016 (April 2016 to September 2016)

- Net sales : Growth in the mainstay Food Manufacturing segment
- Income : Record highs for operating income, ordinary income and net income, driven mainly by efforts to improve the cost of sales ratio

	(Million yen)		
	2Q ended September 30, 2016	2Q ended September 30, 2015	Y/Y (%)
Net sales	99,005	91,851	+7,154 (107.8%)
Operating income	11,213	6,601	+4,612 (169.9%)
Ordinary income	11,564	6,930	+4,634 (166.9%)
Profit attributable to owners of parent	7,828	4,975	+2,853 (157.4%)



Segment Information (consolidated) for 2Q 2016

(April 2016 through September 2016)

(Million yen)

Segment (Component ratio)	Net sales Y/Y change (%)	Segment income (Y/Y change)
Food Manufacturing (95.6%)	94,643 (108.1%)	11,168 (+4,810)
Food Merchandise (2.9%)	2,837 (106.0%)	180 (+21)
Real Estate and Services (1.3%)	1,245 (95.5%)	342 (-15)
Other Services (0.3%)	278 (83.7%)	29 (-17)

Food Manufacturing

■ Net sales

- Strong domestic sales of frozen desserts and health products
Sales recovery of in Jelly series
(Y/Y change: 125%)
- Overseas sales recovered. Mainly due to increase of sales in the U.S.

■ Income

Positive factors

- Cost reduction by improvement of production efficiency, revision of products standards, etc. Effective injection of selling expenses
- Among domestic subsidiaries, improvement in income of Takasaki Morinaga and Kino Indonesia, etc.

Food Manufacturing Net Sales and Operating Income

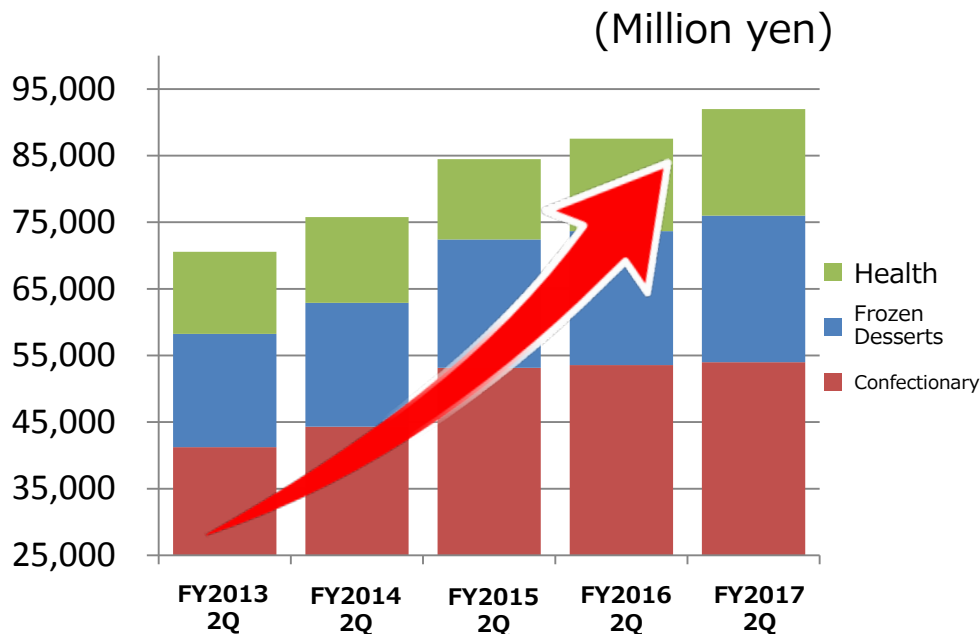
(April 2016 through September 2016)

(Million yen)

	Net Sales			Operating income		
	2Q Total	Y/Y change	Y/Y change (%)	2Q Total	Y/Y change	Y/Y change (%)
Consolidated net sales	99,005	+7,154	107.8%	11,213	+4,612	+69.9%
Food Manufacturing	94,643	+7,107	108.1%	11,168	+4,810	+75.6%
Confectionery & Foodstuffs	55,072	+1,507	102.8%	3,603	+2,746	+320.2%
Frozen Desserts	22,433	+2,332	111.6%	3,609	+556	+18.2%
Health Products	17,138	+3,269	123.6%	3,955	+1,507	+61.6%

Sales by business sites	2Q results	Y/Y change	Y/Y change (%)
Domestic sales	88,282	+6,060	107.4%
Overseas sales	6,361	+1,047	119.7%
Overseas sales ratio	6.4%	+0.6P	

Growth Factor for Net Sales in Food Manufacturing



■ Confectionery

Strong domestic confectionery business

【Growth in the domestic confectionery market: Y/Y change 100.3%】

*The sum of candy, chocolate, biscuits, and snack categories

Strengthening of existing brands

Source: SRI Morinaga

- Confectionery: Concentrate resources into staple products focusing on brand enhancement
- Foodstuff: Amazake sold well Y/Y change: 176%

Continued development of high value-added products

- Creation of consumer needs by “appealing health” focused on high-cacao-content products

Expansion of sales volumes in overseas business

- Favorable sales of the U.S. retailing



108%



125%



■ Frozen desserts

Continued fosterage of Monaka categories

Favorable sales of *Jumbo G* Y/Y change: 108%

■ Health

in Jelly showed significant growth capturing summer demand.

Captured consumer needs for hydration and summer heat measures due to average temperature rise in main areas

Growth Factors for Operating Income in Food Manufacturing

Improvement of product mix

- **Reinforced efficient production system of highly profitable products and sales**
 - Concentration of resources into main products like in Jelly
- **Reduced number of items in confectionery & foodstuffs fields**
 - Reduction of low profit items like seasonal products
- **Company-wide efforts to reduce production costs**
 - Continued cost improvement such as raw materials cost and heating and lighting expenses



Cost of sales ratio
-2.5%



SGA ratio
-1.7%

Reinforcement of revenue base

Effect of reduction of selling expenses

- Strategic use of selling expenses (Y/Y change: - 0.9%)
- Optimization of operation costs at overseas subsidiaries

<<Existing fields>> Domestic : Confectionary & Foodstuffs

Building the foundation for steady profit generation

Development of products with high unit cost and high added value

Centering on value enhancement



- Promote branding to appeal "health"
- Focus on nurturing "core users"

Item number reduction

Number of sales items of confectionery at the end of Sep. FY2017

Y/Y change -19%
⇒Substantial reduction mainly in seasonal products/low profit products

Revision of products standards

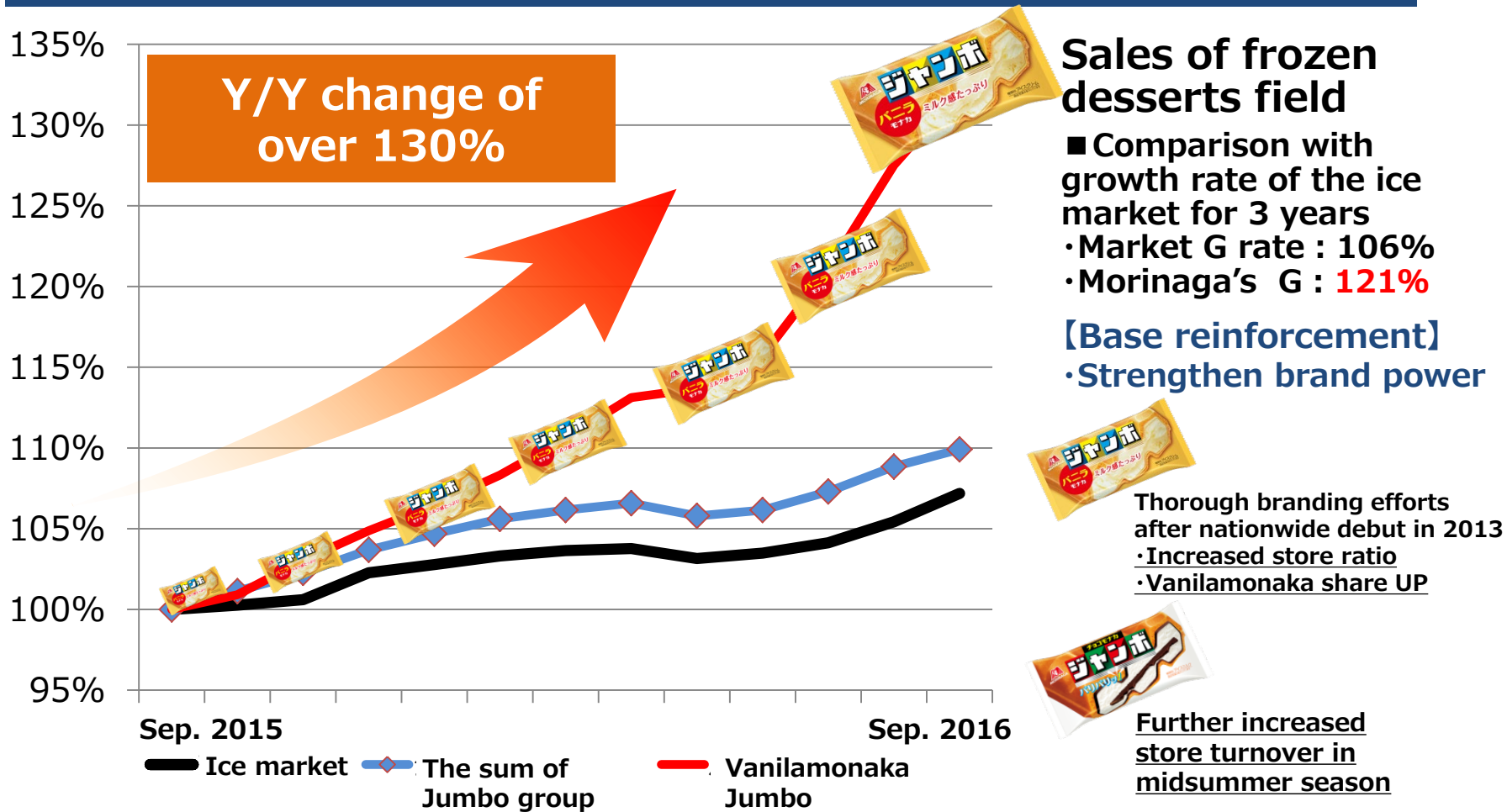
Continue changes of packagings and standards to meet consumer needs
⇒Continue response to solve challenges of profitability of present items

From now on, reinforce product lineup targeting on the growth of high-cacao-content market
Sep. 2015 : 1 product system
May 2016 : 5 products system

While promoting brand development and enhancement, start fundamental improvement of profitability.
Through improved profitability in confectionery & foodstuff fields, generated profits of the company increases rapidly.

<<Existing fields>> Domestic : Frozen Desserts

Building the foundation for steady profit generation



<<Growth fields>> Health: in Jelly

Focus on further expanding the scale of sales.

Strengthen appealing to functionality

Resettled core-users

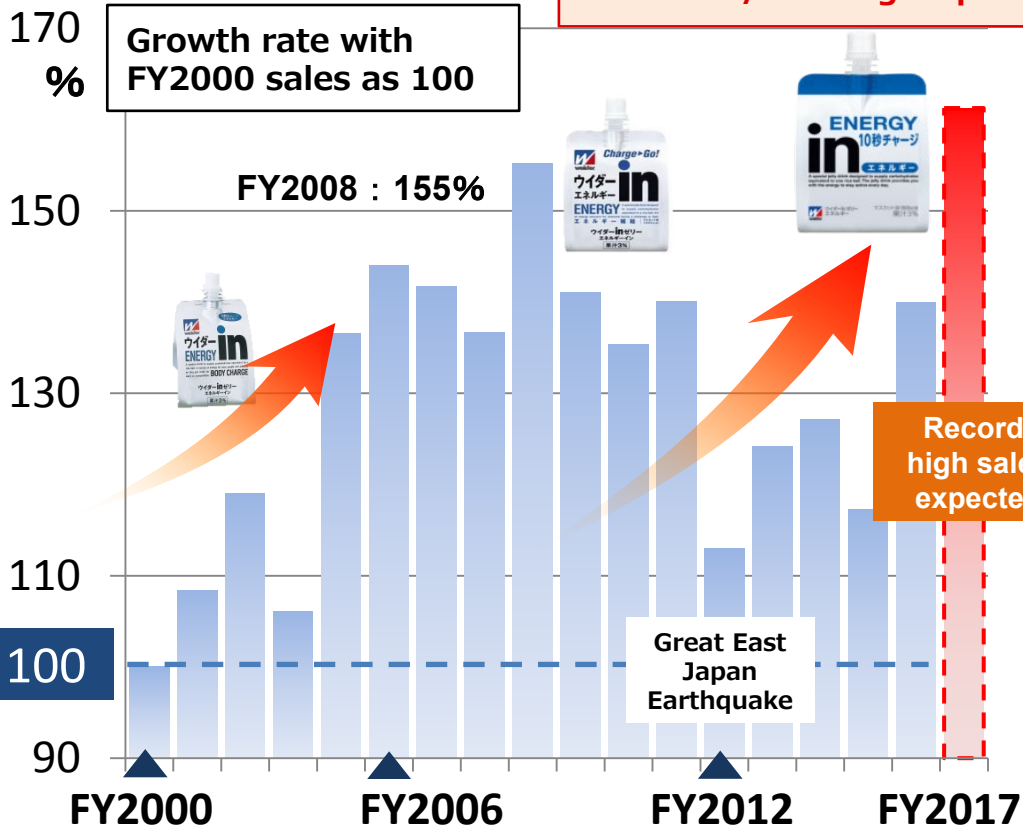
Increased fresh users
Women/senior group



Strengthening measures of production system

Expanded production lines at Mishima Factory with approx. 30% increase in production capacity

Planned start of operation in the next FY toward further expanded sales volumn of in Jelly

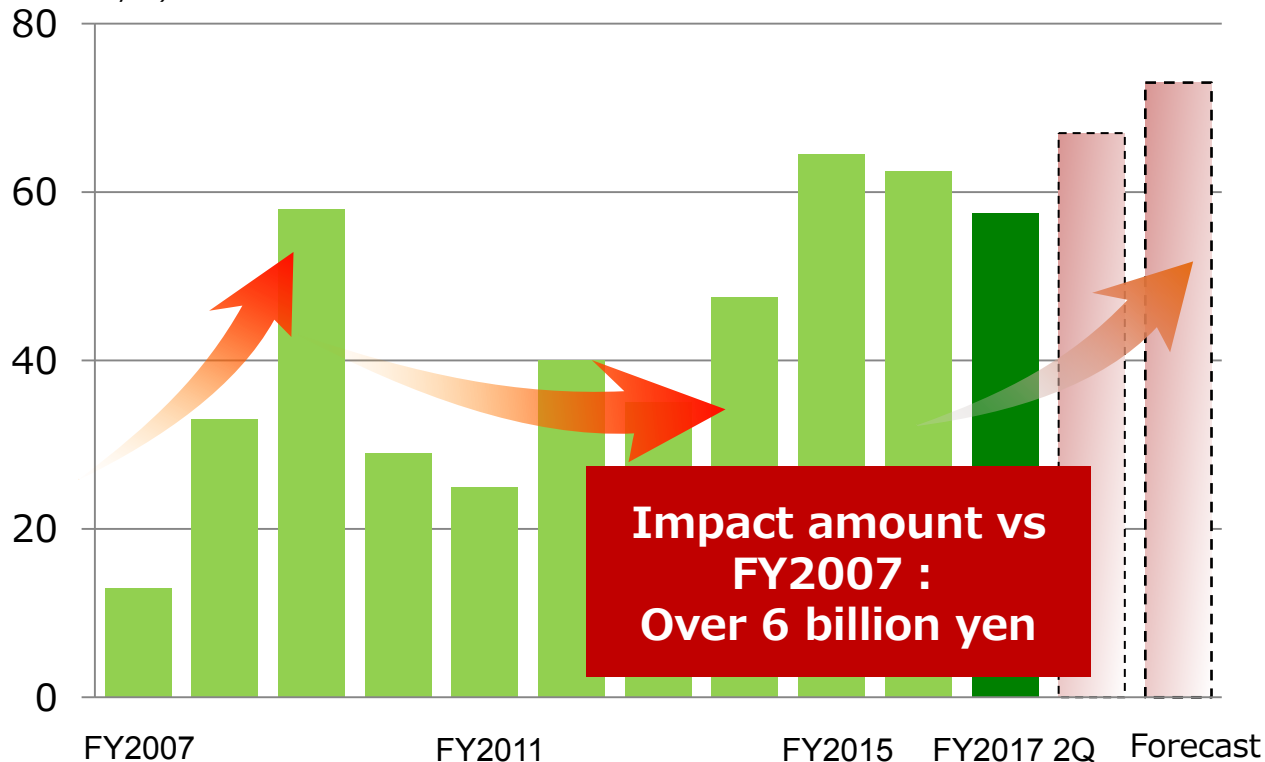


Shizuoka Pref : Mishima Factory



(Other factors) Effects of raw material price fluctuations

(100 million yen)



【Present state】
 Impact of hiked raw material prices since FY2007 was the cause for approx. 5.8 billion yen lower profit.

【Forecast of impact in the current FY】

- ① Price hike of raw materials like cacao and nuts
- ② Declined prices of dairy products

While Initially no change was expected from the previous term due to the impact as mentioned above, width of decline of overseas dairy products has turned out to be a major factor for temporary higher profit.

Future risks

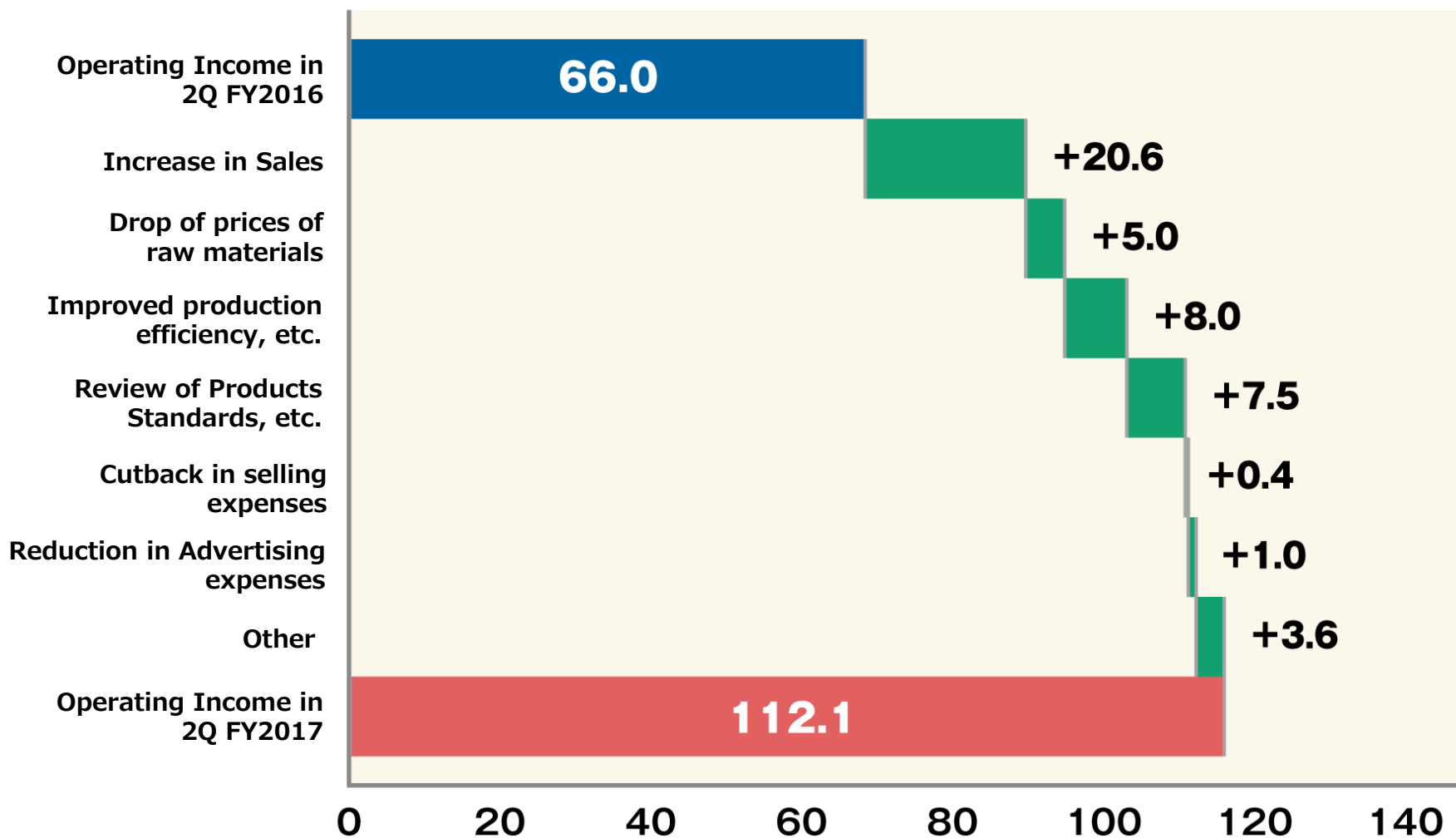
- Market price of cacao beans surged substantially Vs FY2007 : 190% Vs FY2001 : 334%
- Market price of sugar also surged Vs FY2007 : 117%, Vs FY2001 : 215%

Future responses

- Response flexibly to drastic changes in raw material prices with review of product standards, etc.

Consolidated Results for 2Q FY2017 : Operating Income Change Analysis

(100 million yen)



Sales by Category (April 2016 through September 2016)

(%)

Category	Market data*1		
	Market Y/Y	Morinaga Y/Y	Share (Y/Y change)
Caramel, candy	100	90	8.4 (-0.9)
Biscuits	100	99	10.2 (-0.1)
Chocolate	105	101	8.2 (-0.3)
Snack	96	112	4.9 (+0.7)
Cocoa	95	101	44.7 (+2.6)
Ice	105	105	7.9 (-)
Pouch with mouth stopper *PB items are included from current term	116	116	39.3 (+0.2)

*1 Source of category data: intage SRI data Nationwide, classification by Morinaga's definition, sales amount base

Sales by Category (April 2016 through September 2016)

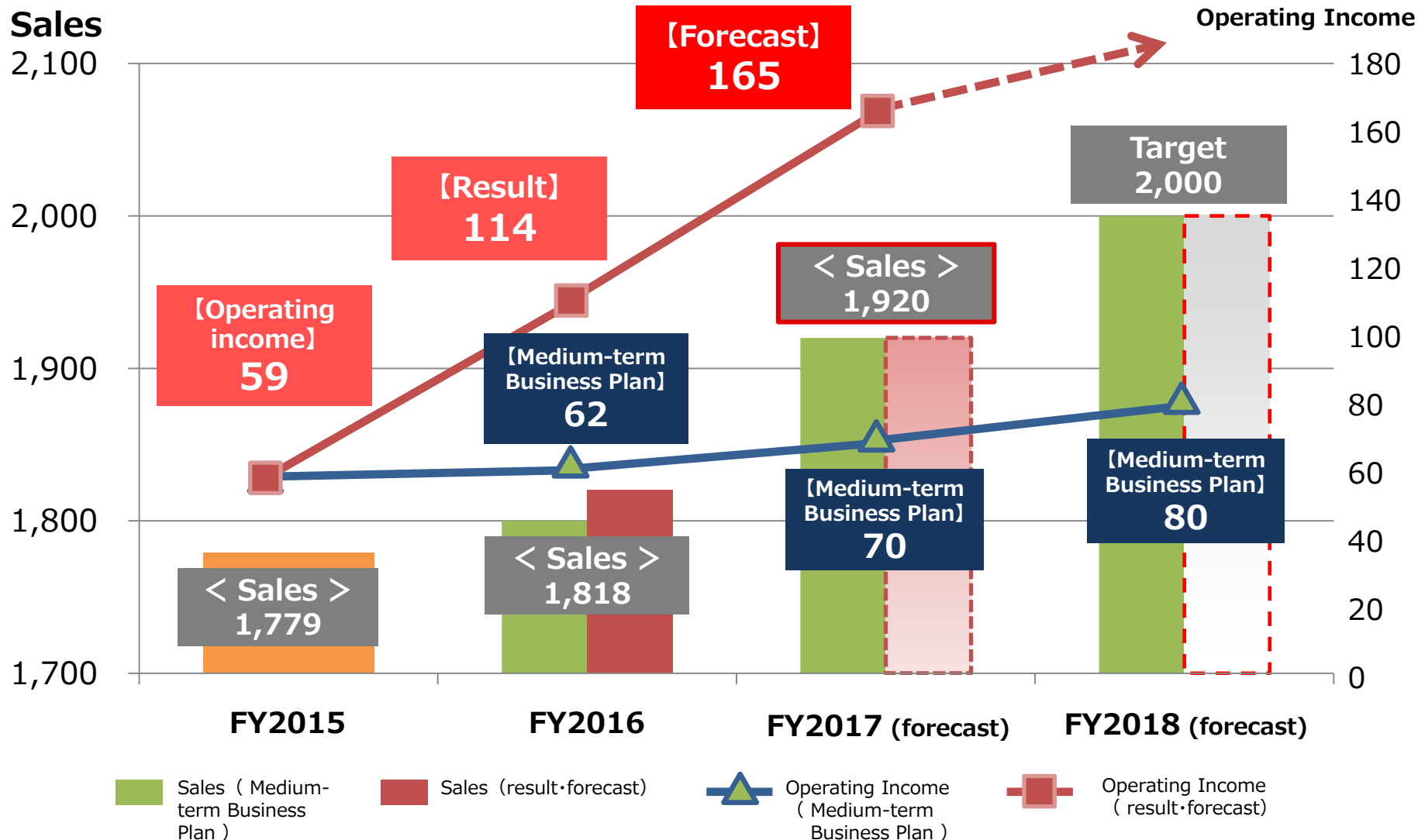
(100 million)

Category	Consolidated Net sales			Morinaga's main brand	Sales (Y/Y change)
	Current Year	Previous Year	Y/Y change		
Confectionary & Foodstuffs	550	535	+15 (103%)		
Caramel, candy	134	143	-9 (93%)	<i>Milk Caramel</i> <i>HI-CHEW</i>	100 98
Biscuits	106	110	-3 (97%)	<i>Morinaga Biscuits</i>	93
Chocolate	124	121	+3 (102%)	<i>Chocoball</i> <i>DARS</i>	94 98
Snack	75	72	+3 (106%)	<i>Ottotto</i>	124
Cocoa	17	16	+0 (105%)	<i>Milk Cocoa</i>	102
Other (include powdered juice)	92	72	+20 (128%)		
Frozen Desserts	224	201	+23 (112%)	<i>Jumbo group</i>	108
Health	171	138	+33 (124%)	<i>Weider in Jelly</i>	125

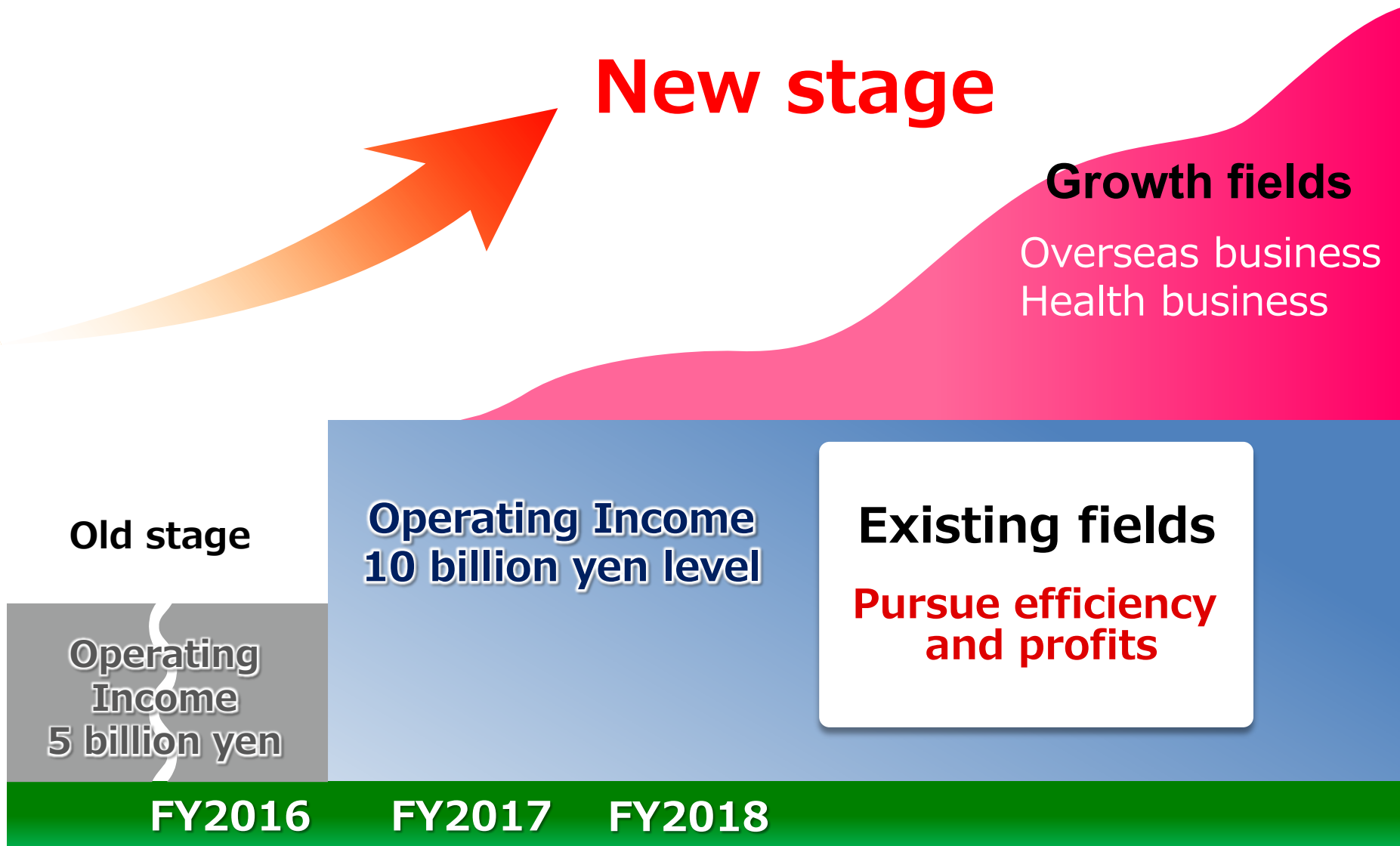
Future Responses

2015 Medium-Term Business Plan : As of the end of 2Q FY2017

(100 million yen)



Achieving stable growth of profitability



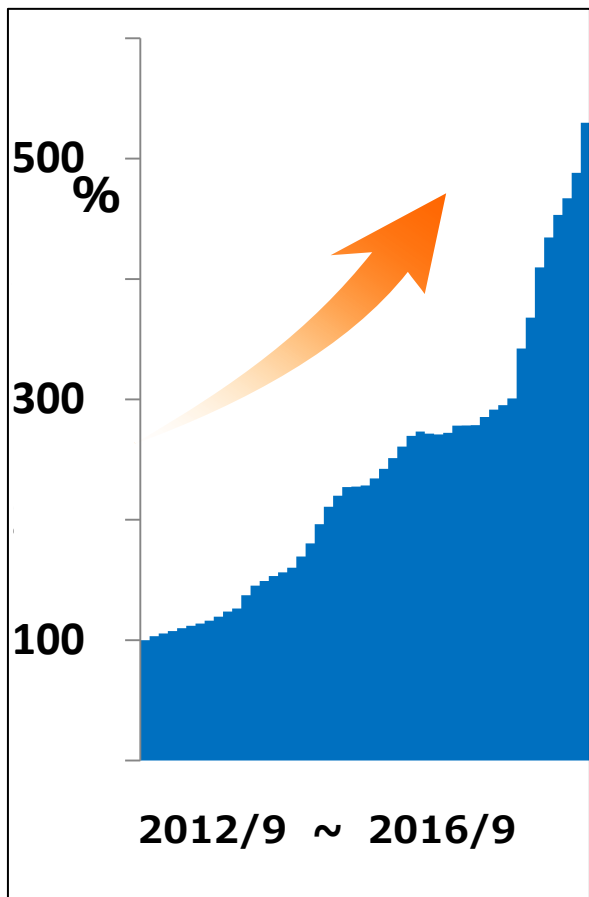
Healthy : Company-wide engagement

Healthy

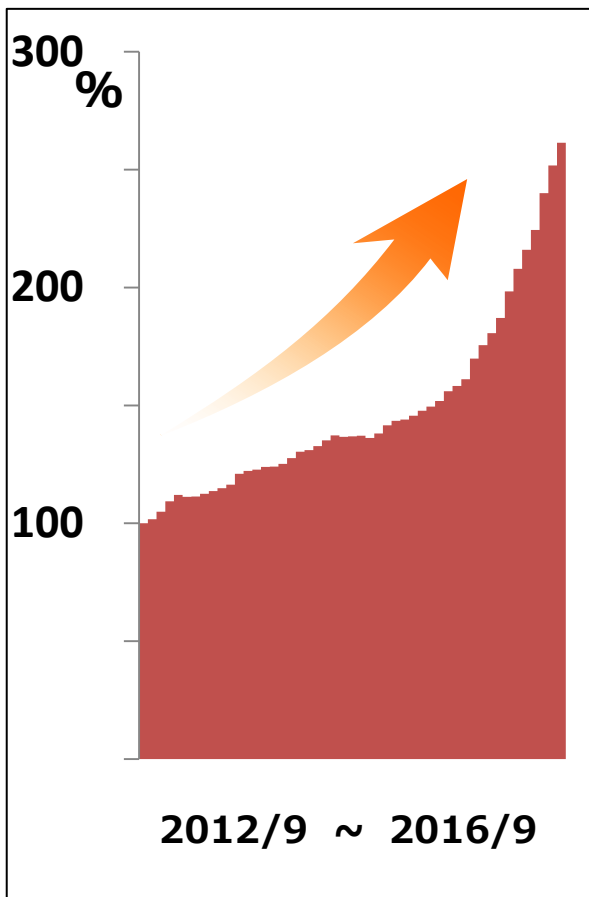


Growth fields : Growth on market on the theme of health

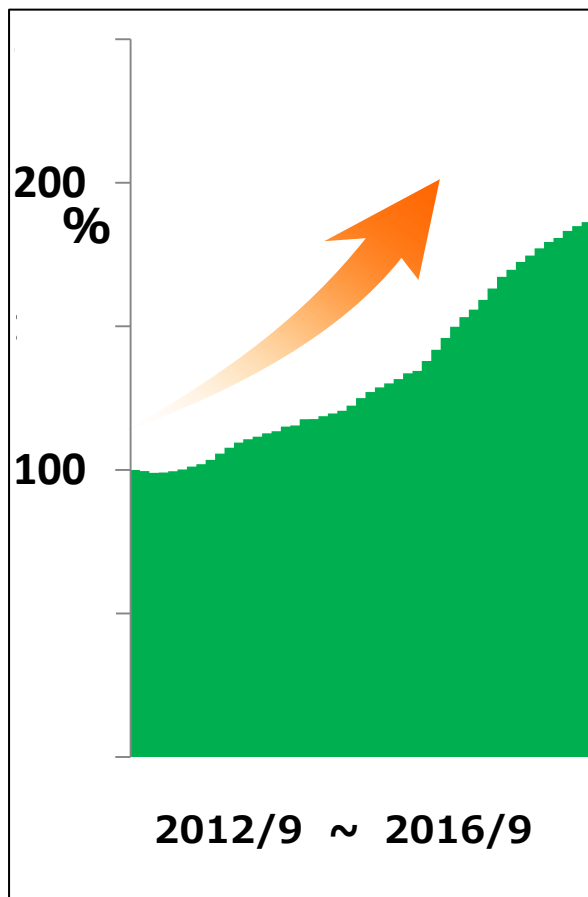
High Cacao Chocolate Market



Amazake Market



Protein Powder Market



*Data source : intage SRI data Sales amount base by Morinaga's definition *Only drug stores are counted in protein powder market

Growth fields : Reinforced product development on the theme of health



Enriched product line-up with the theme of **health**

Growth fields : Sales trend of overseas business (Comparison of 2nd quarter)

(100 million yen)

Areas (convert into Yen)	Result in 2Q FY2015	Result in 2Q FY2016	Result in 2Q FY2017	Y/Y change (%)	※ <u>local currency basis</u>
United States	10	13	16	121%	<u>144%</u>
Indonesia	31	19	24	126%	<u>146%</u>
China, Taiwan, Exports	17	19	22	113%	<u>131%</u>
Total	59	53	63	120%	<u>140%</u>

Overseas sales	FY2017 plan (announced on beginning of period)	FY2017 forecast (End of 2Q FY2017)
	160	<u>143</u>

Overseas business : Engagements in the U.S.

Start of sales

Mainly selling in Japanese-affiliated stores/Asian corners in the West Coast



Territorial cultivation and active marketing

March 2016

Candy counters of American stores



(candy counters)



(candy counters)



(in front of cash registers/
candy counters)

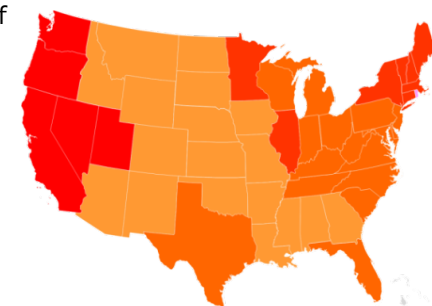
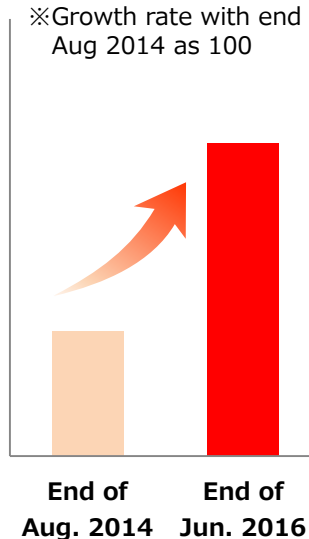


SKU increase

Trading ratio by the U.S. retail stores

※Growth rate with end of Aug 2014 as 100

140
%
120
100



Monthly sales of the U.S. channel grew substantially in line with the rising trade ratio

Measures to enhance HI-CHEW recognition

Start TV advertisement

Focus on sampling

Use of media



Arousal of purchasing behavior

Understand

Enhanced recognition

Experience

Creation of HI-CHEW fans

Overseas business : Southeast Asian area



(1) Premium
(Morinaga brand)
MORINAGA™



(2) Semi-premium
(Made partly using
Morinaga technology)



(3) Regular
(Existing products)



Strengthen cultivation of
Southeast Asian market



China/Taiwan



Hanging sales at stores

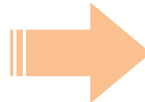
Toward enhanced brand recognition and expanded brand share



Thai representative office :
Information gathering of the entire Southeast area

Supply from China, Taiwan and Indonesia to determind areas to introduce.

Toward MT·GT market in each nation



Sharp growth of Thai market

Market trend (Y/Y change)
While entire candy market grew 9.5%,

HI-CHEW sales : Up 41%
Market share rank
14th ⇒ Rose to 10th



Results Forecast

(April 2016 through March 2017)

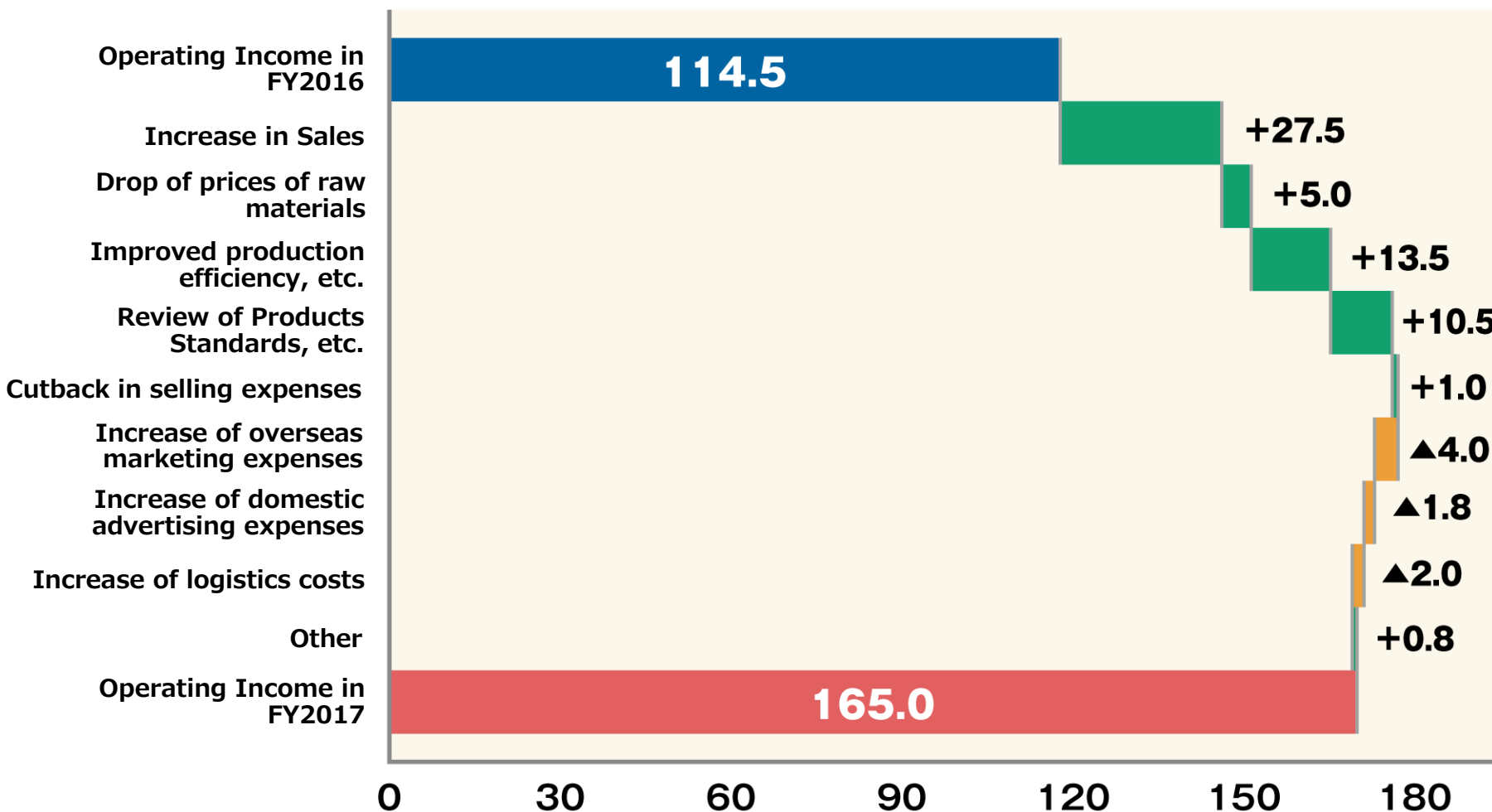
Full-Year Consolidated Results Forecast (April 2016 through March 2017)

■ **November 9** : The Company revised consolidated results forecasts for the FY2017. Increased sales up to 2nd quarter in health/frozen desserts fields. Persistent cost reduction efforts has been reflected in the full-year results forecast.

	Year ending March 2017	Result in previous fiscal year	Y/Y change (%)	(Million yen) Comparison with forecast for FY2017 (announced on August 10)	
Net sales	192,000	181,868	+10,132 (105.6%)	+ 3,100 (101.6%)	Operating income margin 8.6%
Operating income	16,500	11,456	+5,044 (144.0%)	+ 2,200 (115.4%)	
Ordinary income	17,000	12,062	+4,938 (140.9%)	+ 2,200 (114.9%)	Overseas sales ratio 7.5%
Net income attributable to owners of parent	11,500	8,092	+3,408 (142.1%)	+ 1,500 (115.0%)	

Factors in Change in Full-Year Consolidated Operating Income

(100 million yen)



Our policy of Financial Strategy

Building of a stable earning base



**Reinforced
financial base**

**Response to
future risk**

Capital Investment

**Re-organization of
more ideal
production system**

**Return to
shareholders**

**Policy of dividend
payout ratio**