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MORINAGA

First Quarter, Fiscal Year Ending March 31, 2023

Results Briefing

August 10, 2022

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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Hello everyone. My name is Tetsuya Takagi and I'm the Chief Financial Officer at Morinaga. Thank you very much for taking time out of your busy schedules to attend our financial results briefing for the first quarter of the fiscal year ending March 31, 2023.

Starting from this fiscal year, in addition to our usual first-half and full-year results briefings, we will also be disclosing materials and holding results briefings for the first and third quarters. We will be making every effort to enhance the content of our disclosures, so your continued support will be much appreciated.

In the first quarter of this fiscal year, the Japanese government continued to pursue a policy of balancing preventive measures with economic activity as repeated waves of COVID-19 infections came and went. Meanwhile, soaring global raw material and energy costs caused primarily by Russia's invasion of Ukraine had a considerable impact on our earnings.

To begin, I will provide an overview of our financial results for the first quarter, and then discuss the progress of our business strategies and the key points of our main initiatives for the second quarter onwards.

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Consolidated Results for 1Q FY2023/3

Net sales: Up on continued strong performance of "in-" Business, Direct Marketing Business, and U.S. Business
Profit: Down on soaring costs for raw materials and energy, along with aggressive investments in advertising

(Billion yen)	1Q FY2023/3	Y/Y change	
Net sales	46.8	+2.3	105.0%
Gross profit (gross profit margin)	19.5 (41.8%)	(0.2) ((2.4ppt))	99.4%
Operating income (operating income margin)	4.6 (9.9%)	(1.6) ((4.1ppt))	74.2%
Ordinary income	4.8	(1.9)	71.6%
Profit attributable to owners of parent	3.4	(1.4)	70.6%
EBITDA*1	7.0	(1.6)	81.8%

*1 Simplified EBITDA: operating income + depreciation and amortization

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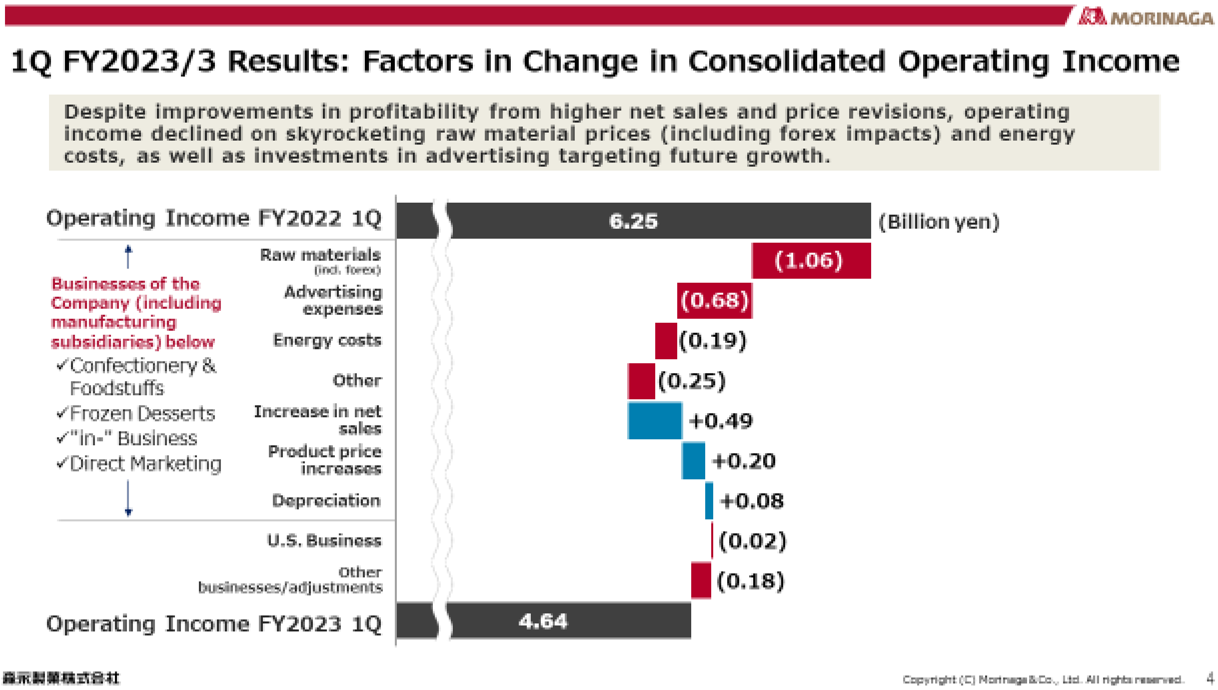
First, here are our results for the first quarter.

Net sales increased JPY 2.3 billion year on year, or 5.0%, to JPY 46.8 billion. Of the businesses that we positioned as focus domains in the 2030 Business Plan, the “in-” business, the Direct Marketing business, and the U.S. business in particular were the drivers of net sales growth, following on from brisk results last fiscal year and partly reflecting the benefits of strategic investments.

Next, operating income came to JPY 4.6 billion. This represents a year-on-year decline of JPY 1.6 billion. The operating income margin was 9.9%. Operating income was significantly affected by the soaring prices of raw materials and energy, along with the impact of yen depreciation. Also, our ongoing strategic investments in advertising, centering on the growth areas of the “in-” business and the Direct Marketing business, were a factor that weighed down operating income.

Profit attributable to owners of the parent decreased JPY 1.4 billion year on year to JPY 3.4 billion. These results were slightly below our forecasts announced at the start of the fiscal year.



Next, here are the factors driving change in operating income.

The negative factors are in red and the positive factors in blue. Firstly, the cost of raw materials, which includes the impact of the weak yen, increased by JPY 1.06 billion. We factored costs of around JPY 4.3 billion into our full-year results forecast at the start of the fiscal year, so the first quarter figure means that about 25% of that amount has already materialized.

Also, the impact of higher energy costs came to JPY 0.19 billion. The impact of these soaring costs is slightly higher than what we expected. It is unclear what kind of impact soaring raw material prices and energy costs, as well as fluctuations in exchange rates, will have on earnings going forward, so it is likely that the challenging conditions will continue for the time being.

To combat rising costs, we successively carried out price revisions from the end of May. They boosted operating income by approximately JPY 0.2 billion. I'll discuss the price revisions in more detail in a few moments.

At the same time, we increased our investments in advertising mainly in the growth domains of the “in-” business and the Direct Marketing business. In the former, we invested in branding with the aim of strengthening the foundation of the “in-” business. In the latter, we sought to accelerate efforts to gain direct marketing subscription customers. As a result of all the factors just mentioned, operating income declined by JPY 1.6 billion year on year.

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1Q FY2023/3 Results: Summary by Business

In Japan, the increase in net sales was driven by the "in-" Business and the Direct Marketing Business. Operating income was hit by weaker profit in the Confectionery & Foodstuffs and Frozen Desserts Businesses.
Overseas, sales growth continued in the United States Business. Consolidated income was flat year on year in each region.

(Billion yen)	Net sales 1Q FY2023/3	Net sales Y/Y change		Operating income 1Q FY2023/3	Operating income Y/Y change	
Confectionery & Foodstuffs[*1]	16.1	(0.2)	98.9%	0.3	(0.6)	37.5%
Frozen Desserts	11.5	(0.1)	99.1%	1.3	(0.8)	63.0%
"in-" Business[*1]	8.1	+0.9	112.5%	1.8	+0.0	100.2%
Direct Marketing	2.5	+0.4	118.8%	0.1	(0.0)	80.9%
Operating Subsidiaries	3.4	+0.3	109.7%	0.2	+0.1	132.4%
Other	0.3	+0.0	104.1%	0.0	(0.1)	46.1%
Domestic Total	42.1	+1.3	103.3%	4.0	(1.4)	73.8%
United States[*2]	2.8	+0.7	134.5%	0.3	(0.0)	94.4%
China, Taiwan, Exports, etc.	1.7	+0.1	110.3%	0.2	+0.0	108.0%
Overseas Total	4.6	+0.9	124.1%	0.6	(0.0)	99.5%
Consolidated Total	46.8	+2.3	105.0%	4.6	(1.6)	74.2%

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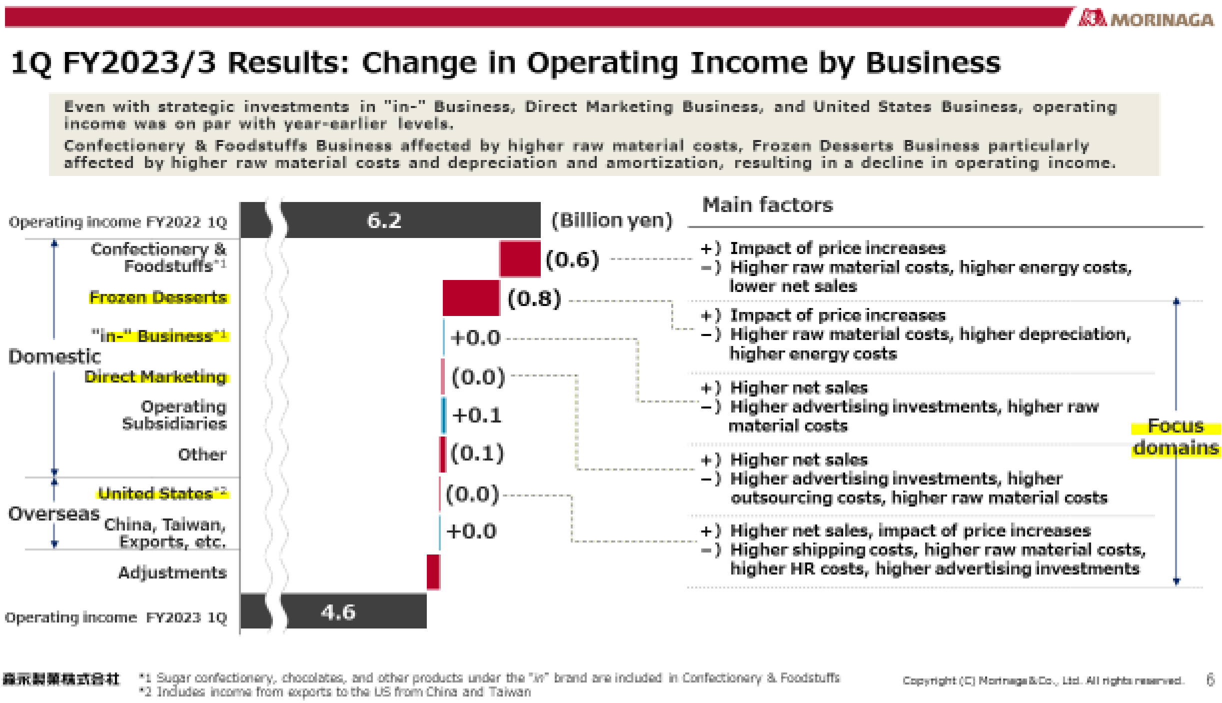
*1 Sugar confectionery, chocolates, and other products under the "in" brand are included in Confectionery & Foodstuffs
*2 Includes income from exports to the US from China and Taiwan

Next we have net sales and operating income by business segment.

First, in Japan the increase in net sales was driven by the "in-" business and the Direct Marketing business with growth of more than 10%. Operating income was more or less flat because we carried out strategic investments in advertising. Net sales in the Confectionery & Foodstuffs and Frozen Desserts businesses were mostly flat, but operating income was dented by the impact of skyrocketing raw material prices.

Overseas, net sales came to JPY 4.6 billion on strong year-on-year growth of 24.1%. This was notably driven by the U.S. business, thanks to 34.5% year-on-year growth in net sales. Even on a local currency basis after stripping out the impact of the weak yen, growth in the U.S. was 28.1%.

On the other hand, operating income was flat mainly because of the impact of higher raw material prices, a temporary jump in shipping costs, and advertising investments. As a result of these factors, the ratio of overseas sales to consolidated net sales nearly hit double digits, rising to 9.9%.



This slide shows a graph of changes in operating income by business segment.

As a result of ongoing strategic investments aimed at realizing sustained growth, the “in-” business, the Direct Marketing business, and the U.S. business generated operating income on a par with year-earlier levels. In contrast, the Confectionery & Foodstuffs business and Frozen Desserts business were affected by higher raw material costs, while the latter was also impacted by higher depreciation and amortization. As a result, operating income declined in these businesses.

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Product Price Revisions: June Sales Report

Bottom line for assessing successor failure is year-on-year growth in net sales. Sales trends over a certain period will bear watching.

		SRI		
		① Sales **value** Y/Y **rise?**	② Average **unit price** Y/Y **increase?**	③ Per-store sales **volume** Y/Y **growth?**
Confectionery	*12-piece Milk Caramel*	○	○	○
Confectionery	*Morinaga Biscuits (5 types)*	×	○	×
Frozen Desserts	*Choco Monaka Jumbo*	○	○	△
Frozen Desserts	*Vanilla Monaka Jumbo*	○	○	×
Frozen Desserts	*ICEBOX (Grapefruit)*	◎	○	◎
Frozen Desserts	*Ita Choco Ice*	○	○	×
Frozen Desserts	*Multipacks*	×	○	×

Key: ◎○ = Surpassed previous year, △ X = Underperformed previous year

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I'd now like to discuss price revisions.

In response to skyrocketing costs of raw materials, we successively carried out price revisions from the end of May. They boosted operating income by approximately JPY 0.2 billion. The slide shows sales value, unit price, and sales volume based on SRI data for the products for which we revised prices in succession starting at the end of May. These price revisions have mostly achieved the targeted increase in sales value, but we still only have one month of data from June to look at.

As for biscuits, sales were impacted by tight supply and demand stemming from the planned halt to manufacturing in order to add more production line capacity, so we consider there to be no change in consumer buying behavior.

As customers tend to refrain from purchasing products immediately after a price increase, and given that sales can be affected by the weather, the actions of rival companies, and other factors, we think a certain period of time is needed in order to assess whether our price revisions have been successful, so going forward we will have to keep a close eye on consumption trends and the like.

1Q FY2023/3 Results: Balance Sheet

(Billion yen)	End-1Q FY2023/3	vs. end-FY2022/3	Main factors
Current assets	100.1	(11.9)	･Cash and deposits (16.2) ･Merchandise and finished goods +1.7
Noncurrent assets	101.3	(0.9)	･Machinery, equipment and vehicles (0.8) ･Investment securities (0.9)
Total assets	201.4	(12.9)	—
Current liabilities	61.6	(8.5)	･Income taxes payable (9.2) ･Notes and accounts payable—trade +2.5
Long-term liabilities	13.6	+0.7	･Deferred tax liabilities +0.3
Total liabilities	75.2	(7.9)	—
Shareholders' equity	115.9	(5.1)	･Treasury stock (4.0) ･Retained earnings (1.1)
Accumulated other comprehensive income	8.9	(0.0)	･Valuation difference on available-for-sale securities (0.6)
Non-controlling interests	1.2	+0.1	—
Total net assets	126.1	(5.0)	—
Total liabilities and net assets	201.4	(12.9)	—
Shareholders' equity ratio	62.0%	+1.3pt	—

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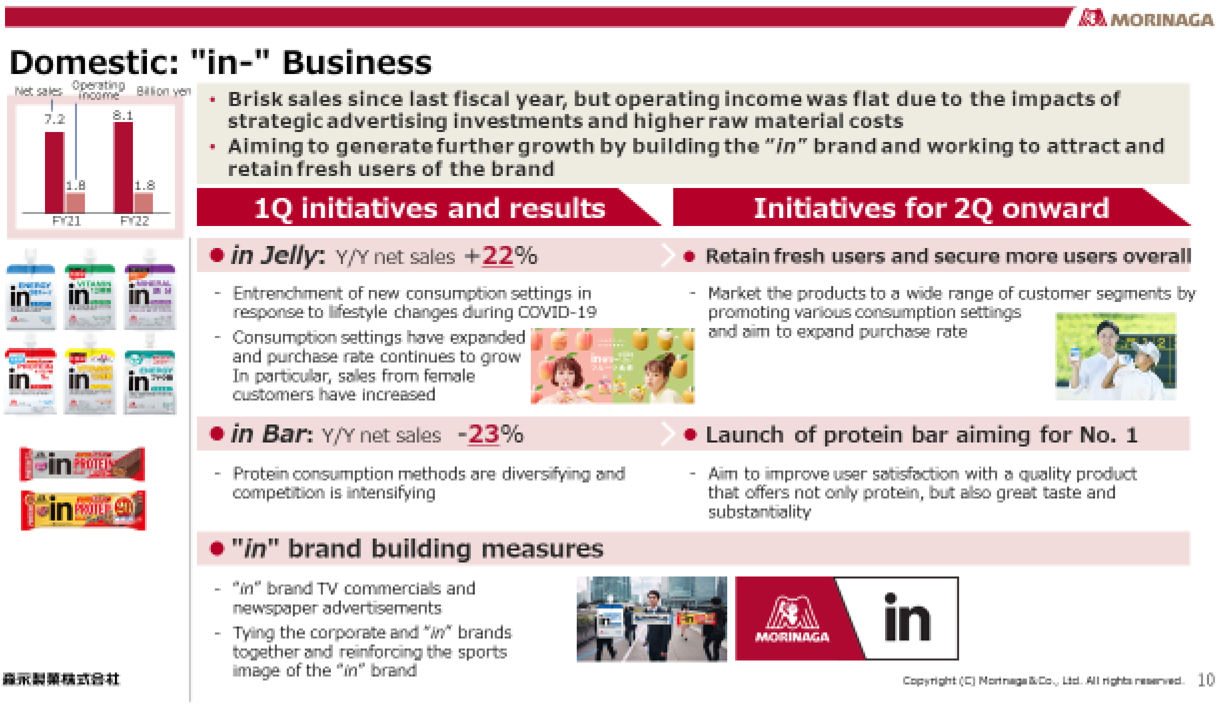
Next, our balance sheet at the end of June 2022.

Total assets decreased JPY 12.9 billion from the end of the previous fiscal year to JPY 201.4 billion. This is mainly attributable to a decline of JPY 16.2 billion in the balance of cash and deposits.

The decline in cash and deposits was partially due to a JPY 9.2 billion decrease in income taxes payable following the payment of taxes, even though taxes payable were recorded in connection with the sale of Morinaga Milk shares as part of a reduction in cross-shareholdings carried out last fiscal year.

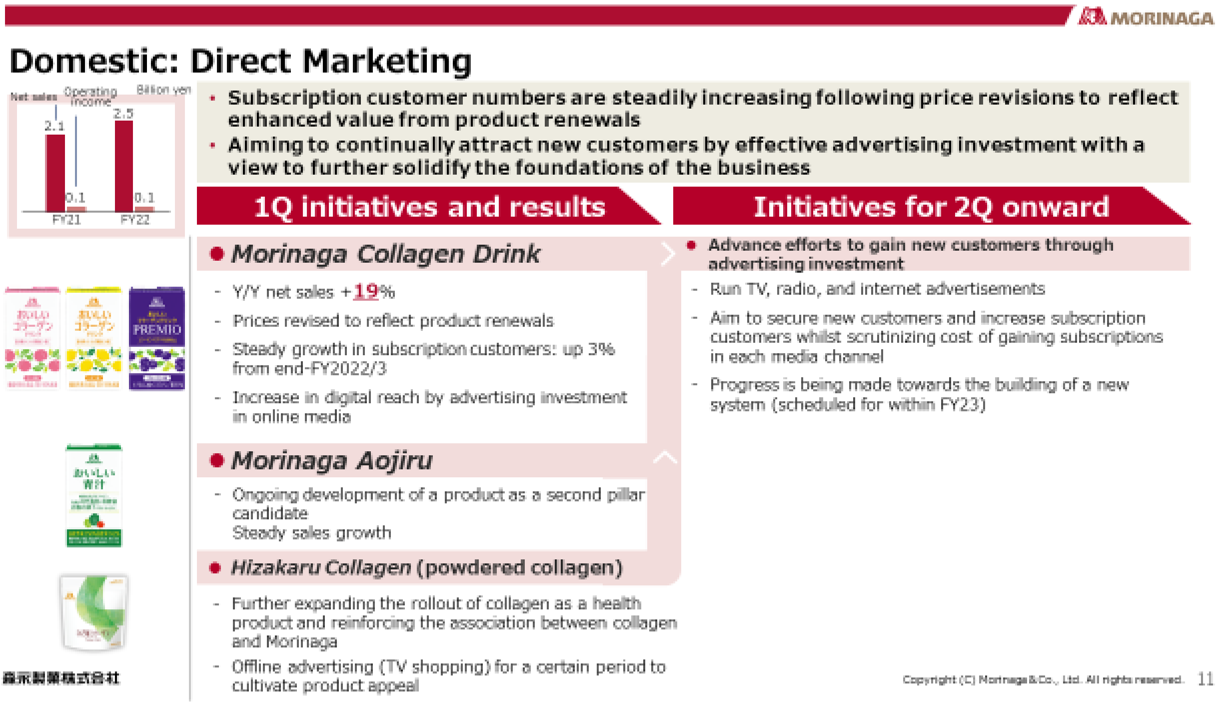
The other major reason was shareholder return measures; namely, dividend payments worth JPY 4.5 billion, and JPY 4.0 billion in treasury stocks.

As a result, the shareholders' equity ratio increased 1.3 percentage points from the end of the previous fiscal year to 62.0%.

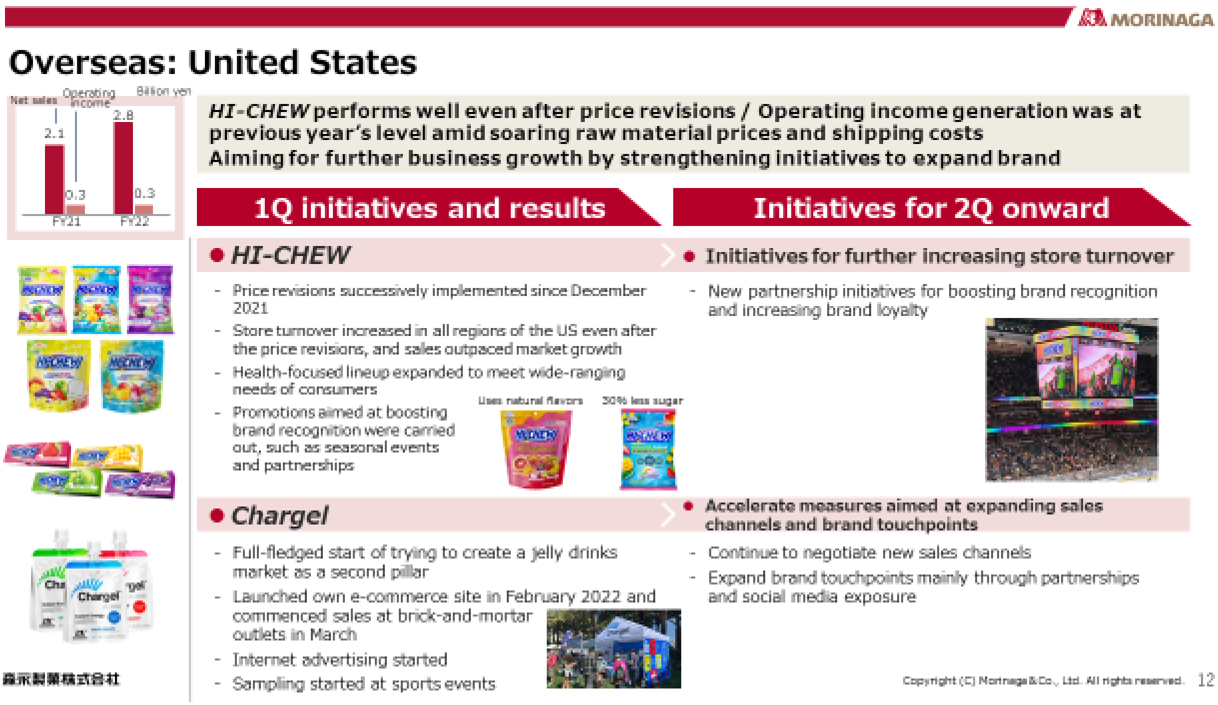


Now I'd like to discuss business strategies and the key points of our main initiatives for the second quarter onwards.

Following on from brisk results last fiscal year, *in Jelly*—the core focus of the "in-" business—continues to grow steadily, with sound progress being made on expanding target customers and consumption settings. We will continue to set our sights on further growth by implementing measures aimed at expanding target customers and consumption settings.



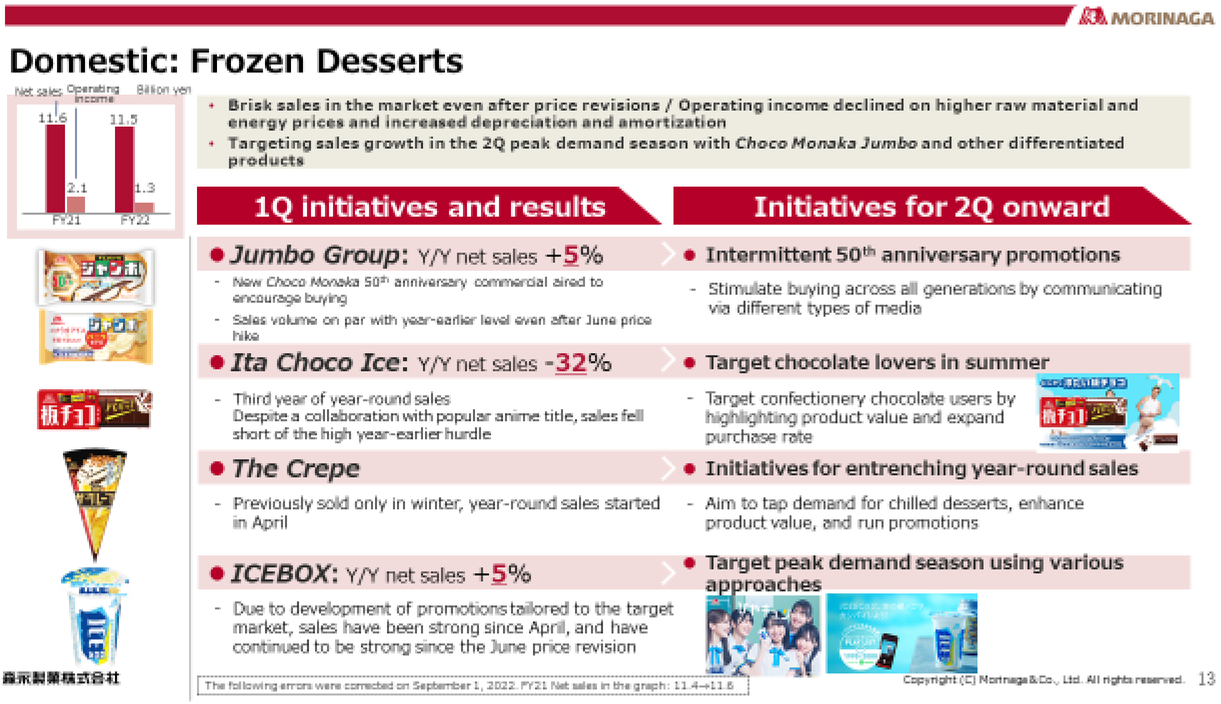
The strong momentum in the Direct Marketing business last fiscal year was sustained in the first quarter and we were able to steadily increase the number of new subscription customers. This business remains in good shape, as highlighted by the health of indicators that measure how efficient we are at gaining customers when compared to advertisement spending. From the second quarter onwards, we will again look to further shore up the foundations of this business by undertaking appropriate business management.



The momentum seen thus far in the U.S. business has continued with brisk sales of *HI-CHEW*. Along with sustained growth in the ratio of stores stocking our products throughout the United States, store turnover is also growing sharply in all regions. After overcoming the rollout of price revisions that started in December last year, sales volume has increased, which suggests that the product value of *HI-CHEW* is steadily being accepted by customers.

In addition, we have started selling, although only on a small scale so far, a health-focused lineup of *HI-CHEW* products, as previously planned, to accommodate the broad-ranging needs of customers. We will continue to leverage aggressive sales promotions to communicate the *HI-CHEW* value and brand to as many customers as possible and grow the U.S. business with a view to generating sustainable growth by increasing the ratio of stores stocking *HI-CHEW* nationwide.

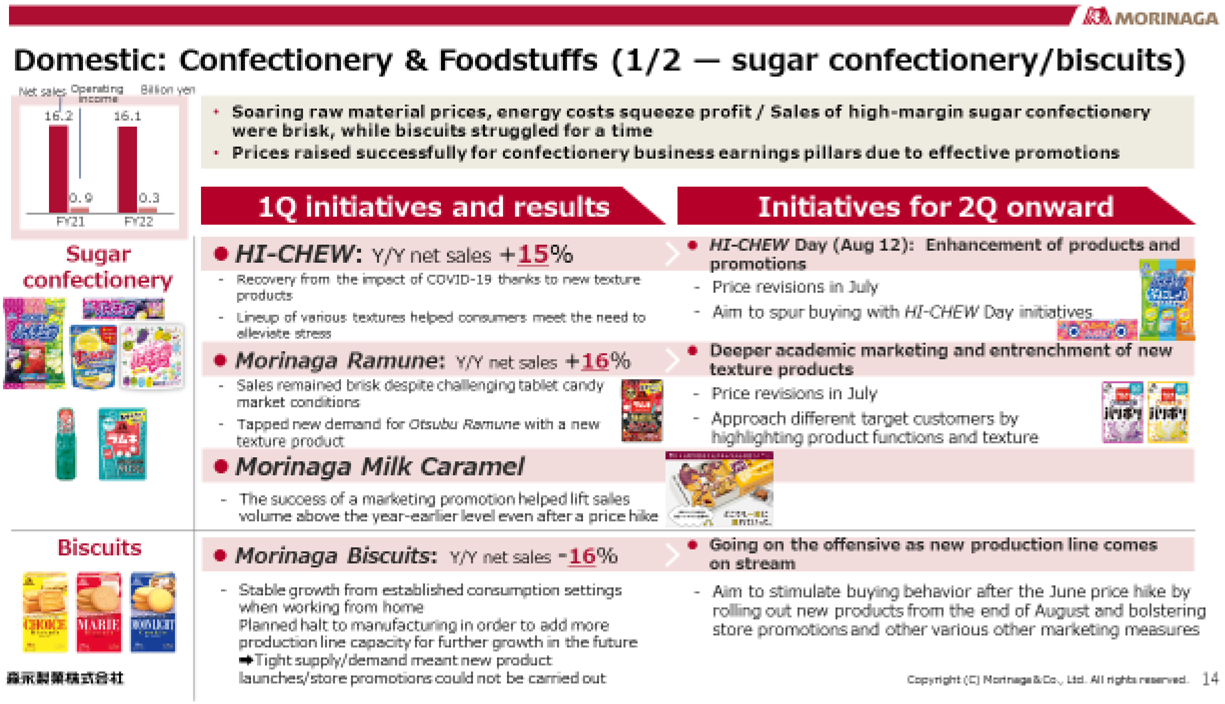
We will also undertake and accelerate efforts aimed at developing sales channels and brand touchpoints in order to cultivate a market for *Chargel*, our new jelly drink.



Now the Frozen Desserts business.

Our strong point in this business is our lineup of highly differentiated products that leverage confectionery technology. *Choco Monaka Jumbo* is a classic example of this. Sales got off to a brisk start this fiscal year partly thanks to aggressive sales promotions commemorating the product's 50th anniversary. However, sales were weak for *Ita Choco Ice*, which is now in its third year of year-round sales.

I believe we can stay ahead of the competition by accurately drawing the attention of consumers to the value of our highly differentiated products, including *The Crepe*, for which we launched year-round sales this fiscal year. In the peak demand season of the second quarter, we will aim to grow sales proportionate to profit growth by ensuring the success of price revisions through aggressive sales promotions.



The Confectionery & Foodstuffs business.

HI-CHEW sales are gaining momentum after a sluggish recovery from COVID-19. A catchy sales promotion campaign carried out for *HI-CHEW* day on August 12 should bring the July 1 price revisions to a successful conclusion.

We will aim to chalk up stable growth in *Morinaga Biscuits* by stepping up store promotions and other sales campaigns starting with new products scheduled to be launched in succession from the end of August.

In the categories of chocolate and foodstuffs, we will aim to improve profitability by not only strengthening brand value, but also by revising prices and continually employing cost-cutting measures.

That ends my discussion about the key points of our main initiatives for the second quarter onwards.

Our initial results forecast for the fiscal year ending March 31, 2023 that we announced on May 13 of this year remains unchanged. That said, it remains to be seen how earnings will be affected by skyrocketing raw material prices and energy costs, as well as forex movements. If revisions to our forecasts are warranted, we will disclose them as quickly as possible.

Thank you for your attention.

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