Transcript of Results Briefing for the Fiscal Year Ended March 31, 2020

P2.

I will begin today's presentation by explaining our response to the novel coronavirus.

While prioritizing crisis responses, we have continued production and distribution activities to fulfill our mission as a member of the food manufacturing industry and maintain a stable supply of our products. We will continue these efforts while always putting safety and security first.

In addition, regarding work-style reforms, we launched a large-scale telework program three years ago, and more than 70% of eligible employees took advantage of the system in 2019. Their experience has enabled them to continue working at home without a hitch during the current crisis. We plan to further accelerate work-style reform efforts even after the novel coronavirus crisis subsides.

P3.

This slide shows SRI data for April 2020.

As can be seen, the novel coronavirus outbreak has affected food categories differently, with some seeing a positive impact while others have been adversely affected.

Hotcake mix sales volume, for example, has expanded sharply, despite having trended lower recently in line with the tendency toward favoring simpler, more convenient meals. Biscuit sales have also increased, supported by "stay-at-home" demand.

On the other hand, sales of jelly drinks have fallen sharply owing to changes to people's lifestyles.

P4.

I will now present our financial results for fiscal 2019, the fiscal year ended March 31, 2020.

P5.

Net sales totaled ¥208,878 million, a year-on-year increase of ¥3,510 million.

Operating income increased by ¥1,013 million to ¥21,230 million, a new all-time high. The operating income margin was 10.2%, exceeding 10% on a full-year basis for the very first time.

Ordinary income was ¥21,950 million, up ¥1,183 million year on year, but profit attributable to owners of parent was ¥10,824 million, a decline of ¥1,992 million owing to the posting of an extraordinary loss.

P6.

This slide presents the sales and income for each of our reportable segments.

Food Manufacturing sales totaled ¥200,117 million, a year-on-year increase of 2.0%. Segment income was ¥20,836 million, up ¥1,233 million.

I will explain this result in more detail when discussing the results for each segment.

P7.

This slide provides a more detailed look at sales and operating income in the Food Manufacturing business.

Net sales of the Confectionery & Foodstuffs product group decreased by ¥1,131 million, or 0.9% year on year. Operating income, however, increased ¥695 million.

Net sales of the Frozen Desserts product group increased by ¥3,538 million, up 9.5% year on year, and operating income increased by ¥1,393 million.

Net sales of the Health Products product group rose ¥1,494 million, for a 4.0% year-on-year gain, but operating income decreased by ¥855 million.

Overseas sales were ¥1,018 million less than in fiscal 2018, mainly due to the dissolution of a partnership with a joint venture in Indonesia.

However, the profitability of overseas operations improved considerably, contributing to the growth in consolidated operating income.

P8.

This slide shows the factors affecting consolidated operating income.

Income was negatively affected by increases in raw materials prices, labor costs, distribution costs, and other expenses as was assumed in the initial plan, but operating income increased thanks to efforts to reduce raw material-related costs, the revenue-increasing effect of highly profitable products, the impact of revision to product standards in the Frozen Desserts product group, and profitability improvement in the overseas business.

P9.

I will now discuss factors affecting net sales and operating income by product group.

Confectionery & Foodstuffs product group sales declined but income increased.

In Japan, sales of core brands *Morinaga Biscuits* and *HI-CHEW* were strong, increasing 7% and 5% respectively. Sales of *Morinaga Ramune* expanded sharply, rising 57% year on year.

Overseas, sales in the U.S. rose sharply by 27.7% year on year, but sales decreased overall due to the dissolution of a joint venture in Indonesia.

Turning to factors affecting operating income, income rose thanks to growth in sales of highly profitable products, profitability improvement in the overseas business, and greater efficiency in advertising spending, despite the impact of higher distribution costs.

P10.

The Frozen Desserts product group achieved growth in sales and income.

Although sales of some products were affected by unfavorable weather in July, overall sales expanded sharply as a 9% year-on-year increase in sales of the mainstay *Jumbo Group* products was supported by brisk sales of other products, including *ICEBOX*, *Ita Choco Ice*, and *The Crepe*.

Income increased sharply as the impact of higher prices of milk ingredients and increases in distribution costs, warehousing and storage fees, and other costs was absorbed by the revenue increase and the impact of revision to product standards.

P11.

The Health Products product group posted higher sales but income declined.

Sales of the mainstay *in Jelly* products increased 1% year on year as the positive impact from new products offset the considerable negative impact from unfavorable weather in July.

Sales of *in BAR,* another product sold under the "*in* brand", remained strong, again posting double-digit year-on-year growth.

Mail-order sales of *Healthy Life with Angel* products were also strong.

Despite strong sales, the product group's income fell owing to aggressive advertising and an increase in distribution costs.

P12.

Next, I will explain our forecast for fiscal 2020.

Our forecast assumes the impact from the novel coronavirus outbreak will come mainly in the first half of the year.

P13.

We forecast that net sales and operating income will be less than in fiscal 2019, with net sales reaching ¥198,000 million and operating income ¥18,000 million.

The sales forecast represent a year-on-year decline of ¥10,878 million, reflecting the expected impact from the novel coronavirus outbreak as well as the end of the *Pringles* distributorship agreement.

We expect operating income to fall ¥3,230 million, reflecting the impact from the novel coronavirus outbreak and the loss of *Pringles* sales as well as an increase in depreciation and amortization.

As for EBITDA, we expect it to be ¥1,210 million less than in fiscal 2019.

P14.

This slide shows the factors expected to affect consolidated operating income.

Depreciation and amortization of approximately ¥2,000 million is included: Mainly due to increases in production costs and the impact of production system reorganization. While we plan to offset this impact as much as possible through efforts to reduce costs and increase sales of our main products, the expected impact of the novel coronavirus outbreak on sales and deterioration in the product mix mean that we forecast a decline in profit in fiscal 2020.

P15.

This slide summarizes the expected impact of the novel coronavirus outbreak on net sales and operating income in each business segment.

The Confectionery & Foodstuffs product group aims to maintain sales and income by controlling selling costs and strengthening the production systems of products for which demand is increasing.

The Frozen Desserts product group is targeting increases in sales and income by responding to stay-at-home demand and leveraging the positive results of earlier initiatives.

The Health Products product group expects large declines in sales and income as the core *in Jelly* products are likely to struggle because demand cannot be expected to be the same as under normal conditions.

Domestic subsidiaries are expected to see sales and income decline sharply as their business structures face an extremely difficult situation including the loss of sales opportunities.

The Overseas Business will also see a reduction in sales opportunities, and increasing concerns about conditions overseas are expected to have a negative impact.

On the cost front, we will redouble our efforts to control costs, starting with SG&A costs. We will pursue policies to carve out more income by reducing costs.

P16.

As a food manufacturer, we will continue production, distribution, and sales activities to meet the needs of society, while strictly observing measures to prevent the spread of the novel coronavirus.

In addition, we are providing our *in Jelly* products to medical professionals free of charge.

P17.

I will now explain our plans for future growth.

P18.

This slide shows the progress made since we launched the 2012 Medium-term Business Plan.

Over the past seven years, we have expanded sales by about ¥50 billion and achieved a nearly 8-fold increase in operating income. Our operating income margin has risen in that time from below 2% to over 10%.

Over the last three years we have achieved stable operating income generation.

P19.

This slide compares recent results and our fiscal 2020 forecast with the original targets set forth in our 2018 Medium-Term Business Plan.

In the past two years, we have cleared the plan’s annual targets for operating income. However, our forecast figures for fiscal 2020, the medium-term plan's final year, fall short of the plan’s targets.

The main reason for the shortfalls in sales and income are the dissolution of the Indonesian joint venture, the end of the *Pringles* distributorship agreement, and the impact from the novel coronavirus outbreak.

P20.

This slide provides a diagram of our 2018 Medium-term Business Plan.

Although until now we have set three-year medium-term targets, from now on our policy will be to formulate plans using the backcasting approach based on future visions for Morinaga while moving toward achieving medium- and long-term targets.

We will set quantitative and qualitative targets for 2030, details of which we will disclose when we announce our new medium-term plan in May 2021.

P21.

We will continue to enhance efficiency by concentrating management resources on our major brands.

Jumbo Group, *HI-CHEW,* and *in Jelly*, shown at the right of the graph, have a large-scale impact on both sales and profit. We will further strengthen these core brands.

Next, shown in the middle of the graph, are *Morinaga Biscuits*, *Chocoball*, and *Morinaga Amazake*. We will aim to increase sales of these brands, allowing them to, as it were, chase after the three brands to the right.

That brings me to our chocolate brands, *DARS* and *Carré de chocolat*, shown at the left of the graph. We will invest in production of these brands and have positioned them as brands targeted for foundational strengthening. We will make a concerted effort to improve their profitability and contribution to profits.

P22.

This slide introduces our strategy for strengthening the mainstay *HI-CHEW* brand. We are diversifying the packaging of *HI-CHEW* products, which is supporting our efforts at brand extension.

This is enabling us to strategically expand the product's sales channels and achieve more strategic positioning of in-store sales displays, thereby increasing contact points with customers.

Continuing these efforts to have our strong brands displayed in a wide range of sales spaces is enabling us to increase sales and income for each brand and realize our basic strategy of building a stronger, broader business base for this core brand. This initiative's success is illustrated by the more than 150% increase in HI-CHEW sales in the drugstore sales channel since fiscal 2015.

P23.

This slide summarizes our sales strategy. We are seizing sales opportunities by developing products that harness the special attributes of each sales channel and then strengthening sales initiatives and our relationships with the retailers.

While our share in the drugstore sales channel has steadily increased, our share is still low. As for convenience stores, we will be making solid proposals developed through a team approach with participants from our sales, marketing, R&D, and production divisions.

We believe our existing domestic business domains still offer plenty of opportunities to expand sales, which we intend to capture by developing more precisely targeted sales strategies.

P24.

Next, I will explain the initiatives being taken in the Frozen Desserts product group.

Our Frozen Desserts product group has continued to expand its sales and income and is now making a larger contribution to our overall consolidated earnings.

The graph on the left shows the net sales growth rates of major makers of frozen desserts with figures for fiscal 2015 set as 100. Among these, Morinaga has achieved the highest growth rate.

The graph on the right shows year-on-year change in net sales in fiscal 2019. Our Frozen Desserts product group continued to grow considerably in fiscal 2019, while our competitors struggled as unfavorable summer weather led to a slowdown in the market.

P25.

The Frozen Desserts product group's continued success can be attributed to the following factors.

First of all, the business has won a solid following from repeat customers by leveraging the technological strengths we have accumulated as a confectionery maker to develop products that offer customers unique added value.

Next, the business has effectively advertised each of its products to target audiences, enabling it to raise brand recognition and trigger sales.

In addition to sales efforts to increase the ratio of stores stocking our products, we have worked to increase brand exposure through store displays that are linked with promotions, which has increased our contact points with consumers and expanded sales.

P26.

To achieve further growth of our Frozen Desserts product group, we will make capital investments aimed at improving production efficiency and strengthening and developing supply systems.

We plan to start operations on a new production line at the Takasaki No. 3 Factory in the first half of fiscal 2021. The new line will produce *Choco Monaka Jumbo,* which has enjoyed 19 straight years of sales growth, as well as *Ita Choco Ice,* sales of which are rapidly increasing.

To create new growth opportunities, we will promote our existing products in ways that will target new customers and create new demand. As for new products, we will work on developing a wider range of offerings and creating high value-added products.

P27.

This slide summarizes the strategy for *in Jelly*, which is one of our eight core brands and a signature Morinaga wellness product line.

The novel coronavirus outbreak has caused many changes in people's lives, including teleworking, school closures, and calls to refrain from going out. These changes have created a difficult business environment by reducing the frequency of the main opportunities in which people consumed *in Jelly* products.

Assuming that people will gradually be able to resume normal daily activities as summer approaches, we plan to launch new products to meet new demand created by consumers' increased awareness of the need for healthy lifestyles and stronger immune systems. The new products will appeal to customer needs relating to convenience and well-balanced nutrition.

P28.

While we cannot as yet see a clear end to the novel coronavirus outbreak, we fully expect people's daily lives to remain different to how they were before the outbreak.

In this environment, we will aim to put *in Jelly* sales back on a growth trajectory by using advertising to promote brand rediscovery and by carefully following and responding flexibly and promptly to newly emerging trends that could be expected to expand demand for *in Jelly* products.

As for product strategy, we will enhance the functions of the *in Jelly* lineup's two protein products to meet customer needs created by greater health awareness and desire to strengthen their bodies. In addition, we will expand the sales channels for the lineup's glucose-based jelly drink by appealing to its suitability as an energy source to help recharge people during work and study. We will also seek to acquire new users through promotion-linked product sales campaigns.

It has been 26 years since we introduced the first *in Jelly* product. We have experienced temporary declines in sales in the past, but in each case we have overcome this by refining our marketing efforts and returned *in Jelly* sales to the growth track. While it may take some time to achieve a full recovery in sales this time, we remain confident in *in Jelly's* brand power and fully expect sales to eventually rebound.

P29.

Wellness products accounted for 43.8% of domestic sales of the Confectionary & Foodstuffs and Health Products product groups in fiscal 2019, up 0.5 percentage points year on year.

In the wellness domain, we are focusing on capturing a larger share of the market by expanding the *in* brand's value. *in BAR Protein*, an easily consumed source of protein, has enjoyed strong sales growth as it meets rising demand for protein.

We will continue to develop our wellness product lineup by applying our proprietary confectionery technologies, a major corporate asset, to a wide variety of food ingredients to develop new products that uncover new needs.

Chocoball Protein is a new wellness domain product that features one of our confectionery brands. It became the best-selling product in Amazon's "Drugstore" category on the day it was launched. The possibilities for new product development are broadening.

P30.

Next, I will discuss the capital investments and factory reorganization we are implementing to solidify our business foundation and accelerate growth strategy-related initiatives.

In the 2018 Medium-Term Business Plan, we announced total capital investment of ¥40.0 billion for investment in growth and strengthening of the future foundation.

In the current fiscal year, we plan capital investments totaling ¥24.0 billion. This investment is targeted at strengthening our business foundation and growth potential to ensure our ability to secure stable earnings well into the future.

P31.

Our capital investment will also enhance our risk management from a medium- and long-term perspective.

We will establish a solid production base that will enable us to create a more stable and efficient production system, which will allow us to respond to changes in our operating environment and resolve issues that may arise.

P32.

This slide shows the recent global domain results and our fiscal 2020 forecasts.

In fiscal 2019, our overseas businesses generated sales of ¥11.1 billion, 8% less than in the previous year owing to the dissolution of a joint venture in Indonesia. As a result, the overseas sales ratio fell 0.6 percentage points to 5.3%. However, in the U.S., our main overseas market, sales expanded by 28% year on year.

While the impact from the novel coronavirus outbreak bears close watching in the months ahead, there is no change to the plan of remaining focused on the U.S.

P33.

This graph shows the growth in sales of *HI-CHEW* candy in the U.S. and our sales target for fiscal 2020.

As the graph shows, the overall growth in *HI-CHEW* sales has been driven in particular by the product's introduction into U.S. sales channels targeting general U.S. consumers and increasing in-store turnover. Advertising, including TV commercials, and sales promotions have raised consumer recognition of the brand and increased the percentage of consumers who opt to try *HI-CHEW* candy. As a result, *HI-CHEW* sales growth is now accelerating throughout the U.S., and not just on the west coast, where it was first introduced.

As for *HI-CHEW* production in the U.S., we have strengthened the production management system, trained local staff, and revised manufacturing processes. These initiatives have improved production yields, reduced costs, and enabled us to establish a more stable product supply system, which has enabled us to conduct more aggressive sales negotiations. The united effort from our production and sales teams is driving steady growth of the U.S. *HI-CHEW* business.

As a result, the business turned a profit in fiscal 2019, one year ahead of plan.

P34.

While the novel coronavirus outbreak poses the risk of short-term fluctuations in *HI-CHEW* sales, the product's medium- to long-term growth story is unchanged.

To further expand *HI-CHEW* sales in the U.S., we will expand the availability of existing products and make efforts to secure in-store display locations that contribute to higher sales. We also aim to expand the *HI-CHEW* brand by introducing new flavors and developing new core products based on new functions.

Expanding sales needs to be supported by a stable supply system. Accordingly, we installed another production line at our U.S. plant, boosting its production capacity by 30%.

While we are planning for long-term growth, we are still in the early sales expansion stage, which is not a time to prioritize profits. That said, we think it is important to maintain current profit levels.

Although we expect raw materials costs, personnel expenses, and distribution costs to increase, we will establish systems to ensure stable profits. This will include streamlining production to reduce the cost of sales ratio, revisions of product standards, streamlining selling expenses, and optimizing distribution networks.

P35.

Now I will discuss our financial strategy.

P36.

This slide presents the recent five-year trends for our sales cash flow, ROE, and ROIC.

In fiscal 2018 sales cash flow surpassed ¥20 billion and we achieved a similarly high level in fiscal 2019.

We have endeavored to build a highly profitable business model by strengthening core brands, aggressively developing high value-added products, and expanding brand lineups to achieve sales growth while continuing to reduce and review SKUs and improve production efficiency.

With profit levels rising and net cash increasing, we are practicing balance-sheet management with a focus on our medium- and long-term goals.

We remain conscious of capital costs and striving to achieve sounder management of the company's business. We will therefore continue to strive for higher profits while also focusing on establishing a business structure that enhances capital efficiency.

P37.

Now, shareholder returns. We have been strengthening our earnings base so that we can provide shareholders with a dividend payout ratio of 30%, the target set forth in our 2018 Medium-term Business Plan.

At the general shareholders' meeting in June, we plan to propose a dividend of ¥72 per share for fiscal 2019, an increase of ¥6 over the previous year's dividend. That will amount to a dividend payout ratio of 33.5%.

As before, our basic shareholder return philosophy is to place emphasis on the stable provision of dividends to our shareholders.

In addition, we will continue efforts to maximize earnings per share from a medium- to long-term perspective.

Lastly, many people will probably find our fiscal 2020 forecast to be more severe than they expected. However, I would like to point out that there are many positive factors in our outlook. We will continue responding to changing customer needs by implementing various initiatives and measures as we endeavor to raise the top line and post solid business results. Everyone here at Morinaga will be moving swiftly to overcome the current difficult situation, and we look forward to your continued support for our efforts.