

**Second Quarter,  
Fiscal Year Ending March 31, 2021**

# **Results Briefing**

**Nov. 20, 2020  
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.

# Introduction

—Impact of Novel Coronavirus (COVID-19)—

# How we are responding through our business activities

Risk management, stable supply, and responding to the new normal

## ■ Responsibilities and role in society as a food manufacturer

Rigorous sanitation management  
and infection control



Stabilization of procurement,  
manufacturing, and distribution



Maintaining stable  
production and supply

## ■ Addressing new working styles

Work-style reforms with an  
emphasis on diversity  
Reviewing in-house systems



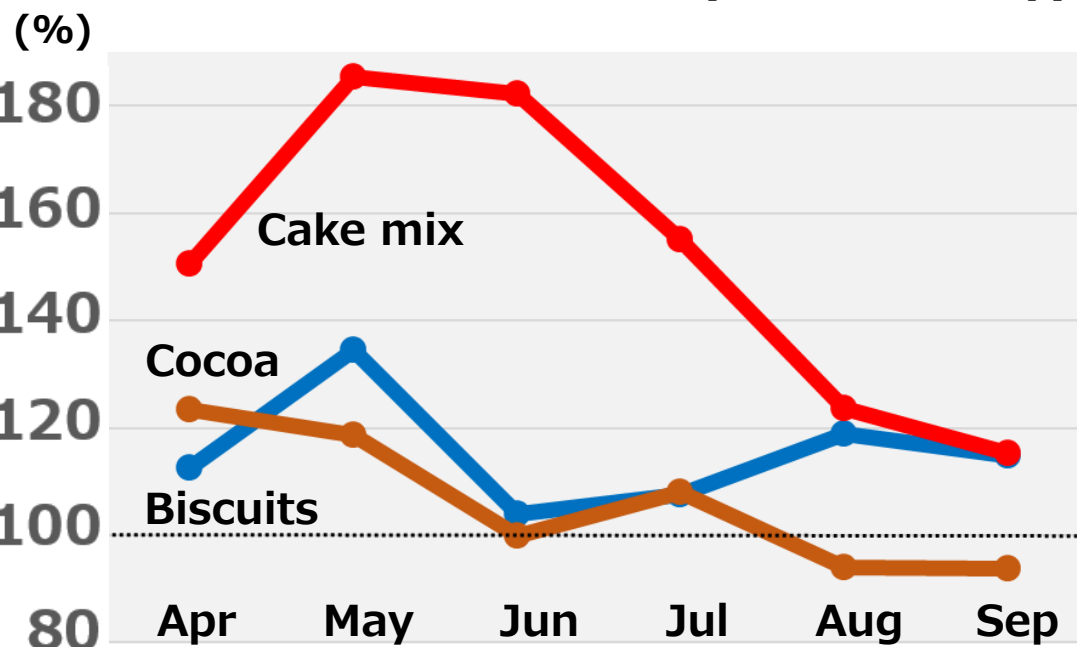
Developing  
infrastructure for new  
working environments



Promoting optimal working styles  
for each business segment

# Impact on Major Categories in Japan

## ■ MORINAGA net sales (Y/Y, monthly)



### ■ Cake mix

- Stronger demand as consumers preferred to eat at home or cook themselves.
- Net sales stayed above the prior-year level even after the state of emergency was lifted.

### ■ Biscuits

- Brisk sales in April and May due to stay-at-home demand.
- Proactive in-store sales-related efforts sustained strong results through summer.

### ■ Cocoa

- Sales growth, driven by home cooking and health-related demand, slowed from August onwards.

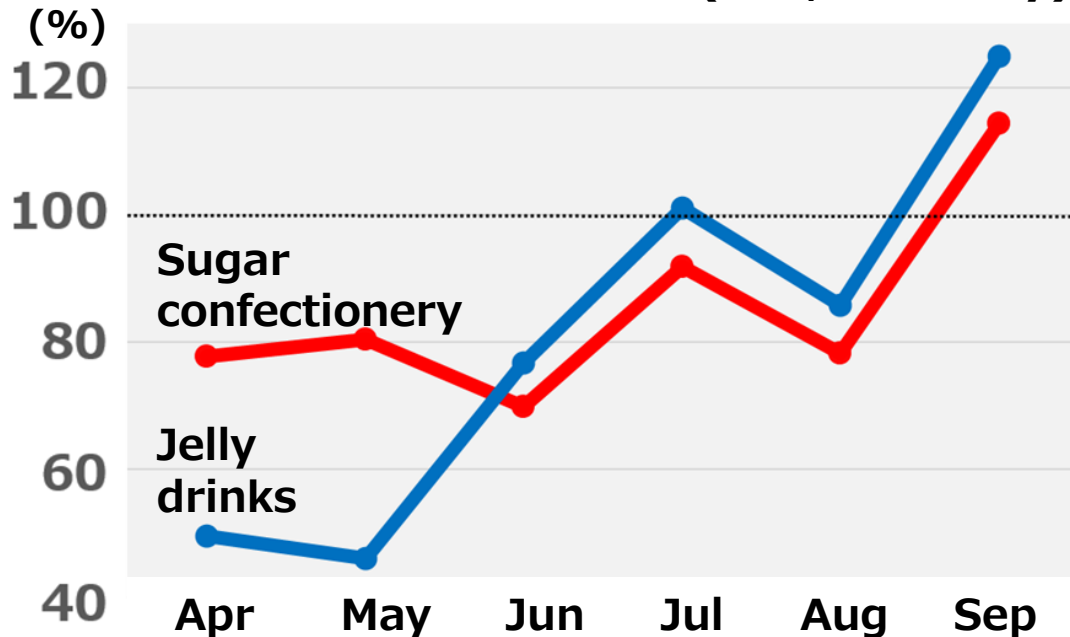
## ■ Market conditions (SRI Y/Y sales data)

	Cake mix			Biscuits			Cocoa		
	Q1	Q2	1H	Q1	Q2	1H	Q1	Q2	1H
MORINAGA	240	121	182	114	108	111	113	96	105
Market	182	112	148	112	103	108	114	98	107

Source: intake SRI data; based on sales figures; cake mix means pre-mix products, biscuits means biscuits and crackers, and cocoa means cocoa powder products

# Impact on Major Categories in Japan

## ■ MORINAGA net sales (Y/Y, monthly)



### ■ Sugar confectionery

- Impact of fewer opportunities for outings.
- Weaker demand for products that help combat heatstroke due to a prolonged rainy season.
- New product launch of *Otsubu Ramune* in September.

### ■ Jelly drinks

- Fewer consumption opportunities, such as during sports or in the office.
- New products and sales campaigns created a buzz; first half results were down year on year despite recovery from Q2.

## ■ Market conditions (SRI Y/Y sales data) (%)

	Sugar confectionery			Jelly drinks		
	Q1	Q2	1H	Q1	Q2	1H
MORINAGA	87	86	86	65	89	78
Market	85	87	86	72	90	82



Source: Intage SRI data; based on sales figures; sugar confectionery means candy and caramel-type products (excl. caramel itself), health (sub-category) products in pouches with mouth stoppers.

# Impact of COVID-19: 1H results vs. initial assumptions

At the start of FY2020, we assumed impact on earnings in the **first half only**, before receding in the second half.

Assumptions at start of FY	Net sales	Operating income
Confectionery & Foodstuffs (domestic)		
Frozen Desserts		
Health Products		
Domestic subsidiaries (operating companies)		
Overseas		
Other	—	

Main impacts in 1H
Despite brisk sales of cake mix and biscuits, both sales and profit declined on weak sales for sugar confectionery and chocolate.
The market overall was up slightly year on year. Sales of multipack products were brisk thanks mainly to stay-at-home demand.
Conditions were tough in April and May. Both sales and profit declined even though a recovery emerged in June.
Both sales and profit declined even though a recovery emerged in June.
Sales fell short of targets owing mainly to lock-downs and store closures, but still grew sharply year on year. Profit was boosted by cost reductions.
Despite higher infrastructure costs mainly from teleworking, profit was buoyed by lower travel and commuting expenses.

**Expected impacts at start of FY**

Net sales: -¥8.0bn  
Operating income: -¥2.5bn



**1H impacts**

Net sales: -¥6.8bn  
Operating income: -¥2.1bn

# Impact of COVID-19: Second half forecasts

As of end-September: **Expecting some impact in each business**

## Market impacts, business impacts, and our measures

<b>Confectionery &amp; Foodstuffs (domestic)</b>	<p>Sales of biscuits remain brisk. Impact on sugar confectionery sales from fewer opportunities for outings should be offset by product launches and sales initiatives.</p>
<b>Frozen Desserts</b>	<p>The market continues to hold firm in the second half. Initiatives to be rolled out in conjunction with advertising and sales promotions for mainstay products in an effort to strengthen brand appeal.</p>
<b>Health Products</b>	<p>Despite the challenging jelly drinks market, we will aim to trigger a recovery in sales with the launch of new products and strengthen initiatives aimed at tapping new demand.</p>
<b>Domestic subsidiaries (operating companies)</b>	<p>We expect lingering impacts from a decrease in visitor footfall at major customers and stores, as well as fewer sales events.</p>
<b>Overseas</b>	<p>While the situation differs depending on the region, business conditions are starting to normalize with the reopening of retailers, so we expect higher sales in the second half.</p>
<b>Other</b>	<p>We will continue to bolster cost controls mainly by reducing SG&amp;A costs.</p>

\*Domestic subsidiaries include two companies in the Food Manufacturing segment (Confectionery & Foodstuffs), one company in the Food Merchandise segment, and one company in the Real Estate and Services segment.

# **Fiscal Year Ending March 31, 2021 Second Quarter Financial Results**

**(April through September 2020)**



# Consolidated Results for Q2 FY2021/3

- Net sales: Declined on the impact of COVID-19 and the end of the *Pringles* distributorship agreement.
- Income: Declined on the impact of lower sales, higher variable selling expenses, and higher distribution costs such as storage fees.

	(Million yen)			*Quarterly breakdown	
	Q2 cml results	Y/Y change	vs. forecast	Q1 Y/Y	Q2 Y/Y
Net sales	101,090	-5,899 (94.5%)	+2,390 (102.4%)	-4,825 (90.8%)	-1,074 (98.0%)
Operating income (operating income margin)	11,541 [11.4%]	-1,434 (89.0%)	+1,141 (111.0%)	-903 (85.4%)	-530 (92.2%)
Ordinary income	11,972	-1,563 (88.5%)	+1,272 (111.9%)	-842 (87.1%)	-721 (89.7%)
Profit attributable to owners of parent	8,315	-838 (90.8%)	+1,115 (115.5%)	-470 (89.4%)	-369 (92.2%)

# Consolidated Segment Information

(Million yen)

Segment (net sales weighting)	Net sales (Y/Y change)	Segment income (Y/Y change)
Food Manufacturing (96.7%)	97,752 (94.9%)	11,504 (-1,396)
Food Merchandise (2.2%)	2,192 (81.3%)	7 (-123)
Real Estate and Services (0.8%)	869 (92.0%)	355 (-44)
Other Services (0.3%)	275 (92.7%)	67 (+17)

## Food Manufacturing

### ■ Net sales

Confectionery & Foodstuffs: 87.9%  
Y/Y

■ Domestic: Chocolate and sugar  
confectionery are struggling.

• Core brands: 94.0% Y/Y

■ Overseas: US market is driving  
growth.

• Overseas overall: 108.0% Y/Y

• USA: 116.7% Y/Y

Frozen Desserts: 117.8% Y/Y

Sales are still strong mainly centering  
on the *Jumbo Group*.

Considerable full-year sales boost  
from *Ita Choco Ice*.

Health Products: 86.3% Y/Y

Jelly drinks market is struggling due  
to the impact of COVID-19.

Suspended sales of *in Bar* has had  
some impact.

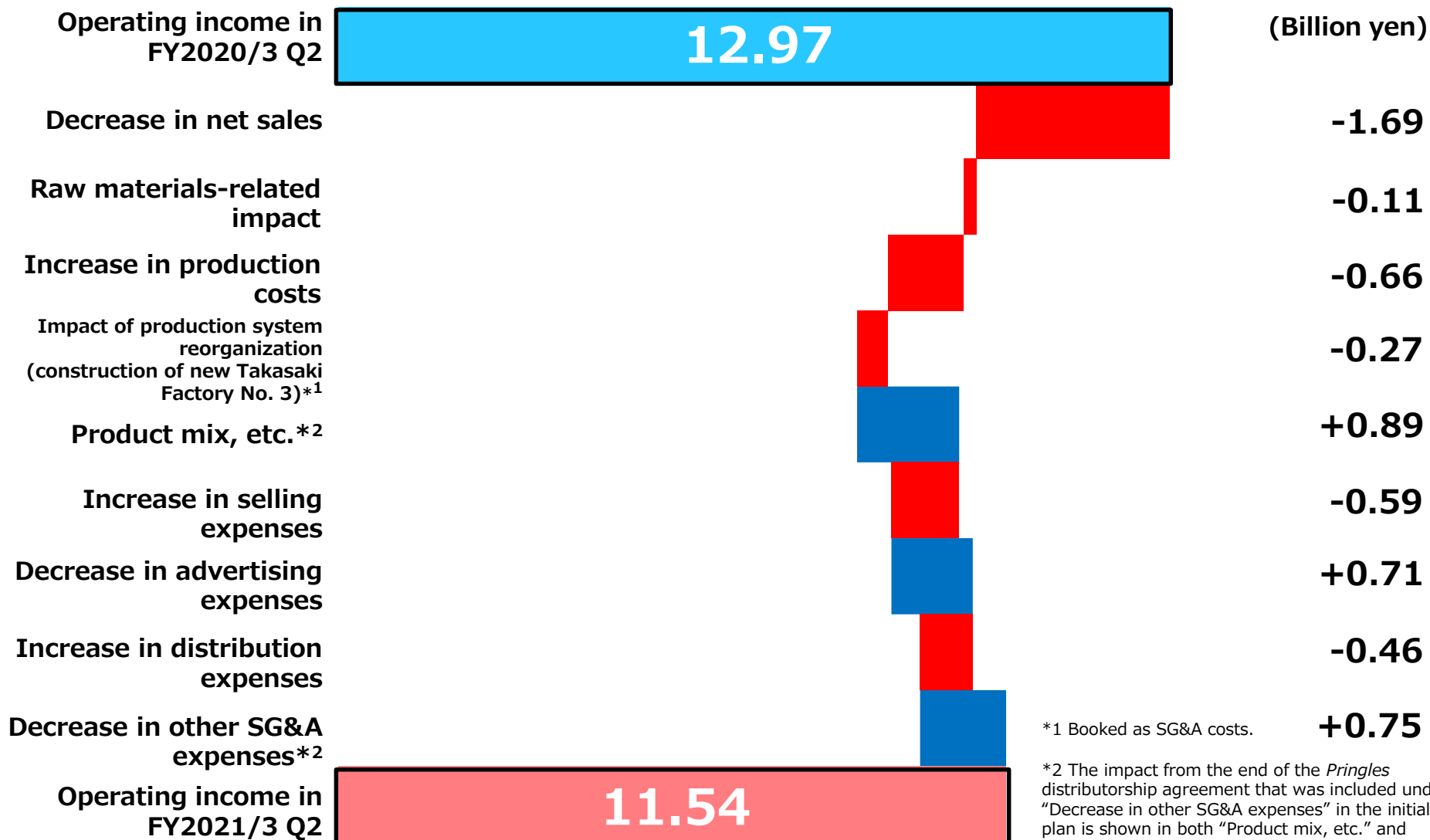
Mail-order business still performing  
strongly.

## Consolidated Food Manufacturing Net Sales and Operating Income

(Million yen)	Net sales			Operating income		
	Q2 cumulative	Y/Y change	Y/Y change (%)	Q2 cumulative	Y/Y change	Y/Y change (%)
Consolidated	101,090	-5,899	94.5%	11,541	-1,434	-11.0%
Food Manufacturing	97,752	-5,297	94.9%	11,504	-1,396	-10.8%
Confectionery & Foodstuffs	49,426	-6,799	87.9%	2,417	-1,247	-34.0%
Frozen Desserts	29,593	+4,466	117.8%	5,674	+1,186	+26.4%
Health Products	18,732	-2,964	86.3%	3,412	-1,335	-28.1%
Sales by business site	Q2 cumulative		Y/Y change		Y/Y change (%)	
Domestic sales	92,255		-5,703		94.2%	
Overseas sales	5,497		+407		108.0%	
Overseas sales ratio	5.4%		+0.6pt			

\*Overseas sales ratio is calculated based on consolidated net sales

# Factors in Change in Consolidated Operating Income



\*1 Booked as SG&A costs.

\*2 The impact from the end of the *Pringles* distributorship agreement that was included under "Decrease in other SG&A expenses" in the initial plan is shown in both "Product mix, etc." and "Decrease in other SG&A expenses" according to the makeup of expenses.

# Results Forecast

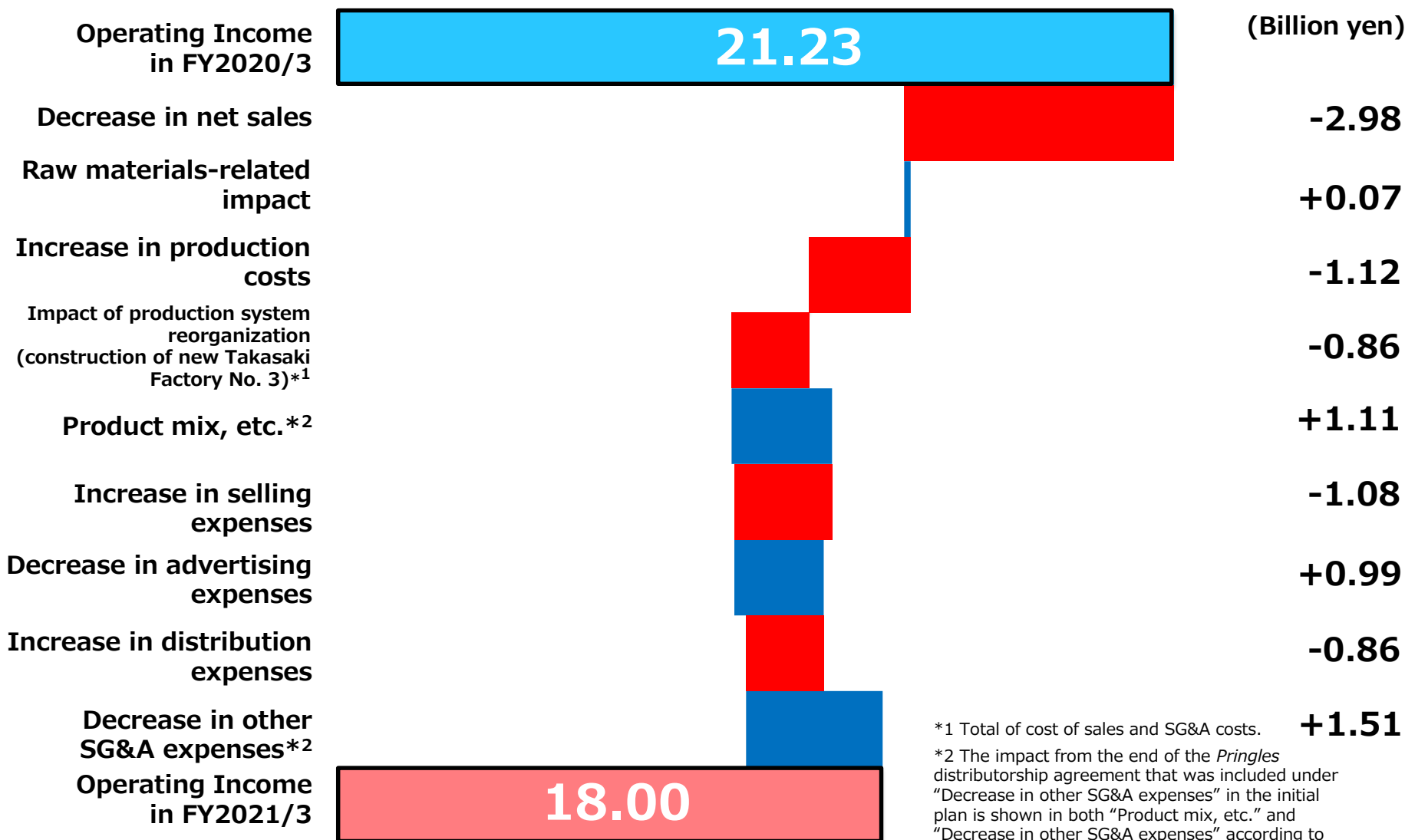
(April 2020 through March 2021)

# Consolidated Results Forecast for FY2021/3

- **Net sales:** No change to our forecast. We anticipate some impacts from COVID-19 in the second half, but we expect to achieve our initial full-year targets.
- **Income:** No change to our forecast. Our estimates for COVID-19 impacts and higher depreciation are in line with our forecasts from the start of the fiscal year. The negative impact of selling expenses will be offset by company-wide cost reductions

	(Million yen)		
	Full-FY2021/3 forecast	Previous FY	Y/Y change
Net sales	198,000	208,878	-10,878 (94.8%)
Operating income (operating income margin)	18,000 〔9.1%〕	21,230 〔10.2%〕	-3,230 (84.8%)
Ordinary income	18,300	21,950	-3,650 (83.4%)
Profit attributable to owners of parent	12,300	10,824	+1,476 (113.6%)

# Full-FY2021/3 consolidated operating income – factors behind change



\*1 Total of cost of sales and SG&A costs.

\*2 The impact from the end of the *Pringles* distributorship agreement that was included under "Decrease in other SG&A expenses" in the initial plan is shown in both "Product mix, etc." and "Decrease in other SG&A expenses" according to the makeup of expenses.

# Situation and Initiatives in Each Business



# Confectionery & Foodstuffs Segment Results

(Million yen)

Confectionery & Foodstuffs	Net sales			Operating income			
	Result	Y/Y change	Y/Y change (%)	Result	Y/Y change	Operating income margin	Y/Y change
Q2 cumulative	49,426	-6,799	87.9%	2,417	-1,247	4.9%	-1.6pt
Q1	24,297	-4,028	85.8%	1,644	-545	6.8%	-0.9pt
Q2	25,128	-2,771	90.1%	772	-702	3.1%	-2.2pt

## Variation factors of Sales

Domestic

Sales of *Morinaga Biscuits* and cake mix were brisk, but net sales declined on struggling sugar confectionery and chocolate sales and the *Pringles* impact



Morinaga Biscuits 119%



150%



HI-CHEW Group 79%



91%



88%

Overseas

Growth in the USA drove an overall sales increase overseas

Overseas total: 108.0%; USA: 116.7%

## Variation factors of Profit

- Controlling advertising costs  
\*Including costs pushed back to second half
- Stronger cost controls in overseas business

- Impact of lower net sales
- Increase in variable selling expenses
- Increase in distribution costs
- Increase in depreciation

## 2H initiatives for Confectionery & Foodstuffs: Meeting seasonal demand

Down



Outings and excursion-related demand

Up



Eating at home and demand for homemade food

Health consciousness

**Focus on boosting demand with a broad lineup of products and in-store sales and proposal capabilities**

Seasons & events



Health benefit promotion



Student exam season



# Confectionery & Foodstuffs: Cross-product-group marketing

- Launching products to meet growing awareness of personal health management

## Expanding products containing *LAC-Shield*®

### Confectionery & Foodstuffs



Tablets and cocoa launched in August



Chocolate launched in September

### Frozen Desserts



Time-limited products to go on sale from December

### Health Products



*in Jelly* launched in July



Protein launched in October

\*LAC-Shield® is a registered trademark of Morinaga Milk Industry Co., Ltd.

# Frozen Desserts Segment Results

(Million yen)

Frozen Desserts	Net sales			Operating income			
	Result	Y/Y change	Y/Y change (%)	Result	Y/Y change	Operating income margin	Y/Y change
Q2 cumulative	29,593	+4,466	117.8%	5,674	+1,186	19.2%	+1.3pt
Q1	14,190	+2,914	125.8%	2,576	+835	18.2%	+2.8pt
Q2	15,402	+1,552	111.2%	3,097	+351	20.1%	+0.3pt

## Variation factors of Sales

Strong overall category sales, including novelty and multipack products; growth in individual brands too

**Jumbo Group**  
113%



\*Full-year sales commenced this year



119%



## Variation factors of Profit

- Boost from higher net sales
  - Boost from lower selling expenses
  - Controlling advertising costs
- \*Including costs pushed back to second half



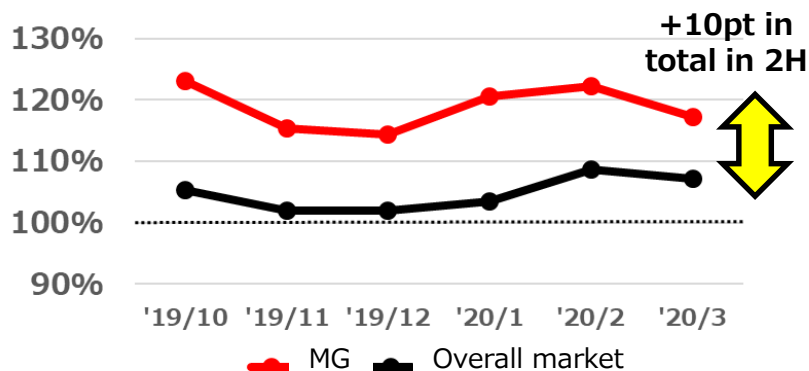


# 2H Initiatives for Frozen Desserts: Jumbo Group

## Situation in 2H last FY

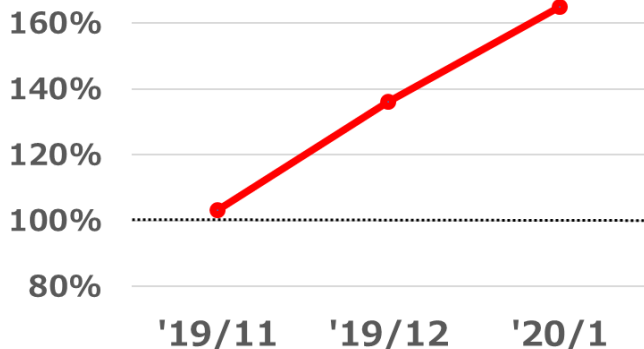
■ Well above buoyant market average

2H last FY (Y/Y, monthly)



■ Favorable reception of winter-only Vanilla Monaka Jumbo

Store turnover (Y/Y monthly)



Above the strong year-earlier result

## Jumbo Group branding strategy

■ Launch of two winter-only products (chocolate and vanilla)



Special appeal

Promotion

Campaign



**Aiming to boost sales volume by stimulating demand in winter**

# 2H Initiatives for Frozen Desserts: Catering to emerging demand

## Lifestyle changes

Entrenchment of teleworking  
 Refraining from going out or eating out  
 =  
 More time spent at home

## Changes in living situations

Working/raising children/housework  
 ⇒ Increase in above **situations that demand multi-tasking**  
 Dinner eaten earlier than before (more time after dinner)  
 ⇒ **Eating dessert becoming a habit**

## Key demand concepts

**One hand**  
**Small treat**  
**Small portion sizes**



# Health Products Segment Results

(Million yen)

Health Products	Net sales			Operating income			
	Result	Y/Y change	Y/Y change (%)	Result	Y/Y change	Operating income margin	Y/Y change
Q2 cumulative	18,732	-2,964	86.3%	3,412	-1,335	18.2%	-3.7pt
Q1	7,537	-3,282	69.7%	958	-1,208	12.7%	-7.3pt
Q2	11,194	+317	102.9%	2,454	-127	21.9%	-1.8pt

## Variation factors of Sales

*in Jelly*: On a recovery track since June  
*in Bar*: Impact of temporary halt in sales in connection with heightened demand  
 Mail order: Sustained sales growth driven by increase in regular customers



*in Jelly* overall: 80%



88%



109%

## Variation factors of Profit

- Controlling advertising costs  
 \*Including costs pushed back to second half
- Impact of lower net sales
- Impact of product mix deterioration (decrease in mainstay product weighting)
- Increase in distribution costs

# 2H Initiatives for Health Products: *in Jelly*

## Continuing to live with COVID-19

⇒Impact of the decline in consumption opportunities, such as during sports or in the office.

### Focus on recovery response

Keep impacts to a minimum this fiscal year

### Formulate a strategy with a view to the new normal

Suggest/tap into new consumption scenarios

#### ■ Promote brand recollection



Creating a buzz

Limited time only

#### ■ Address emerging demand



Keeping in shape

Limited time only

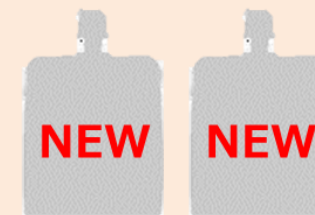
Concentration

All-channel sales

Well-being

Revamped products  
Improved functions

#### ■ Strengthen initiatives in growing channels



Expanding consumer contact points

Channel-limited sales



## 2H Initiatives for Health Products: Targeting growth markets

### Catering to demand for protein

- Differentiation in the midst of an increasingly tough competitive environment



### Addition of evidence-based functionality

- Proposing different consumption styles according to purpose or situation



Great taste + topicality

Convenience and high functionality



プロテインサーバー  
**Protein Server**

Generating new demand

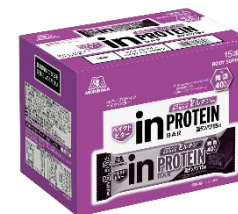
### Mail-order and EC channels

- Strengthening capacity to gain new customers



### Stepping up TV, radio, and online advertising

- Focus on health and wellness brands



Ramp up expansion of categories with strong affinity to e-commerce

# Overseas: Cumulative Q2 Results and Full-year Forecasts

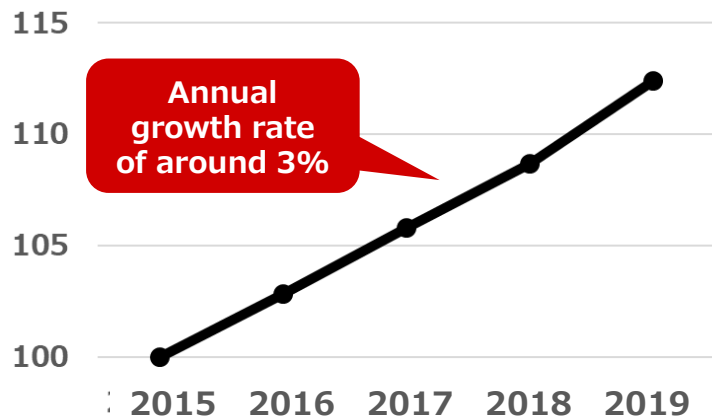
(100 million yen)

Area (converted into yen)	FY2021/3 cml Q2	FY2020/3 cml Q2	Y/Y change (%)	FY2021/3 full- year forecast	Forecast Y/Y change (%)
USA	33	28	117%	73	115%
China, Taiwan, Exports	21	22	97%	48	103%
Total	54	50	108%	122	110%

Overseas sales ratio	5.4%	4.8%	+0.6P	6.2%	+0.9P
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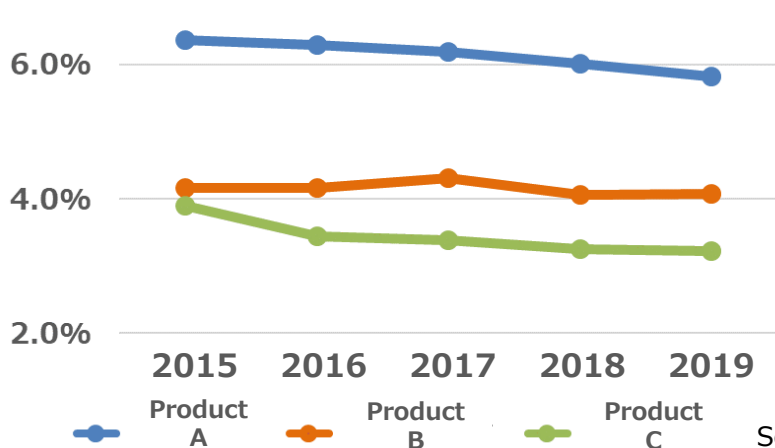
# Market share of *HI-CHEW* in the USA

■ Growth rate of US sugar confectionery market (%) \*2015 indexed as 100



While the share of major competitors in growth markets (driven mainly by population increase) is slowing, *HI-CHEW*'s share is steadily increasing

■ Share of major competitors



■ *HI-CHEW* share in the USA



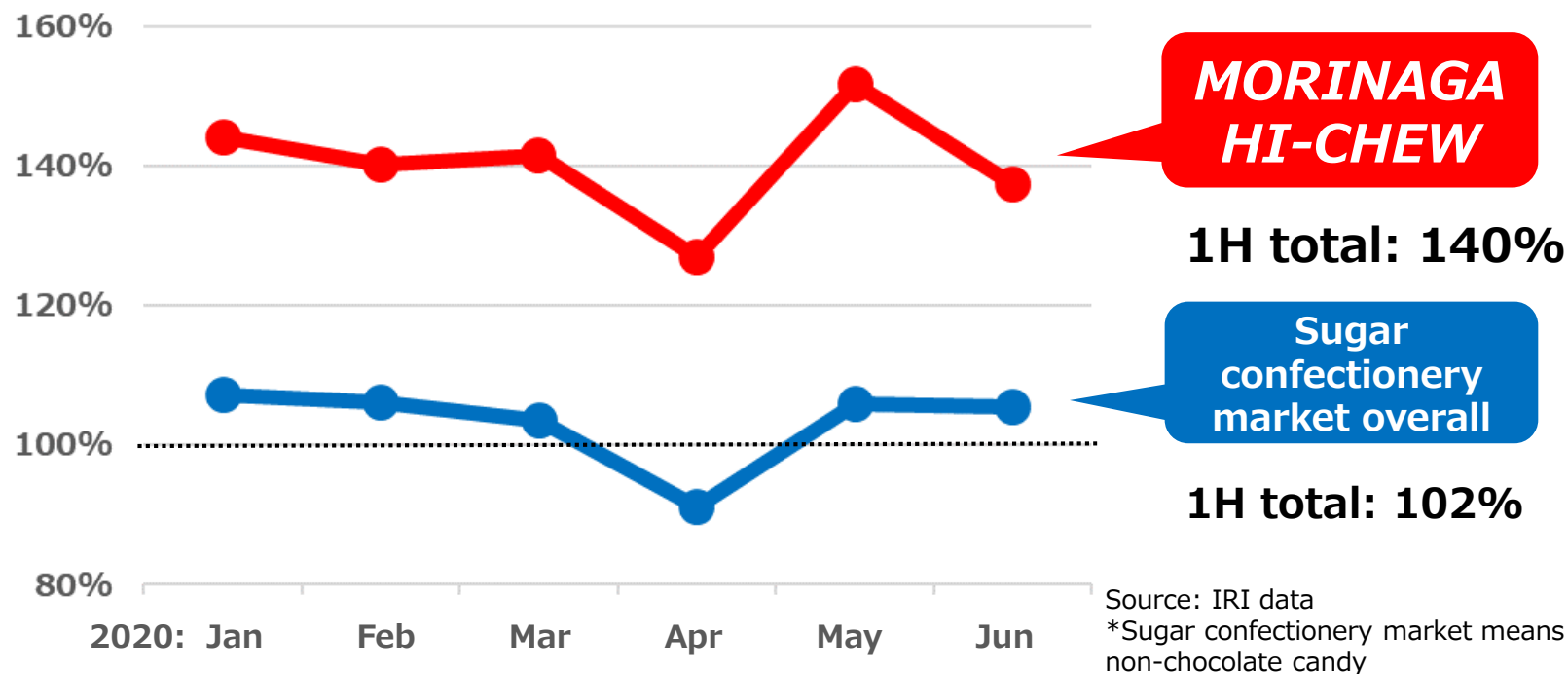
Source: IRI data; sugar confectionery market means non-chocolate candy

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# Results for *HI-CHEW* in the USA

■ Market conditions (IRI Y/Y monthly sales data)

\*US channels



- Strong growth owing to more retailers selling *HI-CHEW* and an increase in SKUs.
- Store turnover in each area is also brisk thanks to marketing initiatives.

⇒ Gauge consumer needs even during the COVID-19 pandemic and continue to grow sales

# HI-CHEW in the USA: Ongoing initiatives

Recognition and store turnover

Handling volume (stores x SKU)

Gap with major competitors remains large in terms of recognition and number of SKUs

**Promoting the brand**

Enhance marketing and brand recognition

**Increasing SKUs**

Roll out new products  
Expand customer contacts

**Expanding introduction of core products**  
Focus on products with consistent sales  
Improve profitability

**Aim to boost sales while taking profitability into account**

# Promoting Sustainability

# Bolstering frameworks for enhancing sustainability

Driving forward ESG management and information disclosure  
Initiatives geared towards achieving the SDGs

## ■ Launch of Sustainable Management Promotion Team in July 2020

Furthering efforts to address sustainability issues. Expanding and better communicating information about value creation over the medium to long term.



## ■ Sustainable Raw Material Procurement:

### Medium-Term Targets\*

\* Targets are for Morinaga & Co., Ltd. products in Japan

Cacao beans

Procure 100% of cacao beans from sustainable sources by FY2025

Palm oil

Procure 100% of palm oil from sustainable sources by FY2023

Paper

Procure 100% of paper (for product packaging) from sustainable sources by FY2022



## Response to Sustainability Issues: Ongoing Activities and New Strategies

### ■ Expanding the *One Chocolate for One Smile* project

- Since 2008 the project has continued to deliver aid to children in cacao-producing countries.
- Number of participating products expanded in FY2020. The project raises awareness of social issues concerning cacao beans with online videos and in-store promotions.



### ■ SmaGO: Japan's first IoT-powered "smart" waste receptacles

- "Smart" waste receptacles were installed in 34 locations around the Omotesando district of Tokyo in October.
- A sensor detects when the receptacle is full and the waste is then automatically compressed. This not only makes waste collection more efficient, it also reduces CO<sub>2</sub> emissions generated by garbage trucks.
- The receptacles create an environment conducive to waste collection and help keep the streets clean.





**Aiming to achieve  
sustainable growth and  
become an enduring  
company**

# Aiming to achieve sustainable growth and become an enduring company



# Reference Data

## Reference: Sales by Category (Apr thru Sep 2020)

(Billion yen)

Category	Consolidated net sales			Market (Y/Y change) (%)	Morinaga's main brands (domestic only)	Sales (Y/Y change) (%)
	Current FY	Previous FY	(Y/Y change)			
Confectionery & Foodstuffs	<b>49.4</b>	<b>56.2</b>	-6.8 (88%)			
Sugar confectionery	<b>13.2</b>	<b>14.5</b>	-1.3 (91%)	<b>86</b>	<i>HI-CHEW</i>	<b>79</b>
Biscuits	<b>11.5</b>	<b>10.5</b>	+1.0 (110%)	<b>108</b>	<i>Morinaga Biscuits</i>	<b>119</b>
Chocolate	<b>9.8</b>	<b>11.5</b>	-1.7 (85%)	<b>103</b>	<i>Chocoball DARS Carré de chocolat</i>	<b>91 93 88</b>
Amazake	<b>2.9</b>	<b>3.0</b>	-0.1 (98%)	<b>93</b>	<i>Morinaga Amazake</i>	<b>98</b>
Other	<b>11.8</b>	<b>16.6</b>	-4.8 (71%)			
Frozen Desserts	<b>29.5</b>	<b>25.1</b>	+4.4 (118%)	<b>104</b>	<i>Jumbo Group</i>	<b>113</b>
Health Products	<b>18.7</b>	<b>21.6</b>	-2.9 (86%)		<i>in Jelly</i>	<b>80</b>