Second Quarter, Fiscal Year Ending March 31, 2019

Results Briefing

Nov 15, 2018

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.

Fiscal Year Ending March 31, 2019

Second Quarter Financial Results

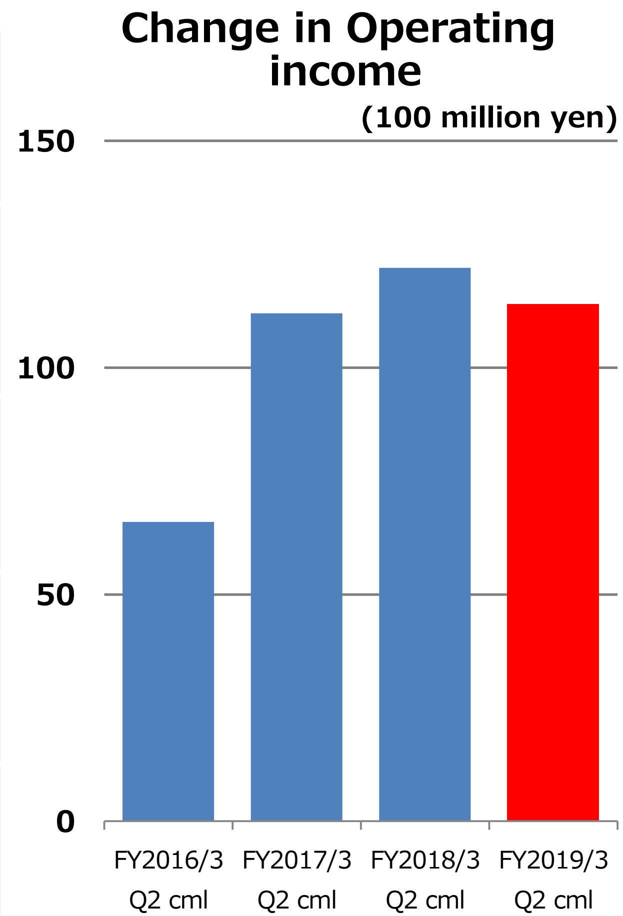
(April to September 2018)

Consolidated Results for Q2 FY2019/3 (April to September 2018)

- Net sales: The fast-growing market of last year has reverted to normal, reversing sales growth to cause lower income for confectionary & foodstuffs.
- Income: Impact from strategic spending on advertising.

(Million yen)

	Q2 cml results	FY2017 Q2 cml results	Y/Y change
Net sales	104,724	106,057	-1,333 (98.7%)
Operating income	11,440	12,258	-818 (93.3%)
Ordinary income	11,845	12,669	-824 (93.5%)
Profit attributable to owners of parent	7,682	8,658	-976 (88.7%)



Consolidated Segment Information for Q2 FY2019/3
(April to September 2018)

(Million yen)

Segment (Component ratio)	Net sales (Y/Y change)	Segment income (Y/Y change)
Food Manufacturing (96.1%)	100,598 (98.9%)	11,290 (-780)
Food Merchandise (2.8%)	2,923 (97.3%)	161 (-18)
Real Estate and Services (0.9%)	937 (85.0%)	390 (+73)
Other Services (0.2%)	265 (104.0%)	21 (-14)

Food Manufacturing

■ **Net sales**

- Main brands among domestic confectionery & foodstuffs performed well, while other brands slumped
  - Main brands (Y/Y: 102%)
- Overseas sales (Y/Y: 96%)
  - USA (Y/Y: 109%)
  - Indonesia (Y/Y: 79%)
- Strong performance by health products
  - Sustained strong performance of *in Jelly* series (Y/Y: 104%)

■ **Income**

- Lower income from confectionery & foodstuffs and frozen desserts, higher income from health products
  - Confectionery & foodstuffs (Y/Y change: -27.8%)
  - Frozen desserts (Y/Y change: -7.5%)
  - Health products (Y/Y change: +11.2%)

Real Estate and Services

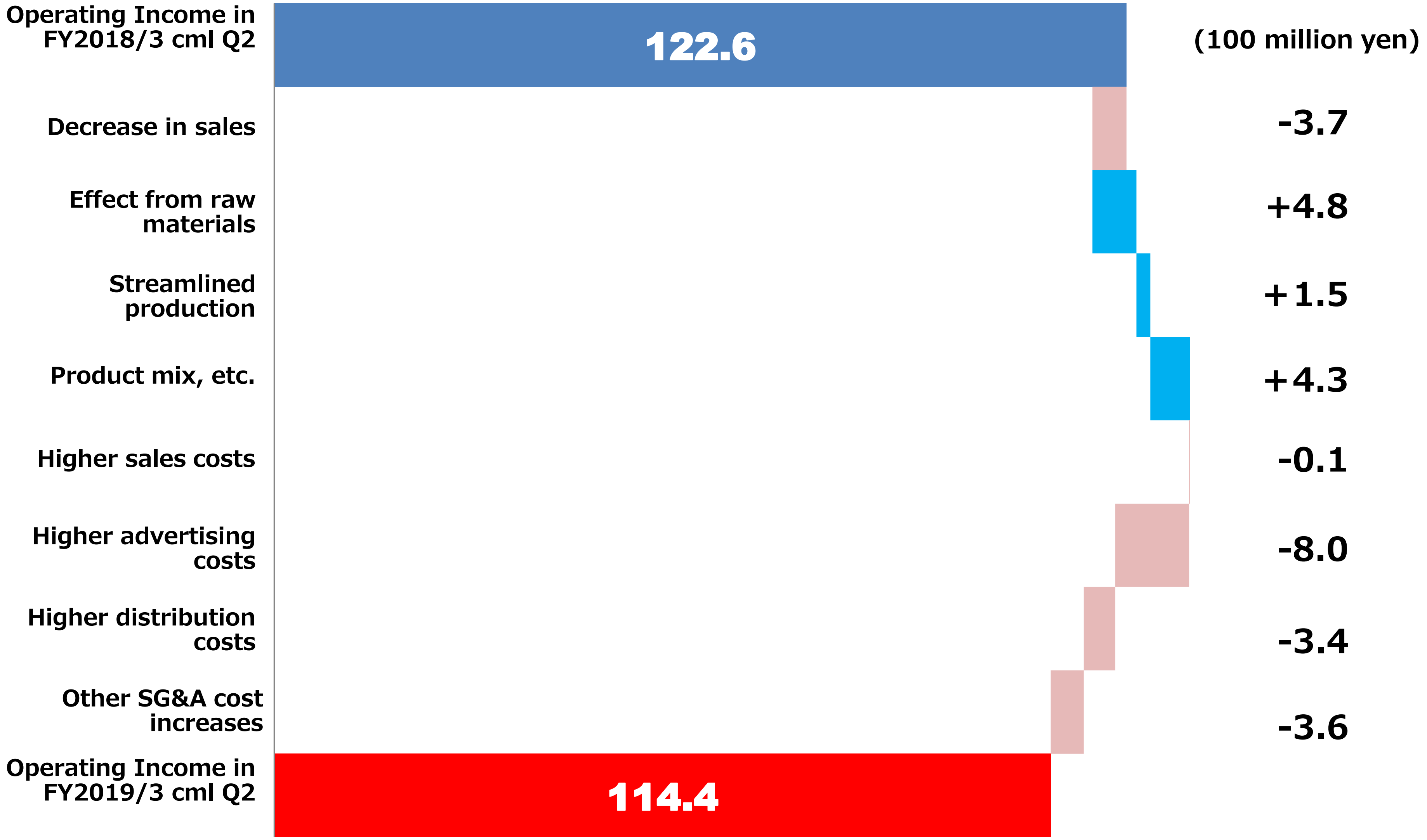
- Lower income owing to sale of golf business subsidiary

Consolidated Food Manufacturing Net Sales and Operating Income
(April to September 2018)

(Million yen)	Net sales			Operating income		
	Q2 cml results	Y/Y change	Y/Y change (%)	Q2 ended September 30, 2018	Y/Y change	Y/Y change (%)
Consolidated Net sales	104,724	-1,333	98.7%	11,440	-818	-6.7%
Food Manufacturing	100,598	-1,098	98.9%	11,290	-780	-6.5%
Confectionery & Foodstuffs	55,898	-1,736	97.0%	2,547	-983	-27.8%
Frozen Desserts	23,474	-342	98.6%	3,737	-302	-7.5%
Health Products	21,225	+980	104.8%	5,005	+505	+11.2%

Sales by business sites	Q2 cml	Y/Y change	Y/Y change (%)
Domestic sales	94,374	-850	99.1%
Overseas sales	6,224	-247	96.2%
Overseas sales ratio	5.9%	-0.2P	

Factors in Change in Consolidated Operating Income
(April to September 2018)



Confectionery & Foodstuffs Segment Results (April to September 2018)

(million yen)

Confectionery & Foodstuffs	Net sales			Operating income		
	Q2 cml results	Y/Y change	Y/Y change (%)	Q2 cml results	Y/Y change	Y/Y change (%)
	55,898	-1,736	97.0%	2,547	-983	-27.8%

Variation factors of Sales

Domestic

Despite strong performance by main brands, rapid growth from previous year returned to normal and sales growth reversed to lower income for other brands.

Main brands: 102%

114%

103%

93%

Overseas

Strong performance in USA, struggles in Indonesia

USA: 109%　Indonesia: 79%

Variation factors of Profit

Strategic spending on advertising

Stronger development of future brands with focus on wellness domain products

Higher distribution costs raised transport cost per unit

Frozen Desserts Segment Results (April to September 2018)

(million yen)

Frozen Desserts	Net sales			Operating income		
	Q2 cml results	Y/Y change	Y/Y change (%)	Q2 cml results	Y/Y change	Y/Y change (%)
	23,474	-342	98.6%	3,737	-302	-7.5%

Variation factors of Sales

Subsidiary's suspended business caused lower income through Q2
→strong performance by products for regular consumers, but sales of some products suspended due to inability of production to keep up

109%

Hot summer: Couldn't keep up with demand, sales suspended

Beginning in Q3, less downward impact on income from suspended business
→higher full-year income for existing main products

Variation factors of Profit

Impact of costlier milk ingredients

Costlier domestic milk ingredients affected price of creamy ice cream
→ might use substitute ingredients

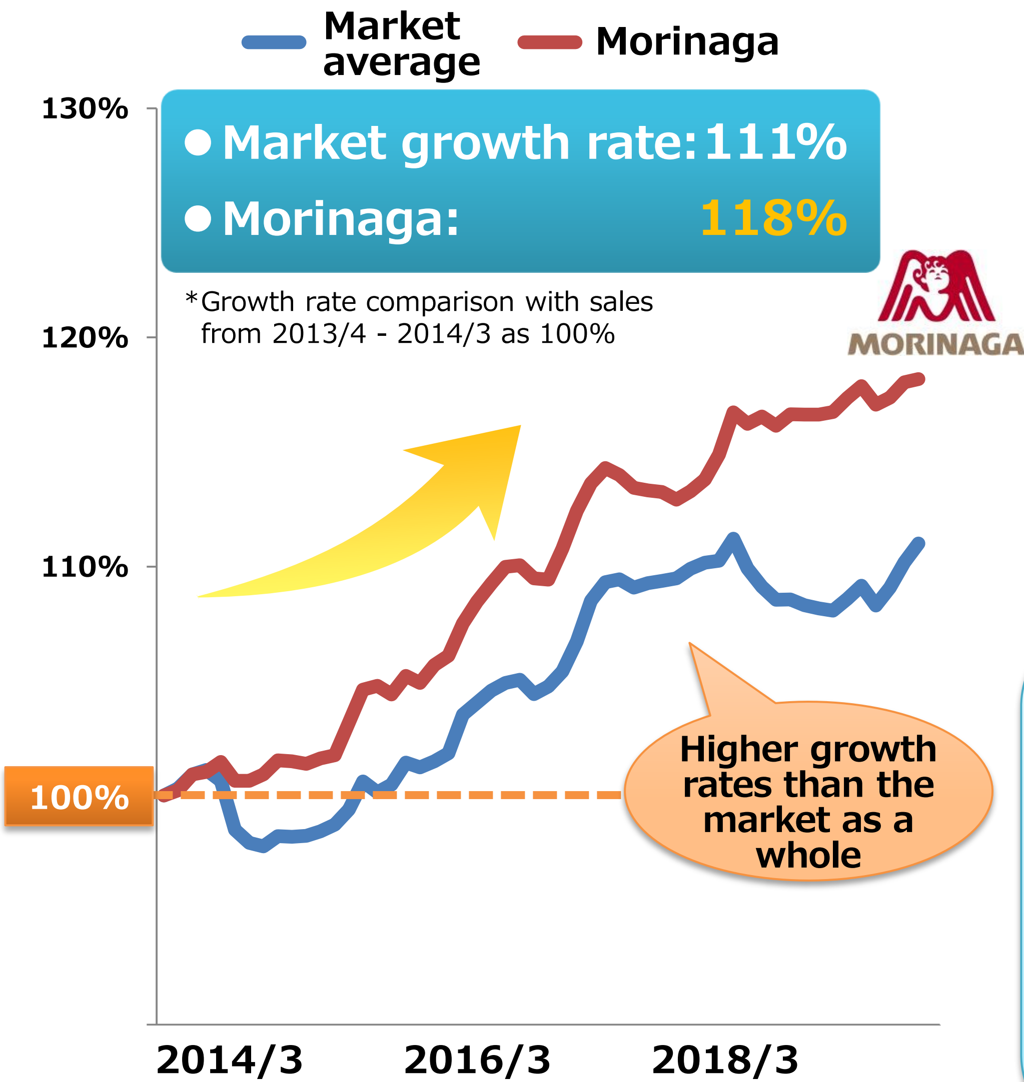
Aggressive advertising

Invested in strengthening the brand ahead of peak season

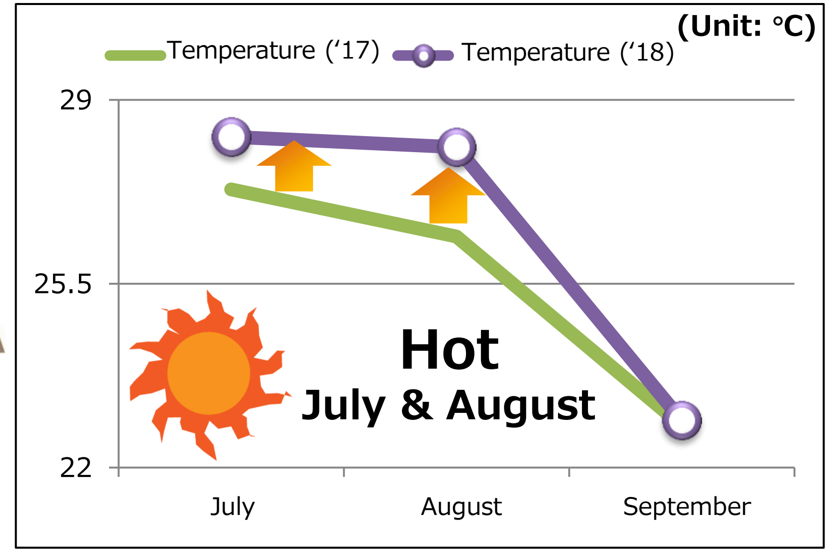
twitter Instagram

Served on TV and social media

Frozen Desserts Segment – Comparison with Market Information



Source: Based on INTAGE Inc. SRI Data retail sales



Source: Based on the Japan Meteorological Agency's "Monthly Average Daily Temperature in Tokyo" data

Suspended sales due to overwhelming demand compared to prior year

Boosted production capacity 20% for steady supply this summer

109%

Health Products Segment Results (April to September 2018)

(million yen)

Health Products	Net sales			Operating income		
	Q2 cml results	Y/Y change	Y/Y change (%)	Q2 cml results	Y/Y change	Y/Y change (%)
	21,225	+980	104.8%	5,005	+505	+11.2%

Variation factors of Sales

Hot summer boosted net sales of standard products

104%

Double-digit growth

In-store promotions and TV spots raised product awareness. Customer base is expanding.

Variation factors of Profit

Impact of higher net sales

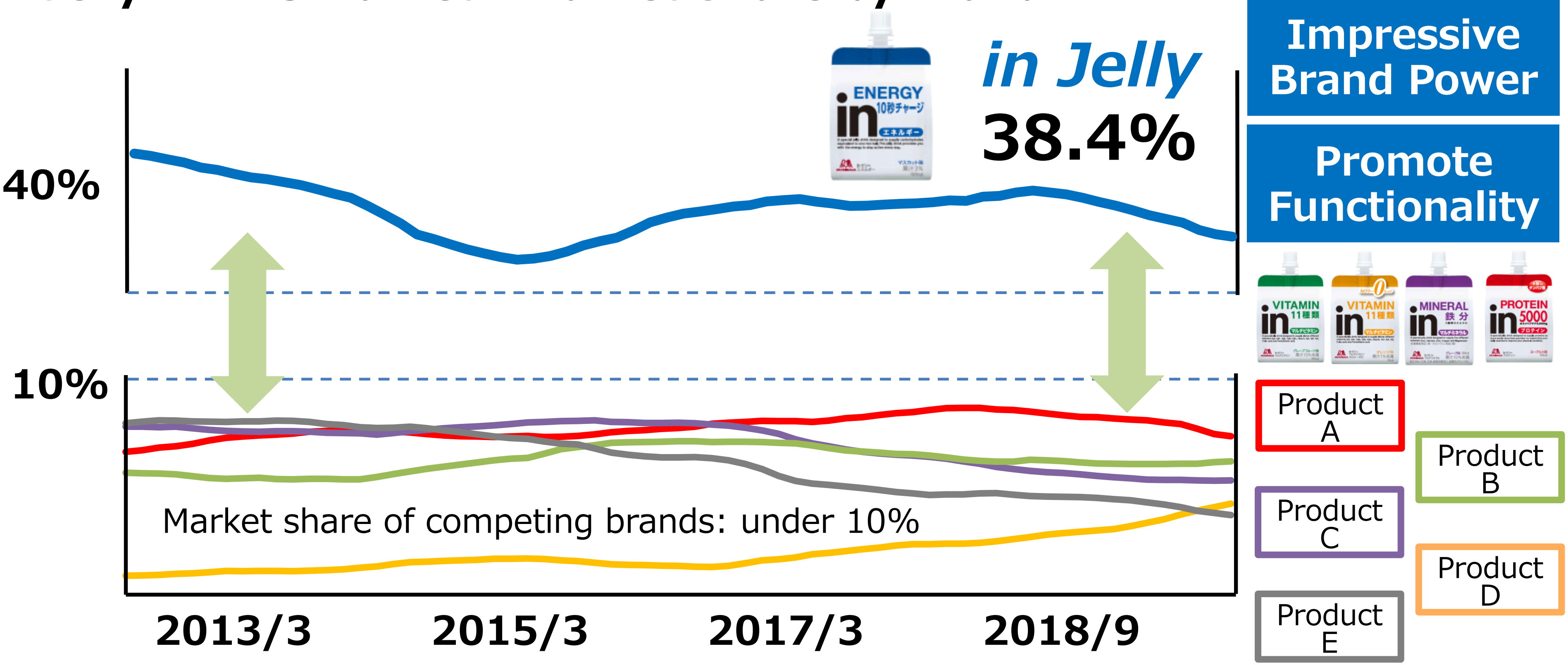
Strong performance by “in" brand.
Better profitability from mail order business.

Improved cost ratio

Steady operation at Mishima Factory (line augmented last year)

Aggressive advertising

Health Products Segment:
Jelly Drinks Market - Market Share by Brand



Tight grip on top share in increasingly competitive jelly drinks market. With a confidence that our products are tastier than anything else on the market, our focus will be on product development and marketing to promote product value.

Source: Intage SRI; total for supermarkets, convenience stores and drugstores; unit: %

Future Response

Domestic Business: Shore Up Major Brands

Diversified, extended packaging suits more sales locations and settings for consumption

More consumer touch points

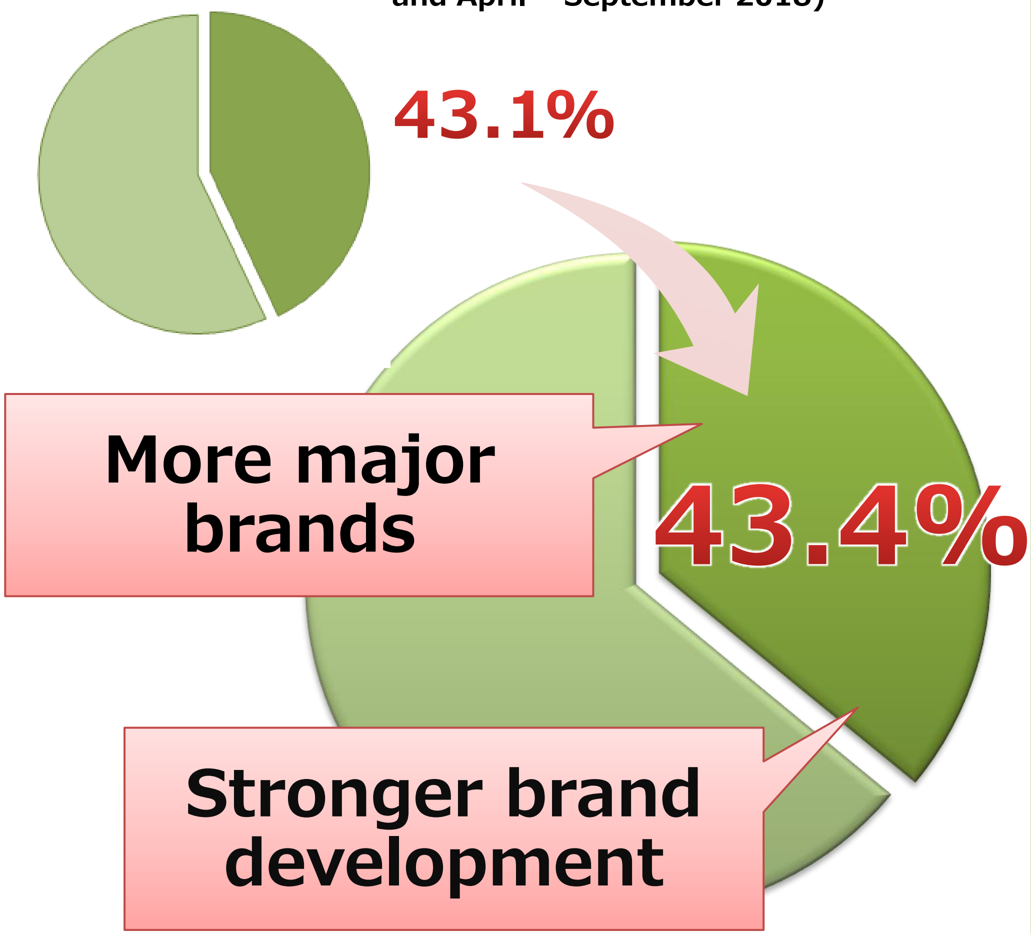
A strong brand even stronger

Higher sales & profit per brand

Domestic Business: More Wellness Products

Wellness Product Configuration

* (Comparison of April – September 2017 and April – September 2018)



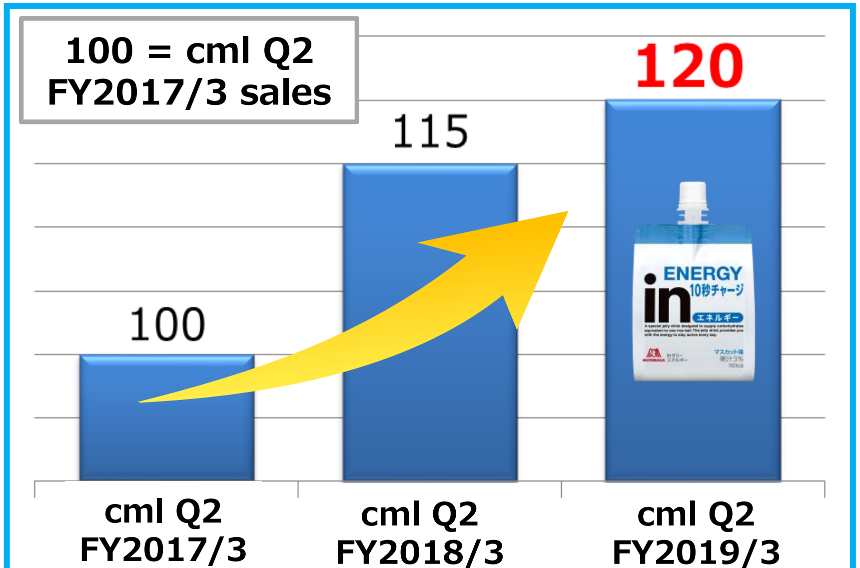
Address needs

Bigger lineup

More sales locations, bigger target

Domestic Business: *in Jelly* Strategy

■*in Jelly* Net Sales (%)



Larger Market | **More Competition**

Stronger Brand Value
Lineup – Channels – Advertising Strategy

More Customers

- ■Needs for health maintenance & convenience
  → Promote highly practical products
- ■Strengthen brand for next generation of customers

Stronger Lineup

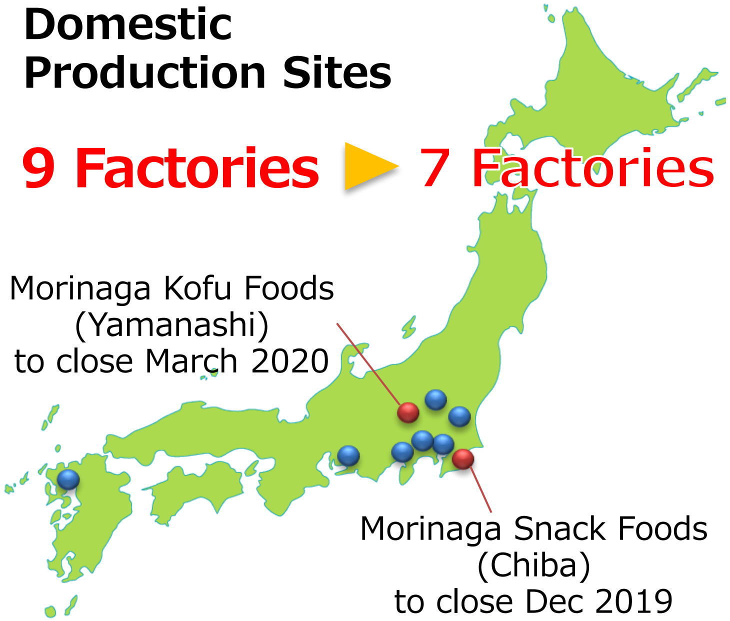
Get new generation of customers	Promote new functionality	Suggest more settings for consumption
Seniors	Women	Youth

Development products that stand out from the competition

Capital Spending & Factory Reorganization

Domestic Production Sites

9 Factories ▶ 7 Factories



Build More Efficient Production System

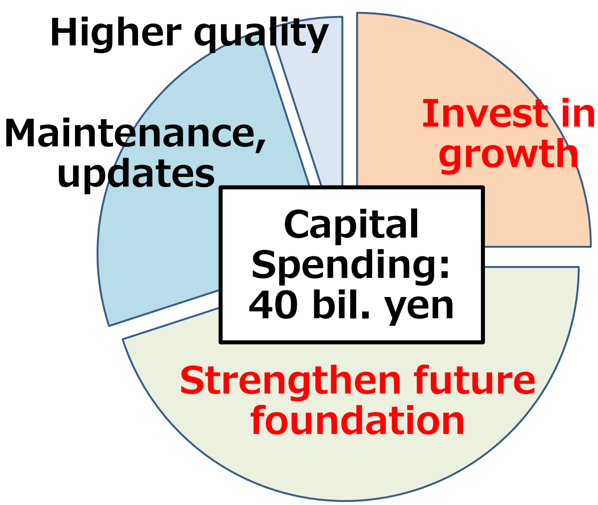
Close two domestic factories, concentrate at Takasaki & Tsurumi

Relocate to Takasaki Morinaga

Relocate to Tsurumi Factory

Accelerate Concentration on Major Brands

End sales of some products with factory closures



Production Rebuild: Schedule

FY2019/3	FY2020/3	FY2021/3
	Build Takasaki Factory No. 3	**Open Sep**
Close/relocate two factories	**Finish Mar**	
Boost Major Brand Production & Raise Productivity		

New Management Structure Reforms

Build a strong business foundation
to address environmental change

Strengthen & rebuild management

Training & stronger personnel

Reform old rules & systems

Reform how we work

- Encourage telecommuting
- Non-territorial offices
- Health management declaration

Stronger ESG

We shall strive for stronger management, training and systems that immediately identify and quickly respond to dramatic changes in the social environment, while enabling sustainable, steady growth, as we build a muscular business foundation.

Sales Trend of Overseas Business

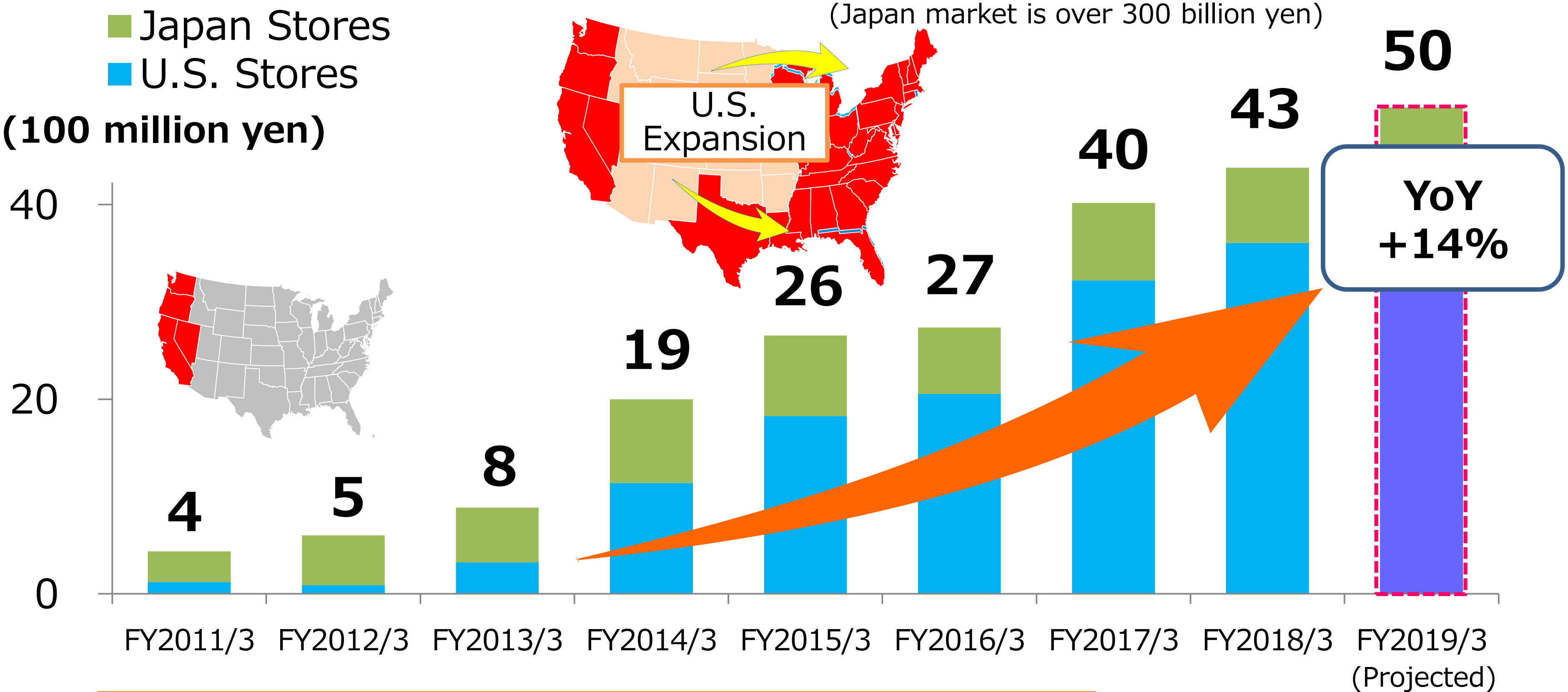
(100 million yen)

Areas (converted into Yen)	FY2018/3 cml Q2	FY2019/3 cml Q2	Y/Y change (%)	FY2019 full-year forecast (revised)	Forecasted Y/Y change (%)
USA	20	22	109%	50	114%
Indonesia	18	14	79%	23	65%
China, Taiwan, Exports	25	25	98%	54	103%
Total	64	62	96%	129	96%

Overseas sales ratio	6.1%	5.9%	-0.2P	6.3%	-0.2P

Overseas Business: U.S.

Market environment:
Confectionery market of 1.4 trillion yen
(Japan market is over 300 billion yen)



Achieve long-term growth in the candy market where traditional American brands dominate. Stronger efforts to open up new sales channels and penetrate, while focusing on existing customers and winning new ones.

Overseas Business: China

China

Market environment:
Confectionery market of 1.2 trillion yen

Channel strategy: Rapidly expand in retail stores and strengthen composite online strategy

■Retail stores: local convenience stores, 7-Eleven, Aeon, etc.

Bolster in-store campaigns with messaging apps targeting light users with much room to grow: middle/senior high schoolers and university students.

WeChat

tencent.com

■Online sales: roll out products and promote brands to add wide range of buyers

天猫
TMALL.COM

Current customers: fruit juice series

New customers: Guocha Yike

Fresh fruit juice feel with herb aroma
→ good performance

Overseas Business: Expansion in Other Areas

Asia

Southeast Asia

Appealing markets with remarkable growth

East Asia

Good impressions of Japanese products

Development area : England etc

Market environment:
Confectionery market of 250 billion yen

Appealing market with candy consumption per capita on par with U.S. Will plan local sales based on results of test marketing.

Results Forecast

(April 2018 to March 2019)

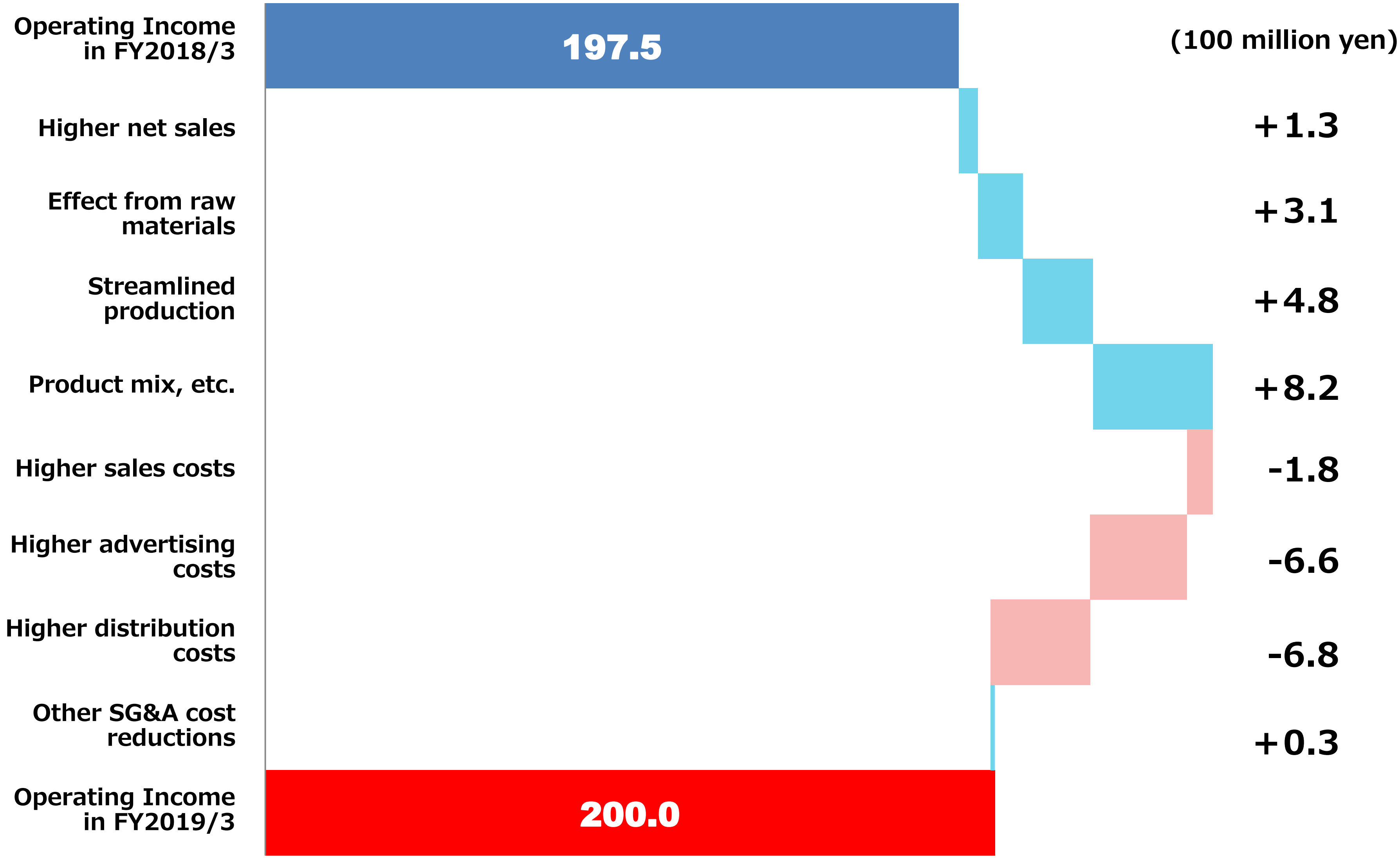
Consolidated Results Forecast for FY2019/3
(April 2018 to March 2019)

- Net sales: <revised forecast> Robust performance by domestic confectionery, foodstuffs and health product segments
- Income: <no revised forecast> Cost controls in first half will generate income and raise profit

(Million yen)

	FY2019/3 full-year forecast (revised)	FY2019/3 full-year forecast (initial)	Result in previous fiscal year	(Y/Y change)
Net sales	<u>205,700</u>	<u>210,000</u>	205,022	+678 (100.3%)
Operating income	20,000 〔9.7%〕	20,000 〔9.5%〕	19,751 〔9.6%〕	+249 (101.3%)
Ordinary income	20,500	20,500	20,422	+78 (100.4%)
Profit attributable to owners of parent	13,800	13,800	10,289	+3,511 (134.1%)

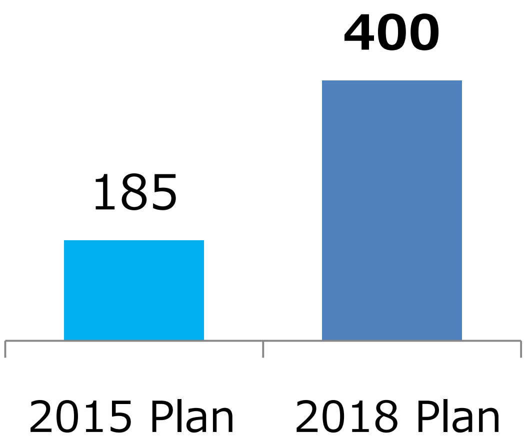
Factors in Change in Consolidated Operating Income for FY2019/3



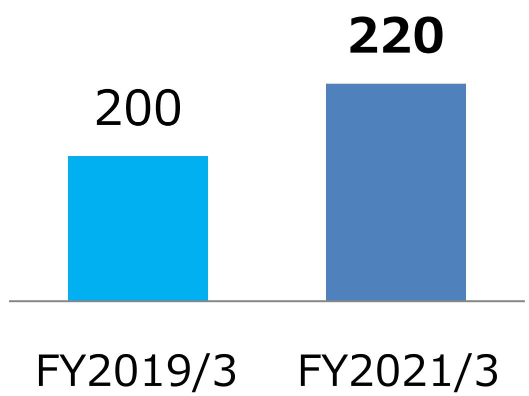
Profit Growth & Capital Allocation

(100 million yen)

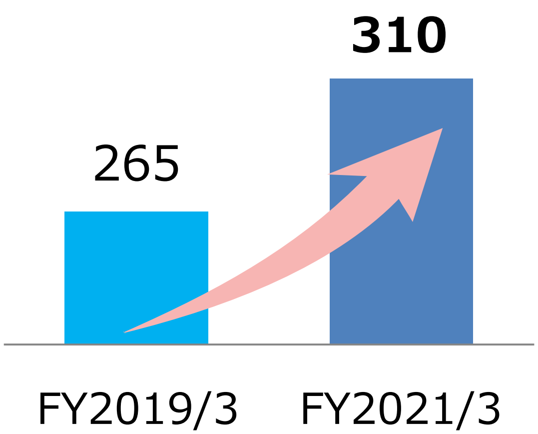
Total Capital Spending



Operating income



EBITDA



2018 Medium-Term Approach

1. Adapt to diverse environmental changes
2. Stronger foundation for sustainable growth
3. Management with long-term perspective

- ■ **Strengthen future foundations**
  Rebuild production system
- ■ **Invest in growth**
  Invest in highly profitable segments
- ■ **Steady dividends**
  Target: 30% payout ratio
- ■ **Consider total shareholder return**

Return to Shareholders