

Fiscal Year Ended March 31, 2020

Results Briefing

May 22, 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 (Recent Conditions)

Market Conditions

■ April 2020 SRI data: Y/Y sales amounts

(%)

	Market	MORINAGA
Hotcakes <i>(Morinaga Hotcake Mix, etc.)</i>	268	312
Biscuits <i>(Morinaga Biscuits, etc.)</i>	118	121
Jelly drinks <i>(in Jelly, etc.)</i>	72	64

Source: intage SRI data; based on sales figures

“Hotcakes” category means pre-mix type hotcake products; “Biscuits” includes biscuits and crackers; “Jelly drinks” means health sub-category and health type products in pouches with mouth stoppers.

Fiscal Year Ended March 31, 2020

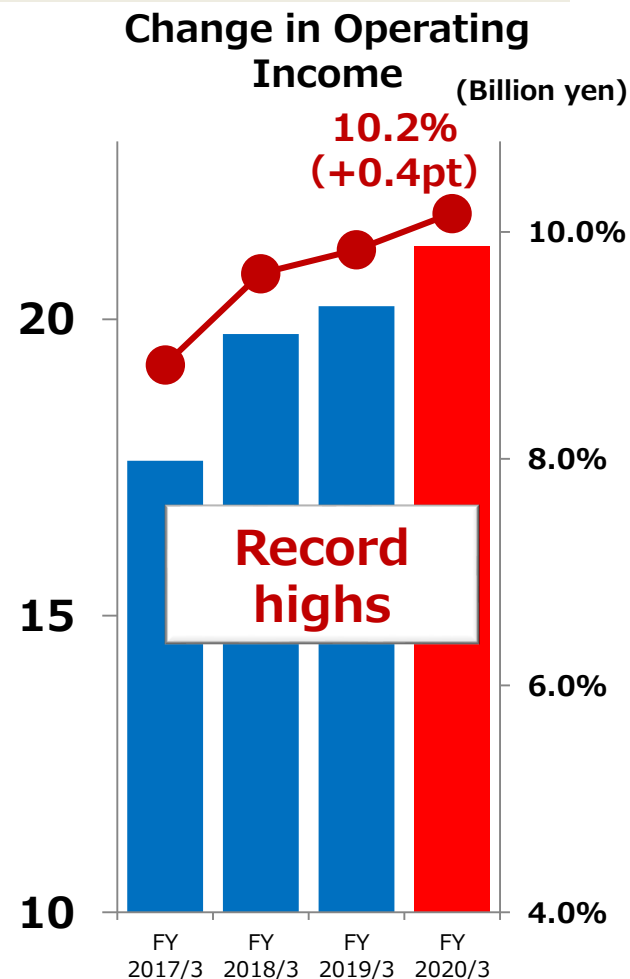
Financial Results

(April 1, 2019 through March 31, 2020)

Consolidated Results for FY2020/3

- Higher net sales: Driven by Food Manufacturing business segment
- Higher income: Boosted by sales growth in Frozen Desserts, profitability improvement overseas

	(Million yen)		
	FY2020/3	Previous FY	Y/Y change
Net sales	208,878	205,368	3,510 (101.7%)
Operating income	21,230	20,217	1,013 (105.0%)
Ordinary income	21,950	20,767	1,183 (105.7%)
Profit attributable to owners of parent	10,824	12,816	-1,992 (84.5%)



Consolidated Segment information

(Million yen)

Segment (Component ratio)	Net sales (Y/Y change)	Segment income (Y/Y change)
Food Manufacturing (95.8%)	200,117 (102.0%)	20,836 (+1,233)
Food Merchandise (3.0%)	6,234 (93.6%)	461 (-78)
Real Estate and Services (0.9%)	1,901 (99.6%)	824 (-3)
Other Services (0.3%)	624 (107.9%)	126 (+23)

Food Manufacturing

■ Net sales

Confectionery & Foodstuffs (Y/Y: 99.1%)

- Domestic: Solid sales in core brands

Core brands (Y/Y: 101.0%)

- Overseas: Net sales (Y/Y: 91.6%)

*Indonesian JV dissolved
USA (Y/Y: 127.7%)

Overseas sales excluding
Indonesia (Y/Y: 110.3%)

Frozen Desserts (Y/Y: 109.5%)

- Brisk sales for *Jumbo Group* and next-generation brands

Health Products (Y/Y: 104.0%)

- *in Jelly* sales solid, *in BAR* sales brisk

Consolidated Food Manufacturing Net Sales and Operating Income

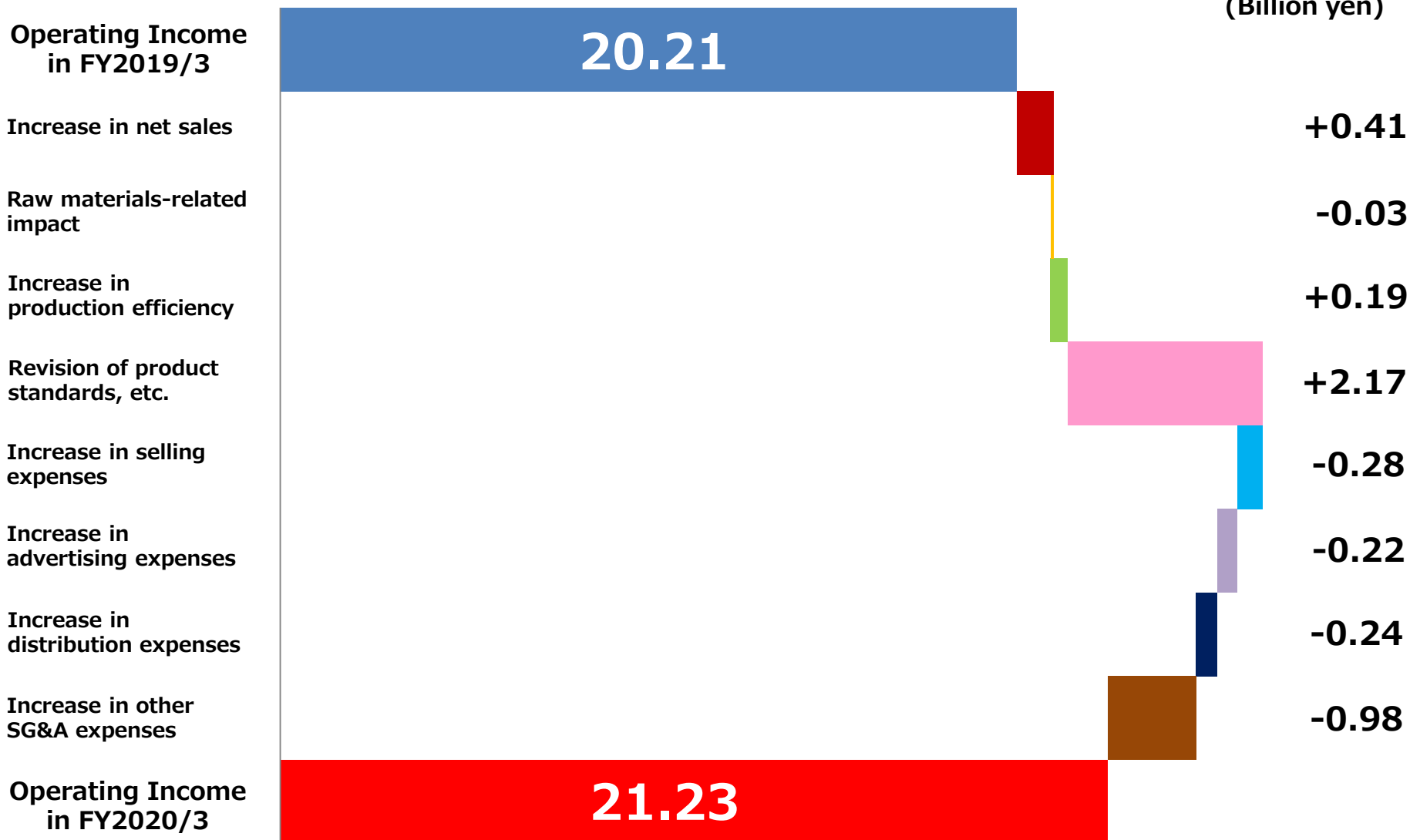
(Million yen)	Net sales			Operating income		
	FY2020/3	Y/Y change	Y/Y change (%)	FY2020/3	Y/Y change	Y/Y change (%)
Consolidated	208,878	+3,510	101.7%	21,230	+1,013	+5.0%
Food Manufacturing	200,117	+3,901	102.0%	20,836	+1,233	+6.3%
Confectionery & Foodstuffs	120,877	-1,131	99.1%	8,247	+695	+9.2%
Frozen Desserts	40,753	+3,538	109.5%	5,558	+1,393	+33.4%
Health Products	38,486	+1,494	104.0%	7,030	-855	-10.8%
Sales by business sites	FY2020/3		Y/Y change		Y/Y change (%)	
Domestic sales	188,992		+4,919		102.7%	
Overseas sales	11,125		-1,018		91.6%	
Overseas sales ratio	5.3%		-0.6pt			

*The overseas sales ratio is calculated based on consolidated net sales

■ Overseas: Sales declined on dissolution of Indonesian joint venture, but operating income boosted by significant improvement in profitability

Factors in Change in Consolidated Operating Income

(Billion yen)



Confectionery & Foodstuffs Segment Results

(Million yen)

Confectionery & Foodstuffs	Net sales			Operating income			
	FY2020/3	Y/Y change	Y/Y change (%)	FY2020/3	Y/Y change	Operating income margin	Y/Y change
	120,877	-1,131	99.1%	8,247	+695	6.8%	+0.6pt

Variation factors of Sales

Domestic

Sales of *Amazake* and *Milk Caramel* down Y/Y, but offset mainly by core brands



HI-CHEW group
105%



Morinaga Biscuits
107%



157%



91%



90%

Overseas

Sales down on dissolution of Indonesian JV
Overseas total: 91.6%, USA: 127.7%

Variation factors of Profit

Impact from cost of sales improvement

Improvement in profitability in overseas business and product mix

Advertising focus narrowed to core brands to enhance efficiency



Distribution costs: Rise of transport cost per unit

Frozen Desserts Segment Results

(Million yen)

Frozen Desserts	Net sales			Operating income			
	FY2020/3	Y/Y change	Y/Y change (%)	FY2020/3	Y/Y change	Operating income margin	Y/Y change
	40,753	+3,538	109.5%	5,558	+1,393	13.6%	+2.4pt

Variation factors of Sales

Brisk sales of *Jumbo Group*, *ICEBOX*, *Ita Choco Ice*, and *The Crepe* despite unfavorable weather in peak season

Jumbo Group
109%



Variation factors of Profit

Impact of higher sales owing to sales volume growth

Impact of revision of product standards

Aggressive advertising



Distribution costs: Increased warehousing expenses

Health Products Segment Results

(Million yen)

Health Products	Net sales			Operating income			
	FY2020/3	Y/Y change	Y/Y change (%)	FY2020/3	Y/Y change	Operating income margin	Y/Y change
	38,486	+1,494	104.0%	7,030	-855	18.3%	-3.0pt

Variation factors of Sales

Impact of unfavorable weather in peak season offset mainly by new *in Jelly* products; *in BAR* sustained double-digit growth; mail-order sales continued to increase

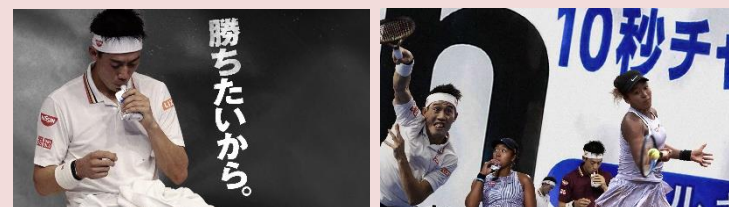
in Jelly overall: 101%



Variation factors of Profit

Impact of higher sales owing to net sales growth

Aggressive advertising



Distribution costs: Rise of transport cost per unit, increased warehousing expenses

Fiscal Year Ended March 31, 2021

Results Forecast

(April 1, 2020 through March 31, 2021)

***We expect the novel coronavirus outbreak to predominantly have an impact in the first half before receding in the second half. The impact on the health products segment and domestic subsidiaries will be significant and we expect to fall short of our targets for the final year of the Medium-Term Business Plan.**

Consolidated Results Forecast for FY2021/3 (anticipating novel coronavirus impacts in 1H)

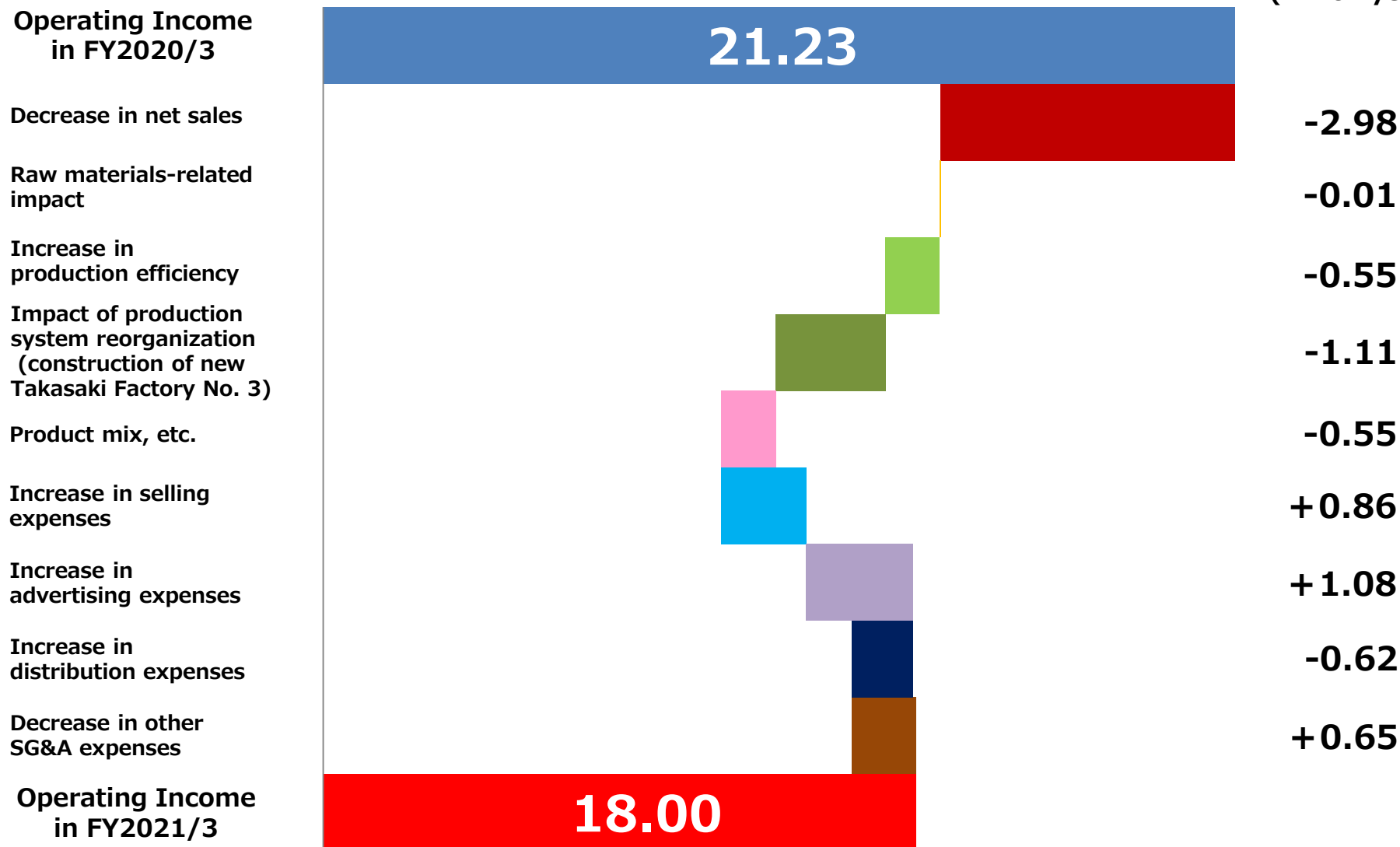
- **Net sales:** (Positives) Strengthen core brands, tap into strategic channels, expand global domain;
(Negatives) End of *Pringles* distributorship agreement, impact of novel coronavirus outbreak
- **Income:** (Positives) Initiatives for lowering CoGS, beefing up cost controls;
(Negatives) Higher depreciation and amortization, impact of novel coronavirus outbreak
(sales declines, product mix deterioration)

(Million yen)












	FY2021/3	Previous FY	(Y/Y change)
Net sales	198,000	208,878	-10,878 (94.8%)
Operating income <small>[operating income margin]</small>	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%)
EBITDA	26,250	27,460	-1,210 (95.6%)

Factors in Change in Consolidated Operating Income for FY2021/3

(Billion yen)



Impact of Novel Coronavirus Outbreak on FY2021/3 Plan

	Net sales	Operating income	Main impacts and countermeasures
Confectionery & Foodstuffs (domestic)			Sales of candy will likely struggle, but we plan to step up production of biscuits, snacks, and cake mix for which there is “stay-at-home” demand. Aiming to maintain sales and profit by controlling selling costs.
Frozen Desserts			Stay-at-home demand centering on supermarkets. Aiming to boost sales chiefly with multipack products, in addition to the core Jumbo Group.
Health Products			Jelly drinks market will likely struggle owing to changes in people’s day-to-day behavior. Despite efforts to stage a recovery by proposing new ways to drink the products and launching new products, both sales and profit will likely be affected.
Domestic Subsidiaries* (operating companies)			Sales will likely decrease due to sales opportunity losses caused by major customer and store closures, as well as the impact of people refraining from going out. Both sales and profit will likely be affected.
Overseas			Impacts from the closure of some retailers are emerging as the coronavirus spreads in each area. We plan to maintain production systems through supply chain risk management.
Other	—		Planning to bolster cost controls mainly by reducing SG&A costs.

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

**Currently
expected
impacts**

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

Impact of Novel Coronavirus Outbreak— Morinaga’s social mission

■ Expected role as a food manufacturer

•Actions under State of Emergency

- ⇒ Continuing production activities under rigorous sanitation management, and stably supplying products to market
- ⇒ Focusing on preventing the spread of infection by requiring in principle that employees who can work from home refrain from visiting their workplaces

•Support for medical professionals

- ⇒ Providing our products free of charge to help medical professionals maintain good health and ease stress



NEWS RELEASE

森永製菓株式会社
東京都港区芝 5-33-1 〒108-8403
<https://www.morinaga.co.jp>

2020年4月24日

新型コロナウイルス感染拡大に対する医療機関への商品無償提供について

世界各地で感染が拡大している新型コロナウイルス感染症により、罹患された皆様および関係者の皆様に心よりお見舞い申し上げますとともに、一日でも早いご回復をお祈りいたします。

また、このような渦中でも最前線で日夜奮闘されている関係者方ならびに自治体の皆様、感染者の診断や治療にご尽力いただいている医療関係の皆様には心からの敬意を表します。

森永製菓株式会社（東京都港区芝、代表取締役社長・太田 栄二郎）は、新型コロナウイルス感染症の拡大に伴い、国民の生命を守るために懸命に医療活動を継続して下さっている医療従事者の皆様にささやかながらお力添えをいたしたく、下記のとおり、森永製菓の「inゼリー」合計 36 万個を、新型コロナウイルス感染症対応に従事されている医療機関へ無償提供させていただくことを決定いたしましたので、お知らせいたします。

■対象商品

「inゼリー<エネルギー>」	
「inゼリー<マルチビタミン>」	
「inゼリー<プロテイン>」	合計 36 万個



■対象機関

国内の感染症指定医療機関および新型コロナウイルス感染症患者を受け入れている一般医療機関

詳細につきましては現在、研究開発等で関連のある大学病院・医師会ともご相談しつつ調整と準備を進めております。追加情報は順次森永製菓HPにて掲載いたします。

森永製菓では、新型コロナウイルス感染症の一日も早い終息を願いますとともに、医療従事者の皆様を始め、日本中世界中の皆様のご健康を心よりお祈り申し上げます。

Toward Future Growth

Results

2012 plan

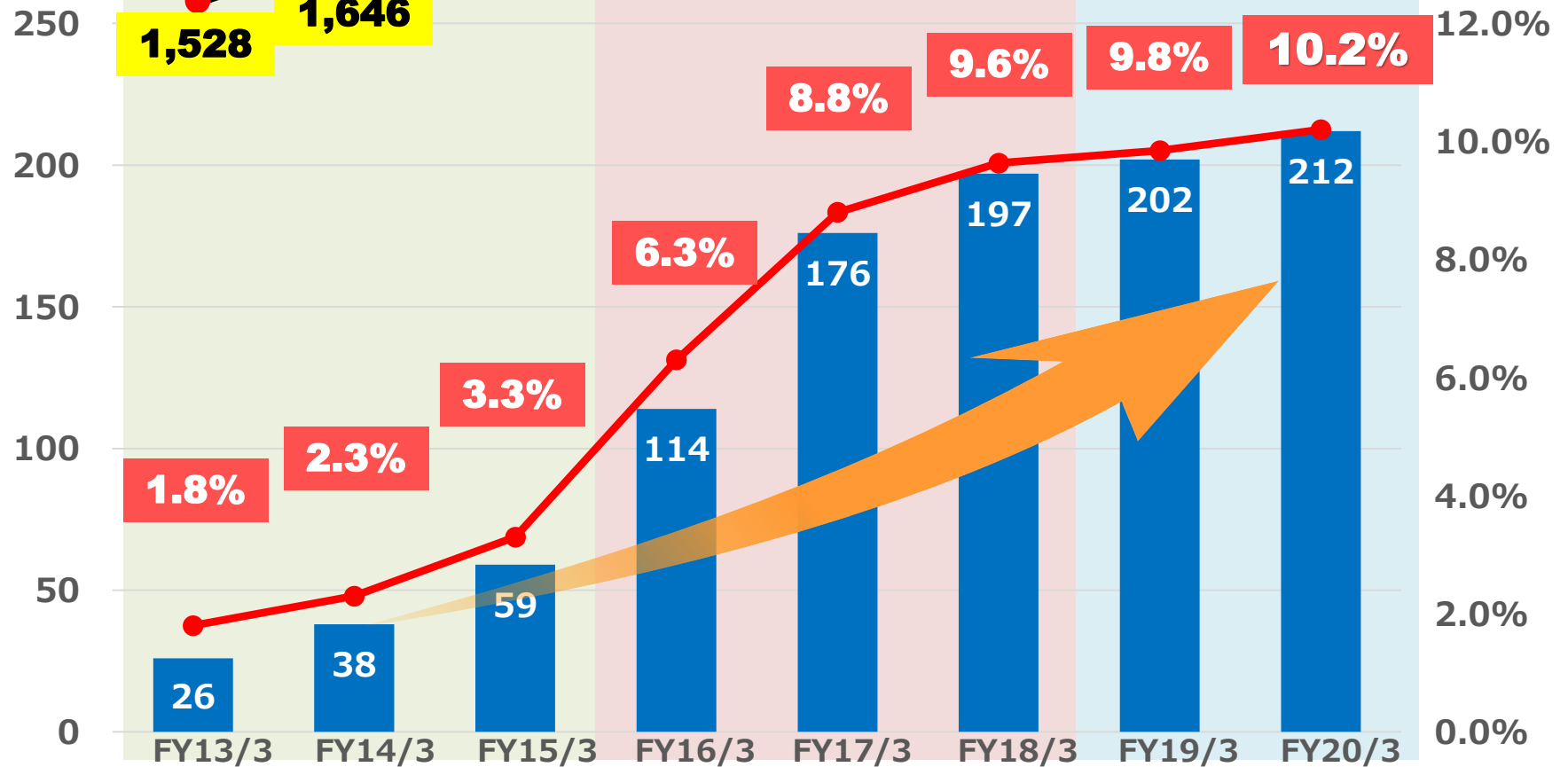
2015 plan

2018 plan

Net sales
(¥100mn)

Operating income
(¥100mn)

Operating income margin



2018 Medium-term Business Plan – Business Targets

(¥100mn)

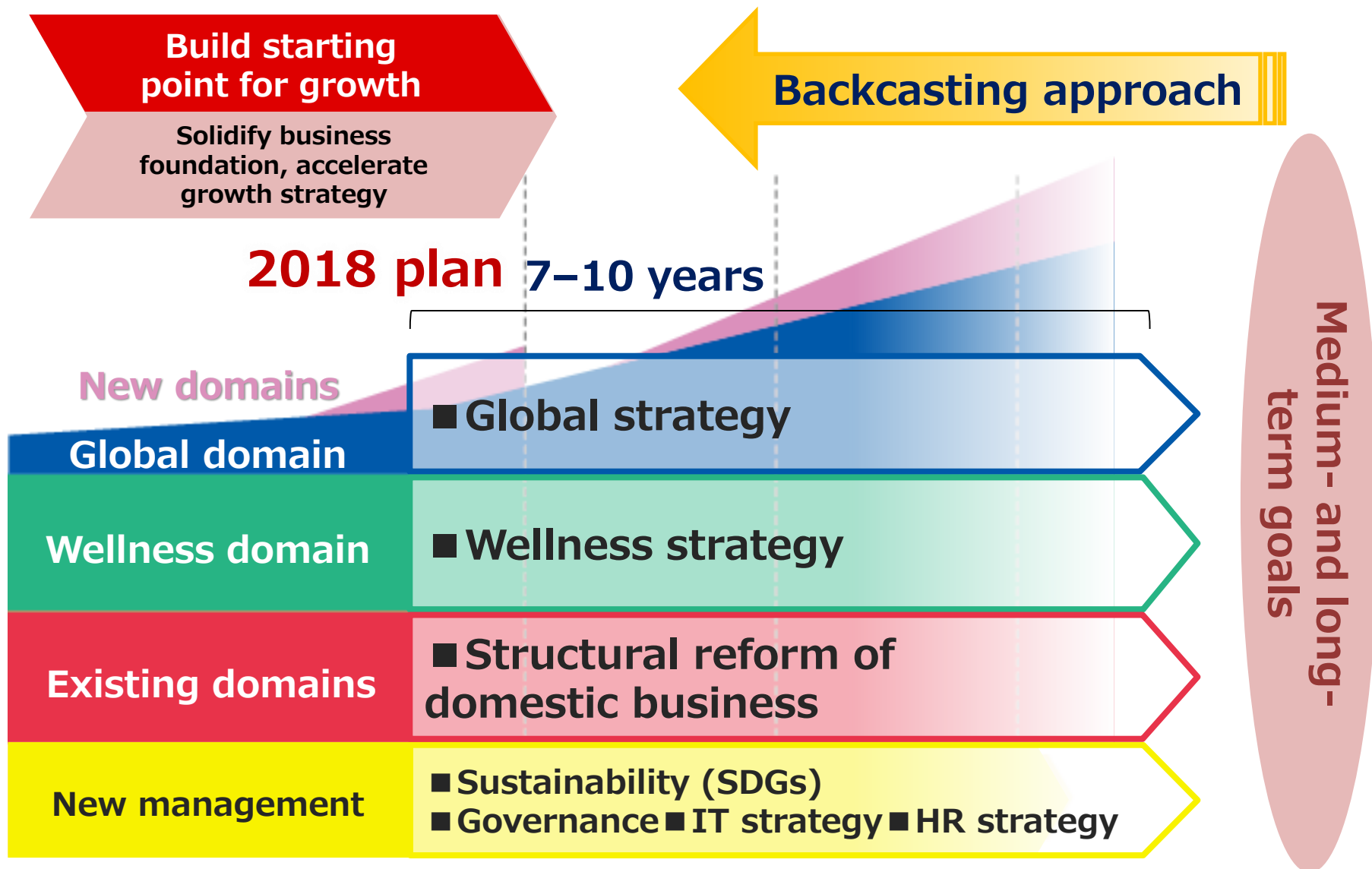
	FY2019/3		FY2020/3		FY2021/3	
	Target	Result	Target	Result	Target	Forecast
Net sales	2,100	2,053	2,150	2,088	2,200	1,980
Operating income	200	202	210	212	220	180
EBITDA	265	260	285	274	310	262

Differences (in FY2021/3) from when plan was formulated

Primary factors

- Dissolution of Indonesian JV
- End of *Pringles* agreement
- **Impact of novel coronavirus**

Management Policies for Achieving Medium- and Long-Term Targets



Domestic Business: Focus on Eight Major Brands

↑
Contribution to profit



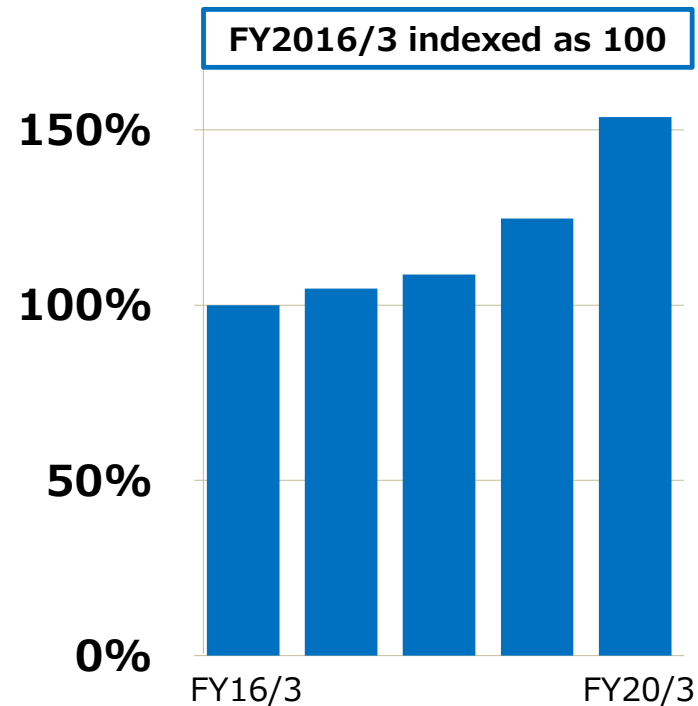
Maximizing profits through efficient capital allocation and strategic product launches

Net sales →

Existing Domains: Brand Power-Driven Expansion Strategy



■ Net sales of *HI-CHEW* in drugstore channel

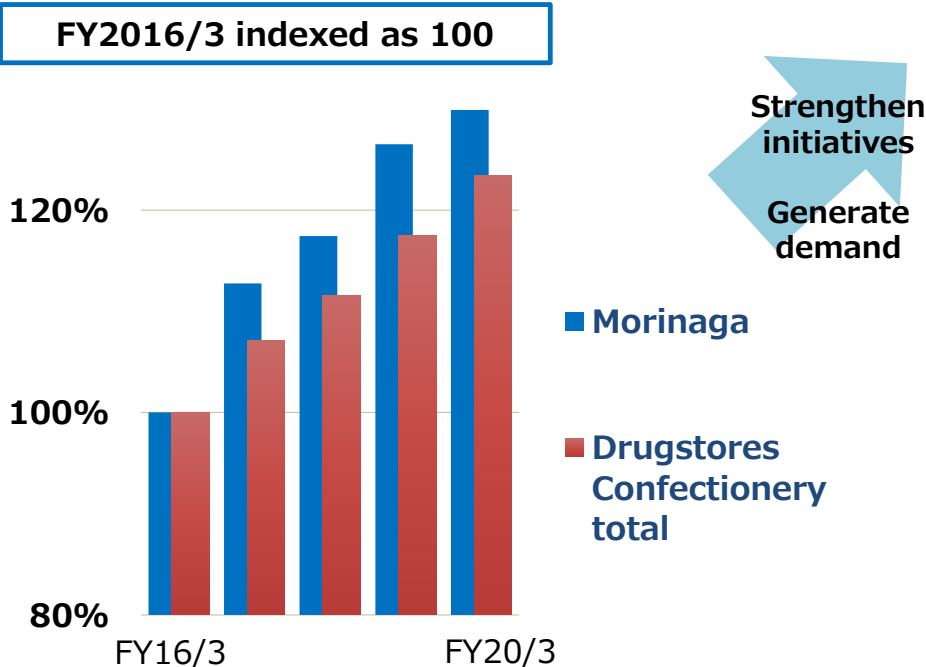


Source: intage SRI data; based on sales figures
MORINAGA & CO., LTD.

Existing Domains: Sales Strategy

Strategic channel development and improving quality of initiatives with companies

Net sales of confectionery & foodstuffs in drugstore channel



Source: intage SRI data; based on sales figures
 *Total for the following categories: Chocolate, caramel, candy, biscuits & crackers, snacks, and pre-mix products

Drugstores

Step up product development harnessing channel attributes



Convenience stores

Proactive proposals and market share acquisition based on system of dedicated marketers

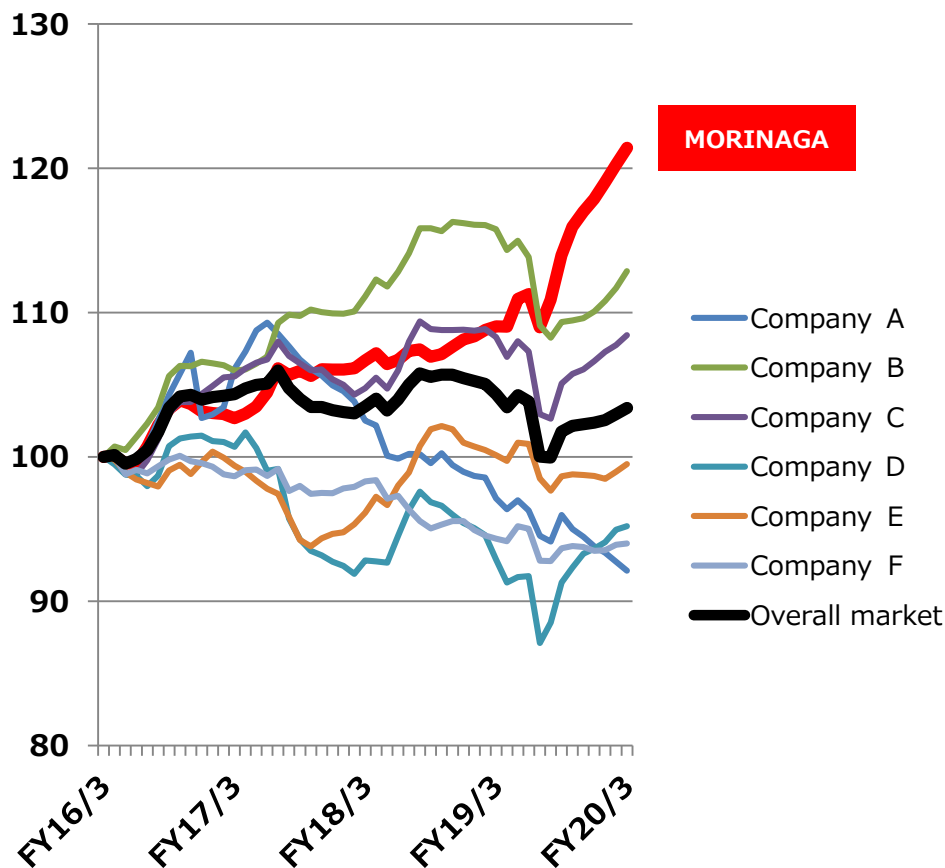
Inbound tourism

**Strengthen relationships with target firms
 Open up airport sales channels**

Existing domains: Frozen Desserts

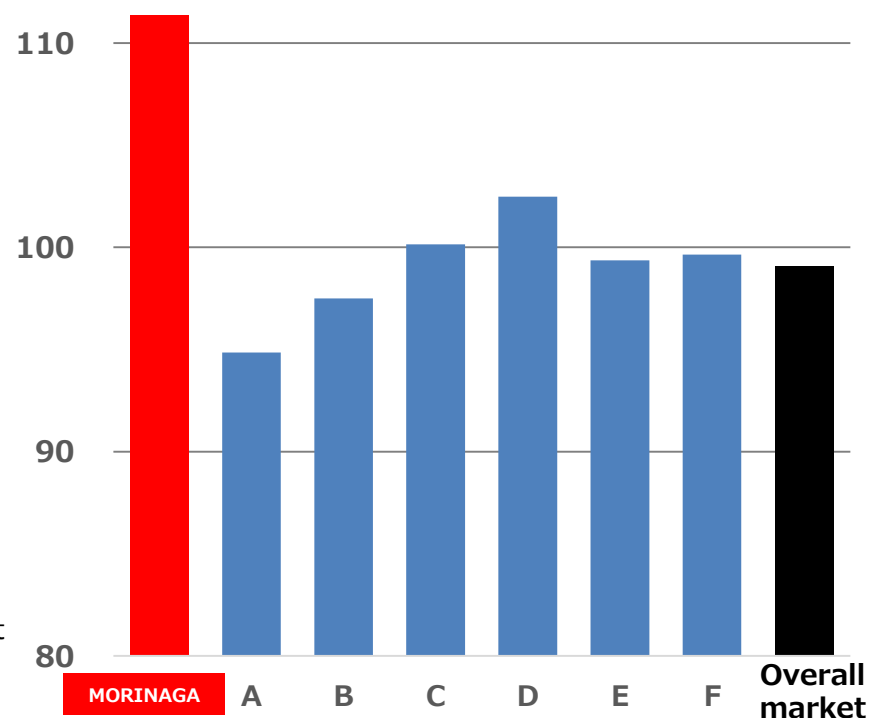
Net sales growth rate

(%) *FY2016/3 indexed as 100



FY2020/3 net sales: Y/Y change

(%)



Well ahead of the overall market and our rivals

Source: intage SRI data; based on sales figures

MORINAGA & CO., LTD.

Existing domains: Frozen Desserts



Product value
Combine with
confectionery
know-how

- Unique added value
 - Product quality that delivers satisfaction and happiness
- ⇒ Win fans and repeat customers

Advertising strategy
Appeal to target
customers

- TV ads, online promotions
 - Packaging featuring anime characters
- ⇒ Boost brand recognition

Sales initiatives
Increase product
availability and develop
store displays

- Increase ratio of stores stocking products, strengthen initiatives with convenience stores
 - Store displays coordinated with promotions
- ⇒ Expand customer contact

Existing Domains: Frozen Desserts

Toward further growth

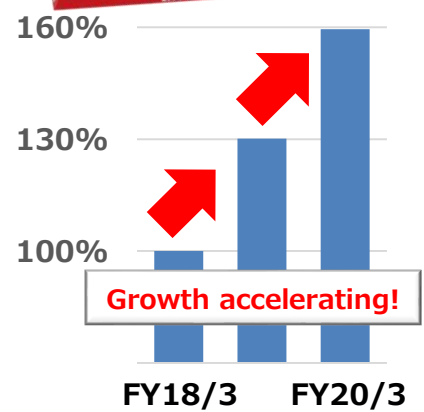
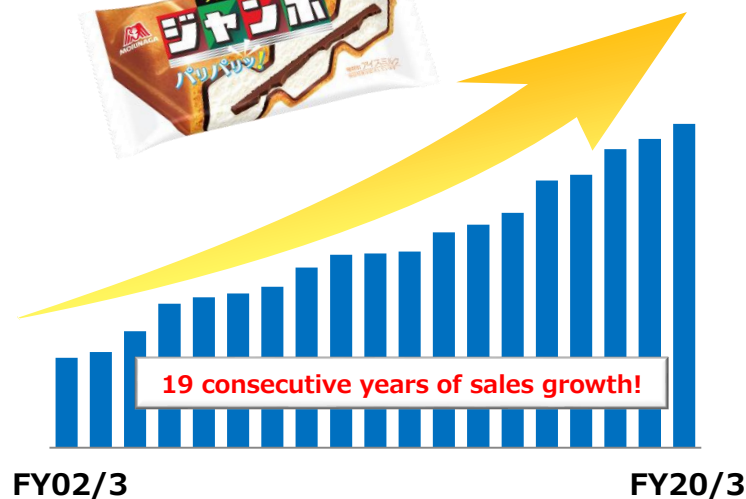
Production efficiency and strengthening/establishing supply systems

Creating growth opportunities

Frozen dessert production line at Takasaki No. 3 Factory slated to come online from 1H FY2022/3

Choco Monaka Jumbo

Ita Choco Ice



*Growth rate based on FY2018/3 indexed as 100

Generate new demand

Cultivate target segments

New production line

Expand breadth of product development

Source: Morinaga net sales for *Choco Monaka Jumbo*; intage SRI data (sales figures) for *Ita Choco Ice*

Wellness Domain: *in Jelly* strategy

Recent Conditions

Response for Summer

Novel coronavirus outbreak, declaration of state of emergency
 Teleworking, school closures, people refraining from going out
 Fewer events and sports opportunities

State of emergency lifted
 Mood of self-restraint expected to linger even as daily activities gradually resume

Changes, impacts, & demand

More people eating at home
 Decline in consumption opportunities
 (buying behavior/sales channels)

Increase in range of activities, greater health awareness
 Growing desire to exercise and boost immunity

Strategies

Further promote nutritional functions and review advertising rollout

Highlight anew the convenience of *in Jelly* and the ease of obtaining essential nutrients



Wellness Domain: *in Jelly* strategy

Autumn onwards (during and after novel coronavirus outbreak)

■ We expect people's daily lives to continue to be different even after the novel coronavirus outbreak has ended
 ⇒ Aim to further expand *in Jelly* sales by promoting brand rediscovery and at the same time tapping anticipated growth in demand

Changes, impacts, & demand

Health awareness, regular exercise, demand for immunity boosting, bodybuilding

Working/studying styles Enhanced productivity and powers of concentration

Value of entertainment/sports Cheerfulness/euphoria/sense of unity

Brand rediscovery/advertising rollout/an energy charge for people moving forward positively

Strategies

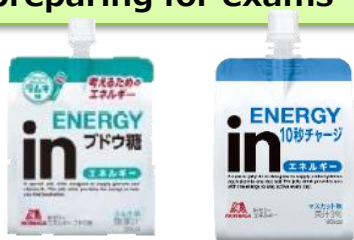
Improved protein functions

Promotion of glucose Supporting students preparing for exams

Products linked with promotions Event exposure



Revamped products Enhanced functions



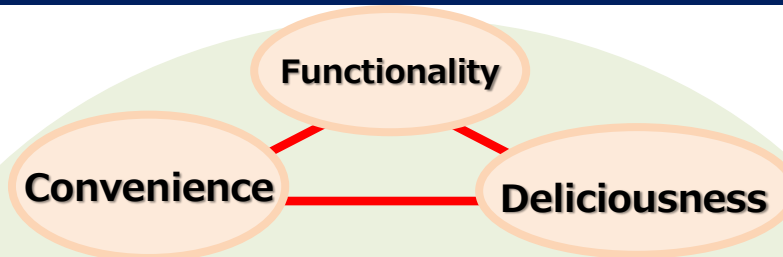
All-channel sales



Wellness Domain: Product development leveraging brand value and proprietary technology

Wellness products Configuration: 43.8% (+0.5pt)

Expanding "in" brand value



in Tablet



in Jelly



in BAR



in Chocolate



in Drink

Confectionery technology + added health value



Wheat germ



High-cacao content



Glucose

Health products + brand/technology Bolstering mail-order/e-commerce channels



Ranked No. 1 on the day of sales launch in Amazon Japan's best sellers in the "Drugstore" category

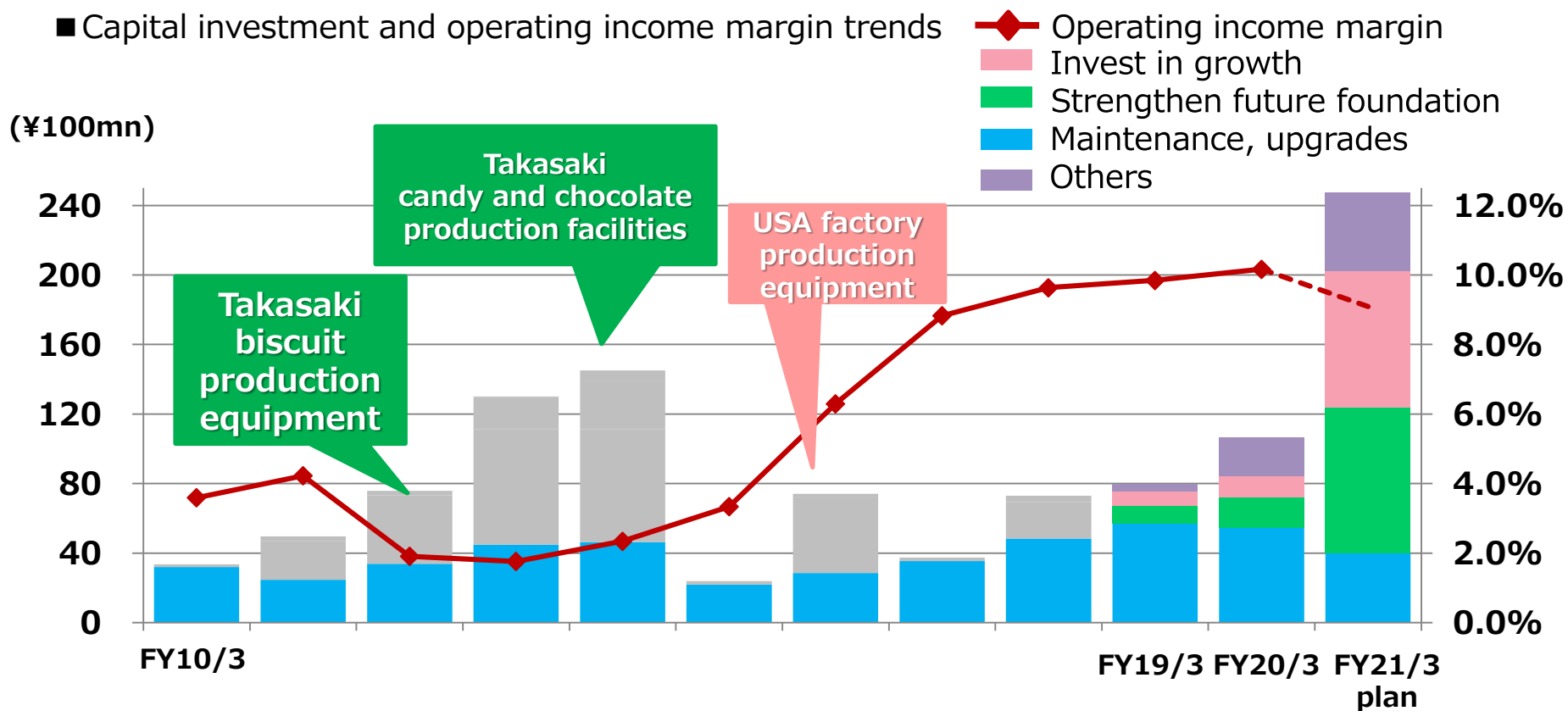


Collagen

*Wellness net sales ratio = Wellness products ÷ sales in domestic Confectionery & Foodstuffs and Health Products business segments

Capital Investment & Factory Reorganization

■ Capital investment and operating income margin trends



*Gray shading is used up to FY19/3 because detailed investment categories were not used at that time..

Aiming to strengthen future foundation and invest in growth to ensure stable future earnings

Capital Investment: Key Initiatives

Building a more stable and efficient production system

Issues to be addressed

▼ Goals of production system rebuild

Risk of not securing workers

Production lines that require less manpower

Dependence on skilled veterans

Establishing programs on the way to standardization

Facility maintenance and capacity utilization

IoT-driven data collection and analysis

Production launch speed

Greater coordination with R&D departments

Solving issues, mitigating future risks, and boosting production efficiency will deliver us a

**robust production foundation
for the domestic market**



Global domain: Cumulative Results and Full-year Forecasts

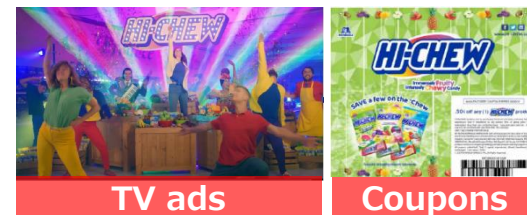
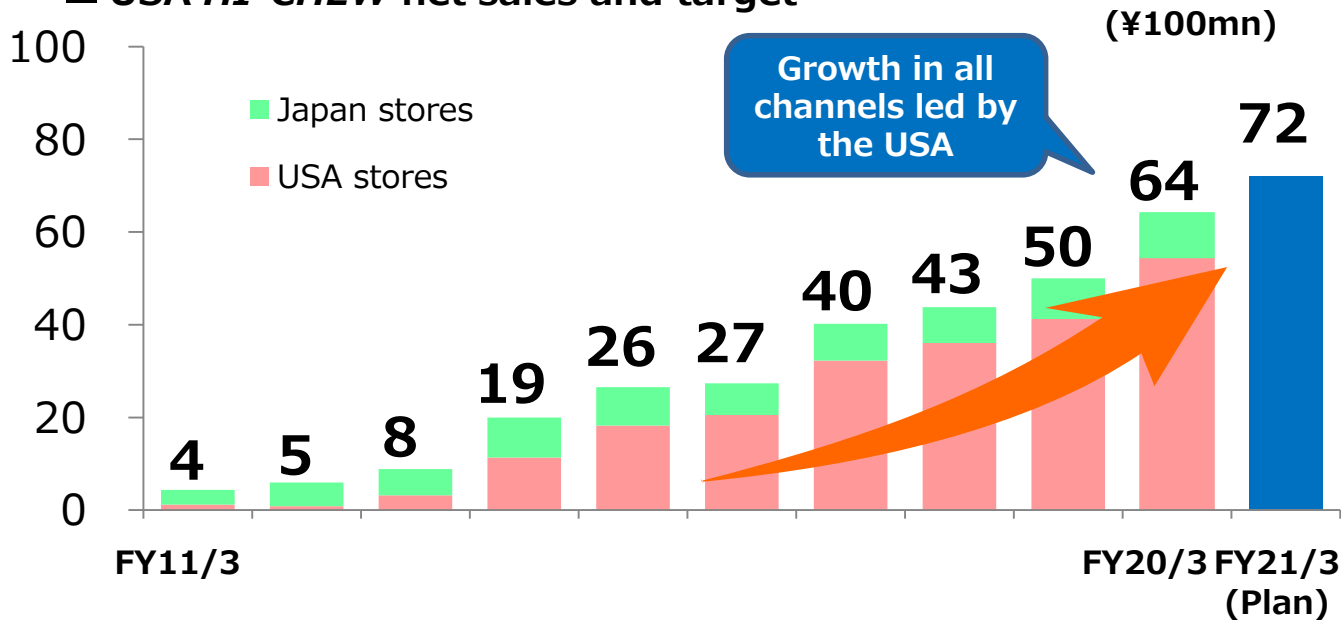
(¥100mn)

Areas (converted into yen)	FY2019/3	FY2020/3	Y/Y change (%)	FY2021/3 forecast	Forecast Y/Y change (%)
USA	50	64	128%	72	114%
China, Taiwan, Exports	50	47	93%	51	108%
(Indonesia)	20	MKI JV dissolution in January 2019			
Total	121	111	92%	124	111%

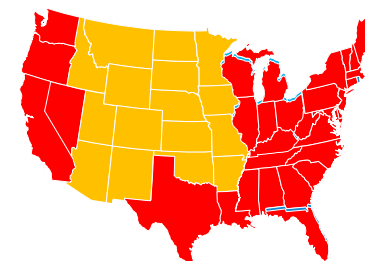
Overseas sales ratio	5.9%	5.3%	-0.6pt	6.3%	+1.0pt
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Global Domain: USA HI-CHEW strategy

USA HI-CHEW net sales and target



Synergies from increased availability and higher store turnover



Sharp growth in US channels
⇒ Growth accelerating nationwide

Earnings contributions from production units

Reviews and improvements

- Production management
- Nurturing of personnel
- Manufacturing processes



Results of initiatives

- Improvement in production quality performance
- Lower manufacturing costs
- Stable product supply



**FY2020/3
Achieved swing
to profitability**



Global domain: US *HI-CHEW* strategy

Toward further growth

Expand sales



- Expand availability of existing products
- Increase SKUs, develop multipacks
- New products, new flavors
- Develop products based on new functions
- Roll out effective advertising

Boost production capacity



- Strengthen stable supply systems
- ⇒ Installation of additional production line completed in December 2019 (production capacity boosted by 30%)

Improve profitability



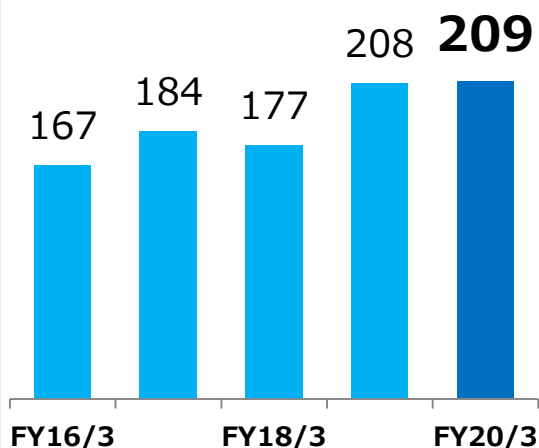
- Streamline production, reduce the cost of sales ratio
- Revisions of prices and product standards
- Streamline selling expenses
- Optimize distribution networks

Financial Strategy

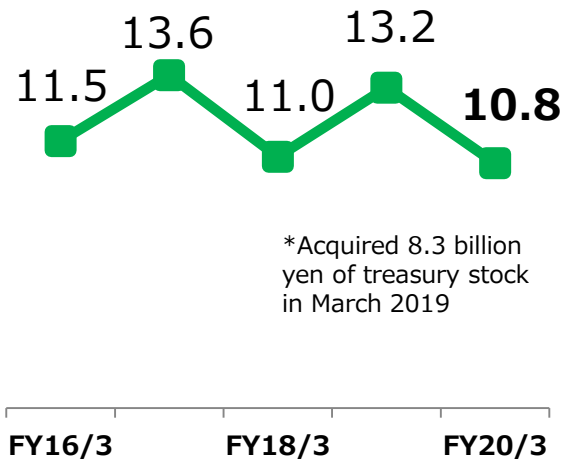
Profit Growth & Capital Allocation

(¥100mn; %)

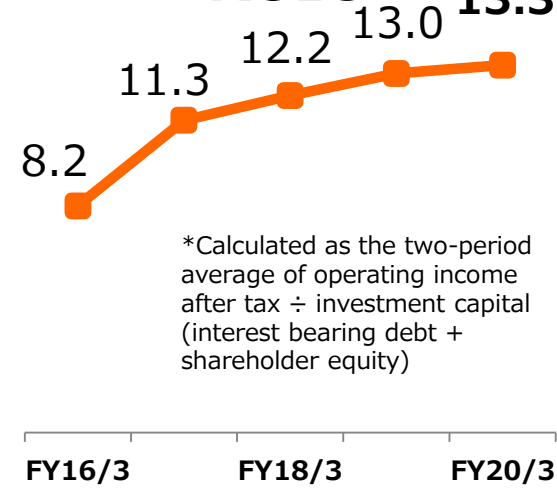
Sales CF



ROE



ROIC



Improve ability to create cash flow

Steady sales growth



Thorough cost reduction

Healthy ROE considering capital cost

ROE – capital cost



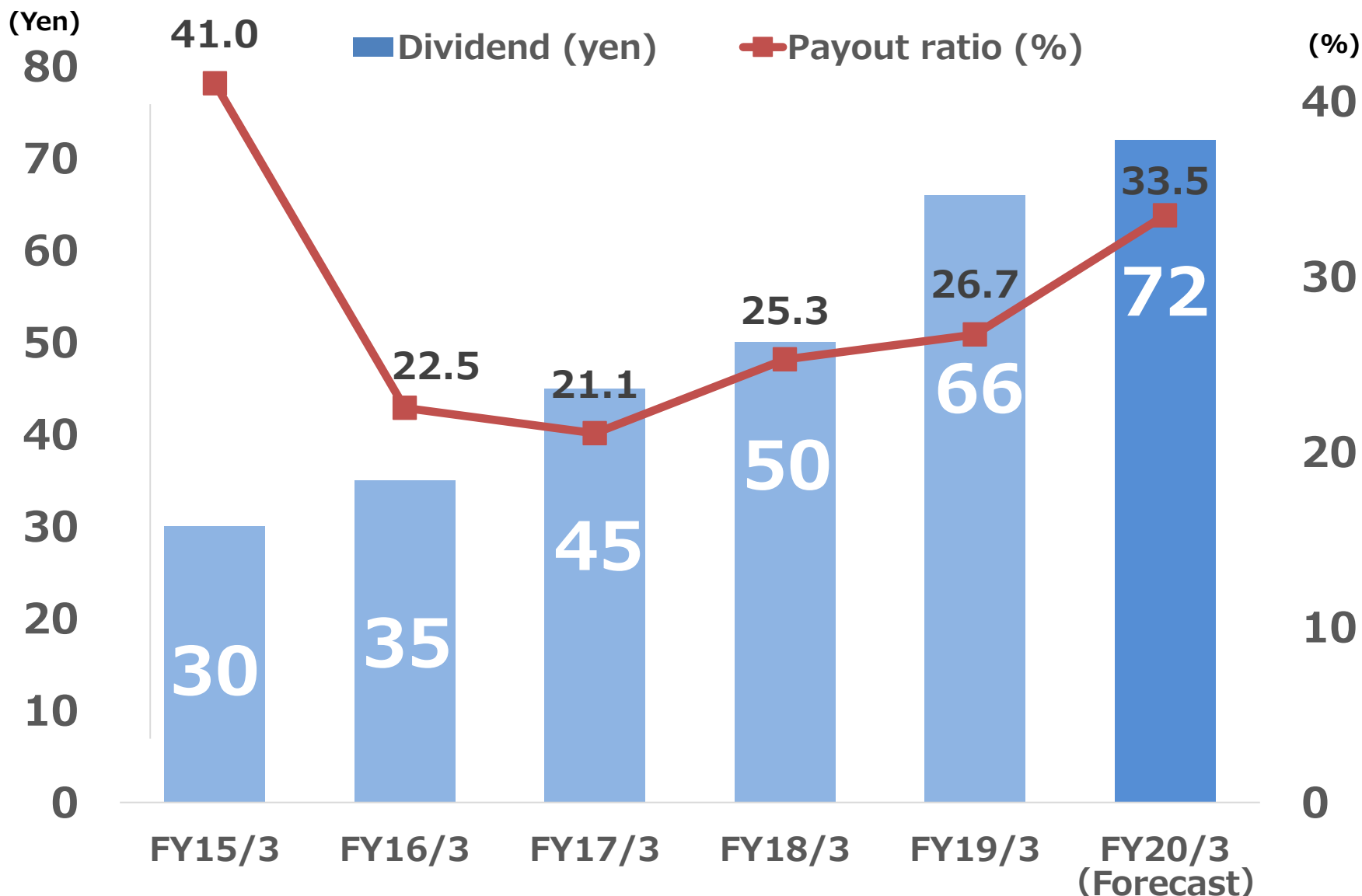
Develop ability to create high value

Growth investment and establishment of solid revenue base

- ① Improve business portfolio
- ② Reform structure of low-profit segments
- ③ Continued investment in growth businesses

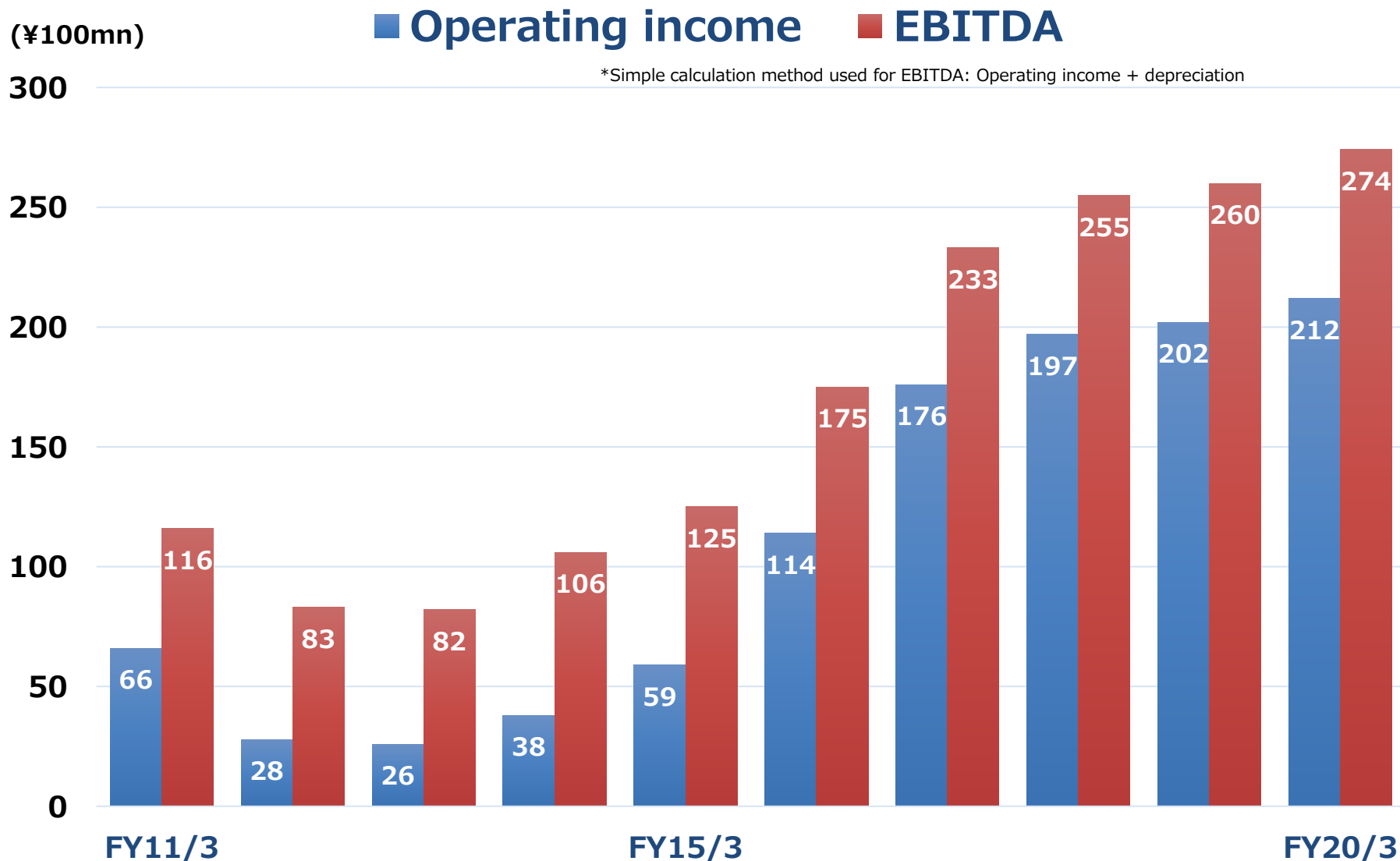
Improved ROIC

Return to Shareholders

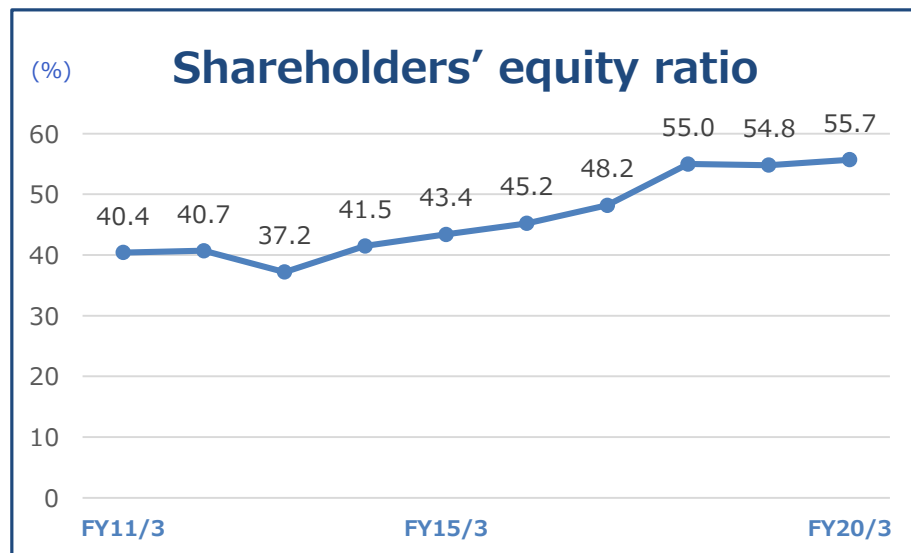
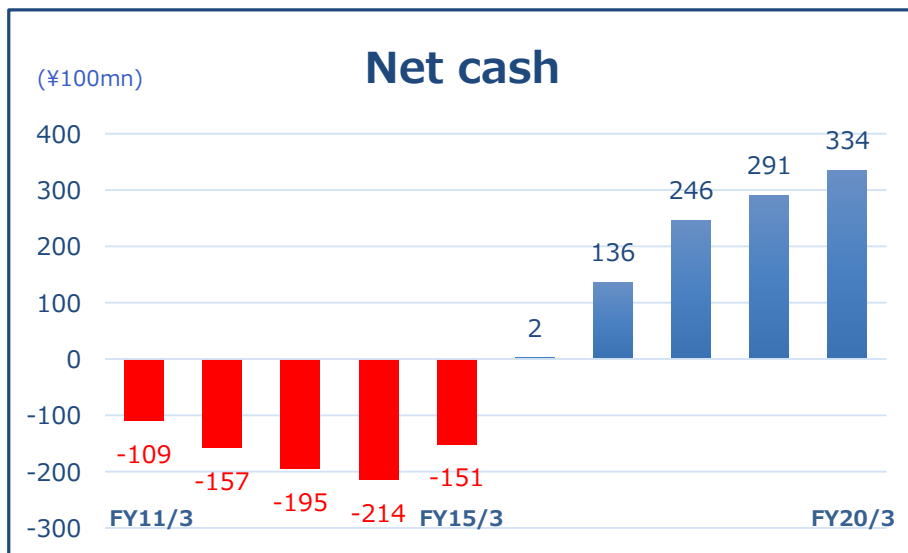
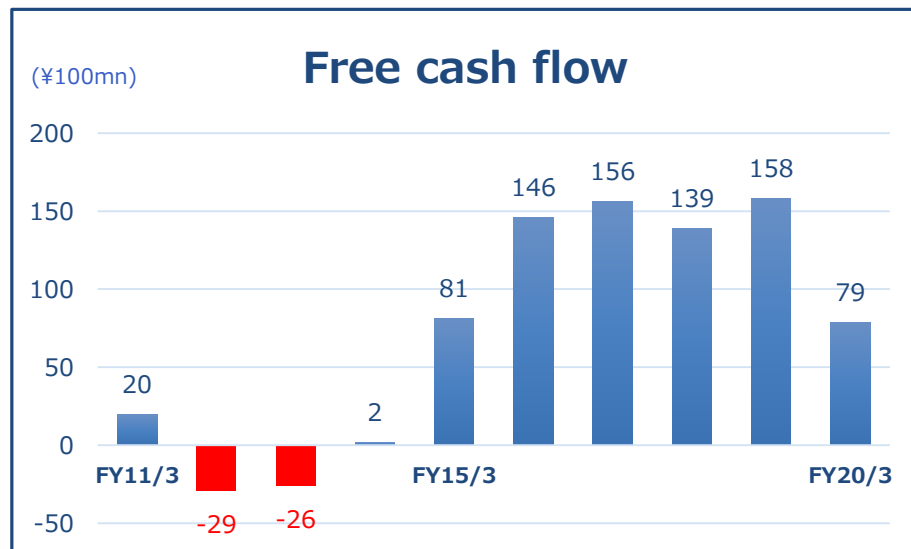
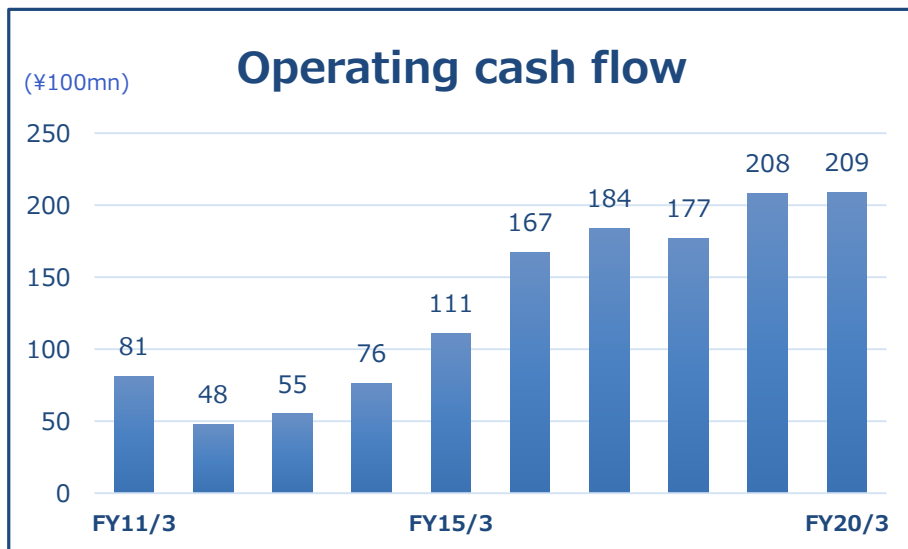


Reference Information

Reference



Reference



[Reference] Sales by Category for FY2020/3

(100 million 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	1,208	1,220	-12 (99%)			
Candy	288	251	+37 (115%)	100	<i>HI-CHEW</i>	105
Biscuits	237	228	+9 (104%)	100	<i>Morinaga Biscuits</i>	107
Chocolate	267	286	-19 (93%)	100	<i>Chocoball</i> <i>DARS</i> <i>Carré de chocolat</i>	99 100 99
Amazake	67	74	-7 (91%)	90	<i>Morinaga Amazake</i>	91
Other <small>(incl. powdered juice)</small>	349	381	-32 (92%)			
Frozen Desserts	407	372	+35 (110%)	99	<i>Jumbo Group</i>	109
Health Products	384	369	+15 (104%)		<i>in Jelly</i>	101