

**Second Quarter,  
Fiscal Year Ending March 31, 2020**

# **Results Briefing**

**Nov 20, 2019**

**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.

What we aspire to

# Going Concern

Becoming an enduring company

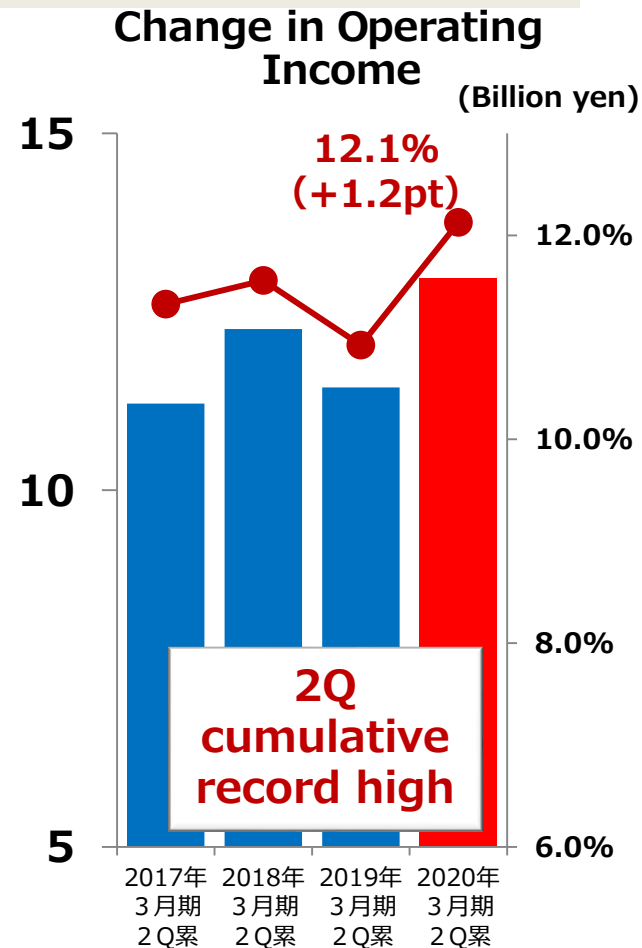


# **Fiscal Year Ending March 31, 2020 Second Quarter Financial Results (April to September 2019)**

# Consolidated Results for Q2 FY2020/3

- Net sales : Higher sales Driven by Food Manufacturing
- Income : Higher income Impact of higher sales of core brands in Confectionery & Foodstuffs and Frozen Desserts

|   | (Million yen)  |                       |                   |
|---|----------------|-----------------------|-------------------|
|   | Q2 cml results | FY2018 Q2 cml results | Y/Y change        |
| Net sales                               | 106,989        | 104,724               | 2,265<br>(102.2%) |
| Operating income                        | 12,975         | 11,440                | 1,535<br>(113.4%) |
| Ordinary income                         | 13,535         | 11,845                | 1,690<br>(114.3%) |
| Profit attributable to owners of parent | 9,153          | 7,682                 | 1,471<br>(119.2%) |



## Consolidated Segment Information

(Million yen)

| Segment<br>(Component ratio)                   | Net sales<br>(Y/Y change)   | Segment<br>income<br>(Y/Y change) |
|--|-----------------------------|-----------------------------------|
| <b>Food<br/>Manufacturing<br/>(96.3%)</b>      | <b>103,049<br/>(102.4%)</b> | <b>12,900<br/>(+1,608)</b>        |
| <b>Food<br/>Merchandise<br/>(2.5%)</b>         | <b>2,697<br/>(92.3%)</b>    | <b>130<br/>(-32)</b>              |
| <b>Real Estate and<br/>Services<br/>(0.9%)</b> | <b>945<br/>(100.9%)</b>     | <b>399<br/>(+17)</b>              |
| <b>Other Services<br/>(0.3%)</b>               | <b>297<br/>(112.1%)</b>     | <b>50<br/>(+24)</b>               |

### 【Food Manufacturing】

#### ■ Net sales

##### 【Confectionary & Foodstuffs】

(Y/Y : 100.6%)

• Domestic : Core brands sales  
strong Core brands

(Y/Y : 103.0%)

• Overseas: Net sales

(Y/Y : 81.8%)

\*Indonesian joint venture  
dissolved

USA (Y/Y : 127.1%)

Overseas sales excluding  
Indonesia

(Y/Y : 106.9%)

##### 【Frozen Desserts】

(Y/Y : 107.0%)

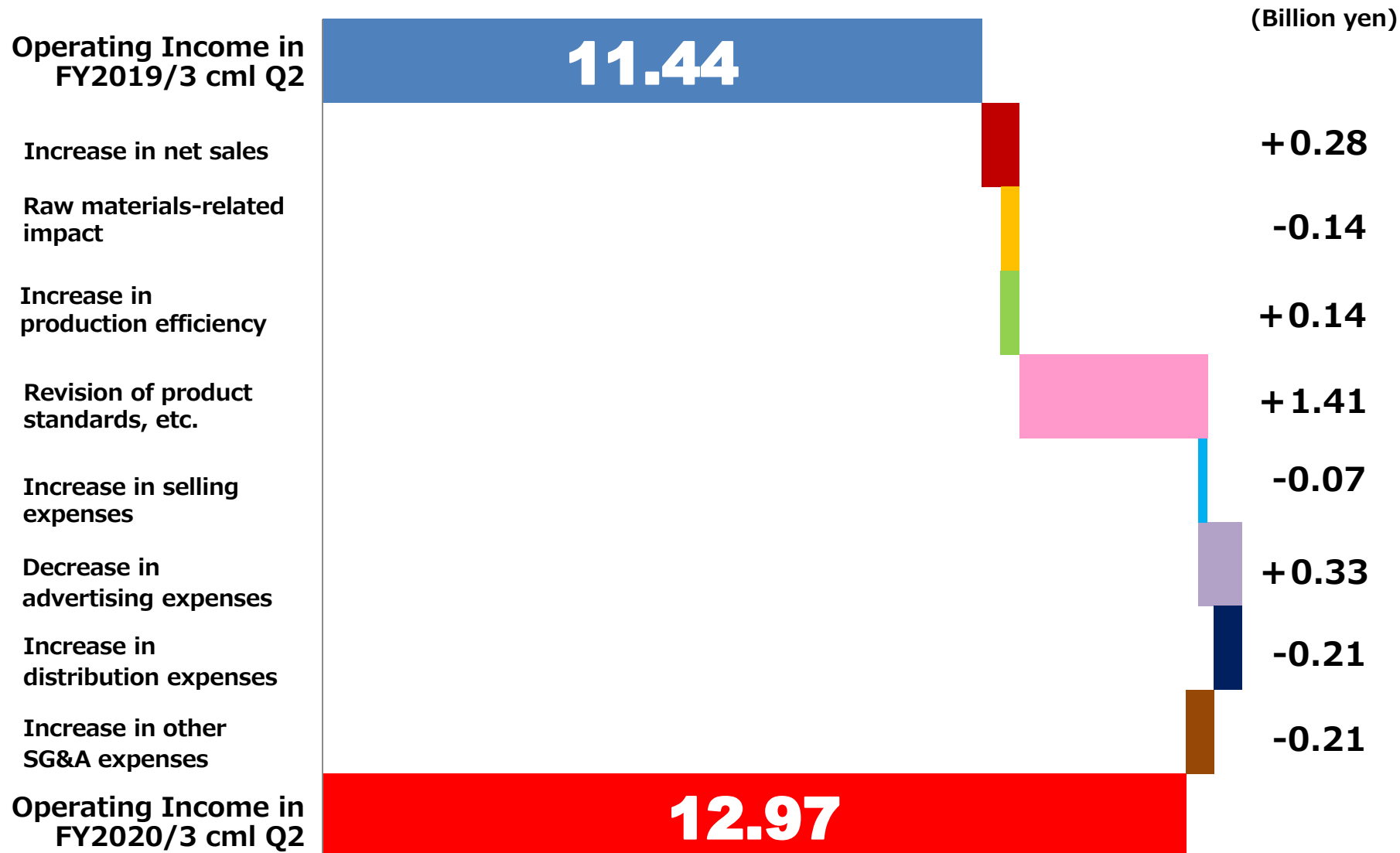
• Sales solid despite price revisions

## Consolidated Food Manufacturing Net Sales and Operating Income

| (Million yen)                                       | Net sales      |               |                   | Operating income            |                       |                |
|---|----------------|---------------|-------------------|-----------------------------|-----------------------|----------------|
|   | Q2 cml results | Y/Y change    | Y/Y change (%)    | Q2 ended September 30, 2019 | Y/Y change            | Y/Y change (%) |
| <b>Consolidated net sales/<br/>operating income</b> | <b>106,989</b> | <b>+2,265</b> | <b>102.2%</b>     | <b>12,975</b>               | <b>+1,535</b>         | <b>+13.4%</b>  |
| <b>Food Manufacturing</b>                           | <b>103,049</b> | <b>+2,451</b> | <b>102.4%</b>     | <b>12,900</b>               | <b>+1,608</b>         | <b>+14.2%</b>  |
| <b>Confectionery &amp; Foodstuffs</b>               | <b>56,225</b>  | <b>+327</b>   | <b>100.6%</b>     | <b>3,664</b>                | <b>+1,115</b>         | <b>+43.7%</b>  |
| <b>Frozen Desserts</b>                              | <b>25,127</b>  | <b>+1,653</b> | <b>107.0%</b>     | <b>4,488</b>                | <b>+751</b>           | <b>+20.1%</b>  |
| <b>Health Products</b>                              | <b>21,696</b>  | <b>+471</b>   | <b>102.2%</b>     | <b>4,747</b>                | <b>-258</b>           | <b>-5.1%</b>   |
| <b>Sales by business sites</b>                      | <b>Q2 cml</b>  |               | <b>Y/Y change</b> |                             | <b>Y/Y change (%)</b> |                |
| <b>Domestic sales</b>                               | <b>97,958</b>  |               | <b>+3,584</b>     |                             | <b>103.8%</b>         |                |
| <b>Overseas sales</b>                               | <b>5,090</b>   |               | <b>-1,134</b>     |                             | <b>81.8%</b>          |                |
| <b>Overseas sales ratio</b>                         | <b>4.8%</b>    |               | <b>-1.1pt</b>     |                             |                       |                |

\*The overseas sales ratio is calculated based on consolidated net sales  
MORINAGA & CO., LTD.

# Factors in Change in Consolidated Operating Income



# Confectionery & Foodstuffs Segment Results

(Million yen)

| Confectionery & Foodstuffs | Net sales      |            |                | Operating income |            |                         |            |
|----------------------------|----------------|------------|----------------|------------------|------------|-------------------------|------------|
|                            | Q2 cml results | Y/Y change | Y/Y change (%) | Q2 cml results   | Y/Y change | Operating income margin | Y/Y change |
|                            | 56,225         | +327       | 100.6%         | 3,664            | +1,115     | 6.5%                    | +2.0pt     |

## Variation factors of Sales

**Domestic** *DARS* and *Morinaga Amazake* struggled but sales of core brands strong overall



**Overseas** Lower sales due to cancellation of joint venture Indonesian business

Overseas total :81.8%,USA:127.1%

## 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 |            |                         |            |
|-----------------|----------------|------------|----------------|------------------|------------|-------------------------|------------|
|                 | Q2 cml results | Y/Y change | Y/Y change (%) | Q2 cml results   | Y/Y change | Operating income margin | Y/Y change |
|                 | 25,127         | +1,653     | 107.0%         | 4,488            | +751       | 17.9%                   | +1.9pt     |

## Variation factors of Sales

Sales of *Vanilla Monaka Jumbo*, *ICEBOX*, and *Biscuit Sand* were strong despite unfavorable weather during peak season

**Jumbo Group : 104%**



**118%**

**ICE BOX Group : 111%**



\*Impact of suspending sales last summer

## Variation factors of Profit

Impact of higher sales due to sales volume growth

Impact of revision to product standards

Aggressive advertising



Vanilla Monaka Jumbo TV ads / ICE BOX 30<sup>th</sup> online ads

Distribution costs: Increased warehousing expenses

# Health Products Segment Results

(Million yen)

| Health Products | Net sales      |            |                | Operating income |            |                         |            |
|-----------------|----------------|------------|----------------|------------------|------------|-------------------------|------------|
|                 | Q2 cml results | Y/Y change | Y/Y change (%) | Q2 cml results   | Y/Y change | Operating income margin | Y/Y change |
|                 | 21,696         | +471       | 102.2%         | 4,747            | -258       | 21.9%                   | -1.7pt     |

## Variation factors of Sales

Sales of *in Jelly* dipped YoY due in part to unfavorable weather in peak season; *in Bar* sustained double-digit growth; mail order sales continued to increase

*in Jelly* overall: 98%



## Variation factors of Profit

### Review of advertising media

Impact of media mix (aggressive use of online ads)



### Impact from lower *in Jelly* sales

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

# Results Forecast

(April 2019 to March 2020)

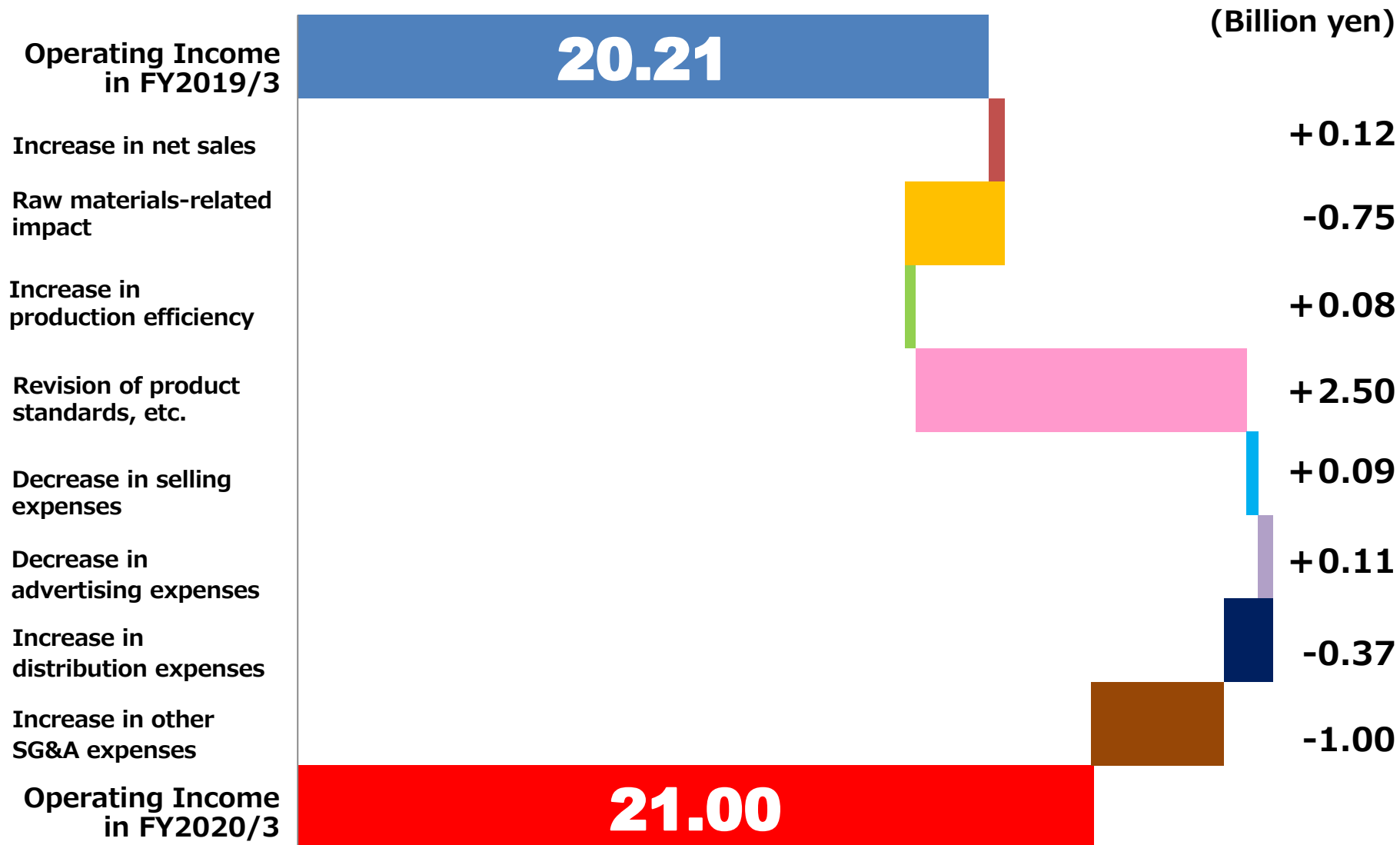
## Consolidated Results Forecast for FY2020/3

- Net sales : No change to forecast. Strengthening of core brands to continue.
- Income : No change to forecast. Aiming to tighten control of costs and achieve operating income margin of 10%.

(Million yen)

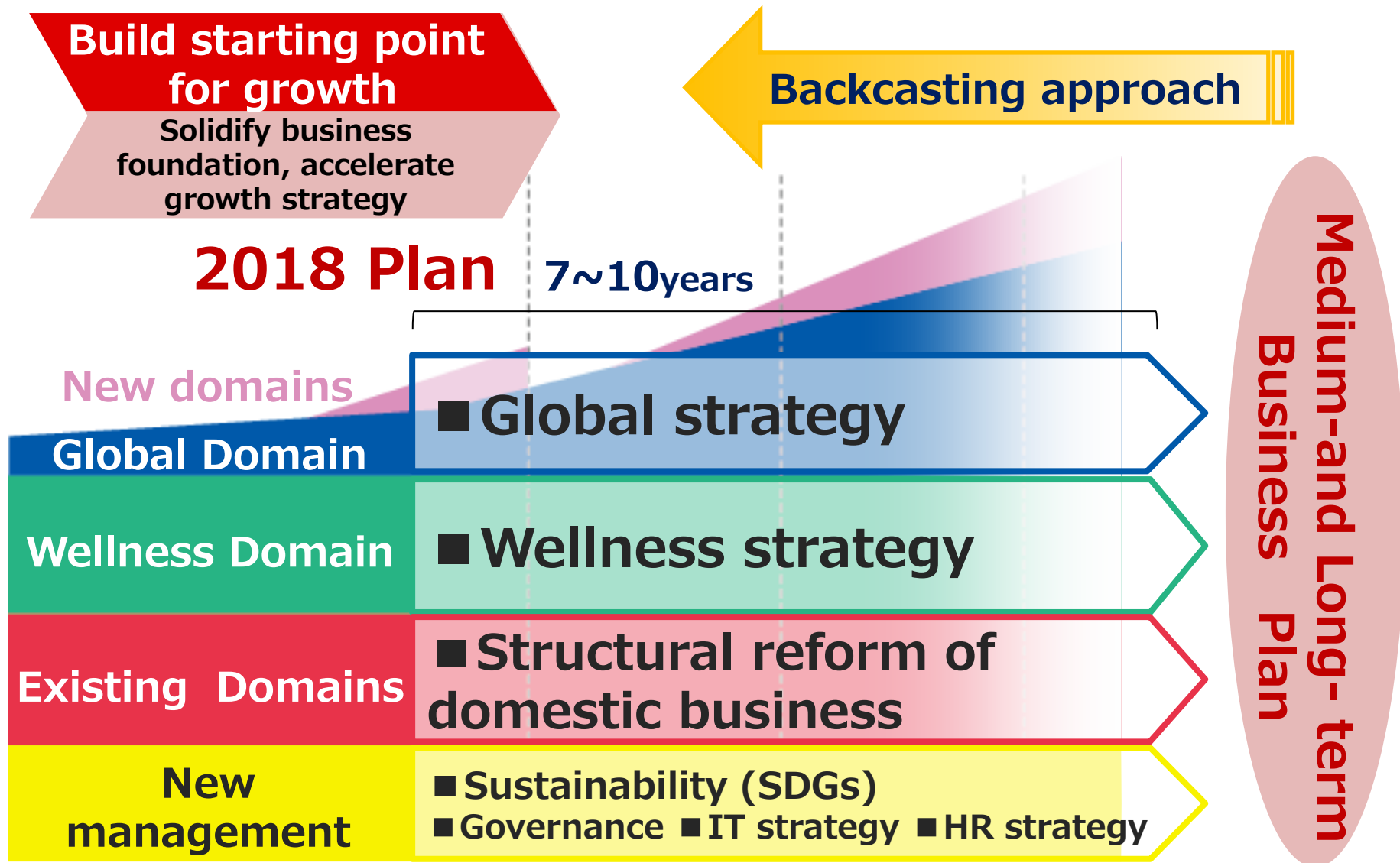
|  | Year ending<br>March 2020 | Result in<br>previous<br>fiscal year | (Y/Y change)       |
|--|---------------------------|--------------------------------------|--------------------|
| Net sales  | 207,000                   | 205,368                              | +1,632<br>(100.8%) |
| Operating income<br>〔operating<br>income margin〕 | 21,000<br>〔10.1%〕         | 20,217<br>〔9.8%〕                     | +783<br>(103.9%)   |
| Ordinary<br>income                               | 21,400                    | 20,767                               | +633<br>(103.0%)   |
| Profit<br>attributable to<br>owners of parent    | 14,500                    | 12,816                               | +1,684<br>(113.1%) |

# Factors in Change in Consolidated Operating Income for FY2020/3



# Future Direction Growth Strategies

# Management Policies for Achieving Medium- and Long-Term Targets



## Existing Domains : Respond to anticipated cost increases

### Carry out structural reform of domestic business

**Raising raw material prices**

**Increase in labor and utility expenses**

**Increase in distribution expenses**

**Decline in size of working population**



**Focus on eight major brands**

**Revision of product standards**

**Capital investment & factory reorganization**



# Existing Domains : Focus on Eight Major Brands

↑  
Contribution to profit



**Continue to revise product standards  
Concentrate and streamline marketing costs**

Net sales →

# Existing Domains : Further Strengthen Main Brands



Diversification of packaging  
Brand extension



Strategic positioning of sales displays  
Acquisition of target customers



Increase in net sales & profit per brand

**HI-CHEW**  
Net sales  
2Q cml  
111%

# Existing Domains : Further Strengthen Main Brands



CVS

**DARS**  
MILK CHOCOLATE

11月26日新発売

森永ビスケット

Ice cream

GMS・SM  
Drugstores, etc

Ice cream

Diversification of packaging  
Brand extension

Strategic positioning of sales displays  
Acquisition of target customers

Increase in net sales & profit per brand



## Existing Domains : Sales strategy

Strategic development of sales displays and greater efforts to gain target customers

### Drugstores Discount stores initiatives



Original products for drugstores



Original products for chain stores



Original products for chain stores

### Inbound tourist initiatives

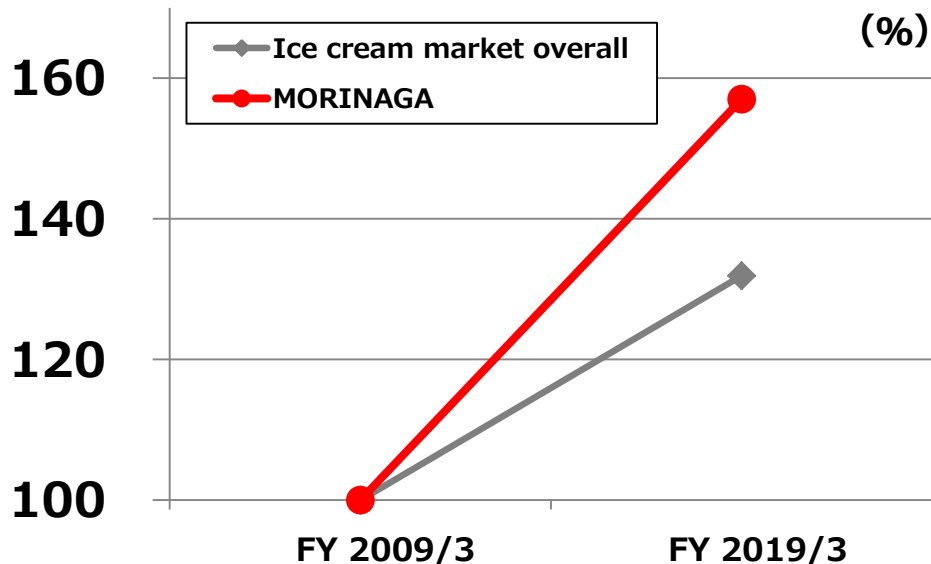


Differentiated product initiatives

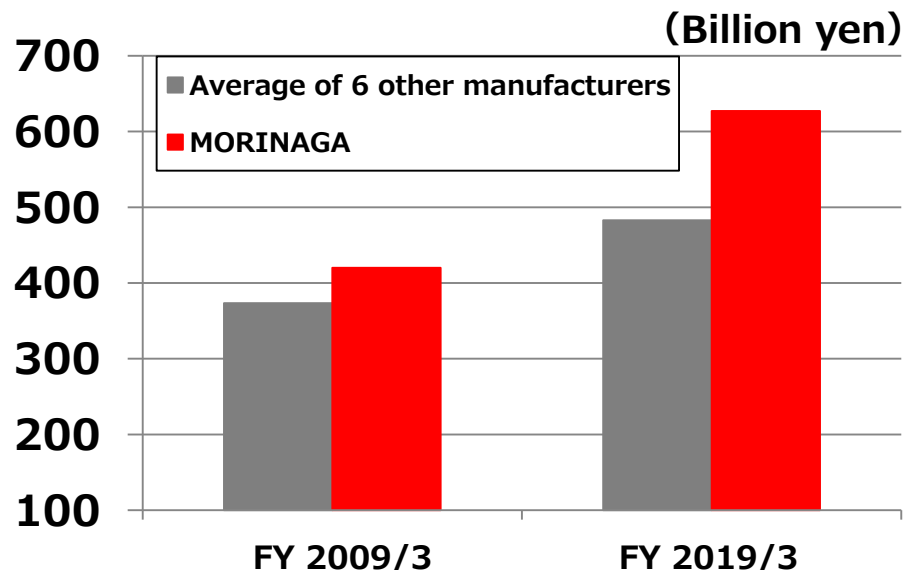
Expand sales to airport shops, etc.

# Existing Domains : Frozen Desserts Segment

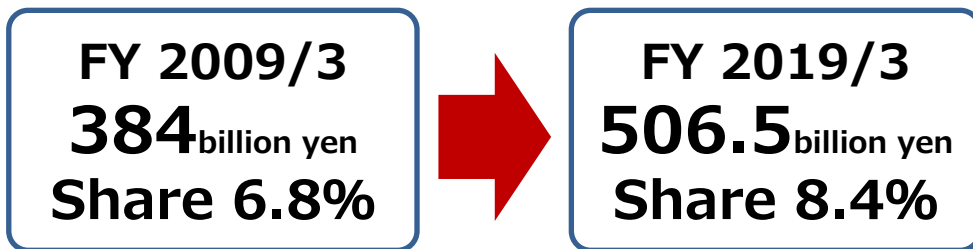
## ■ Net sales growth in frozen desserts segment



## ■ Net sales per SKU



## ■ Market size

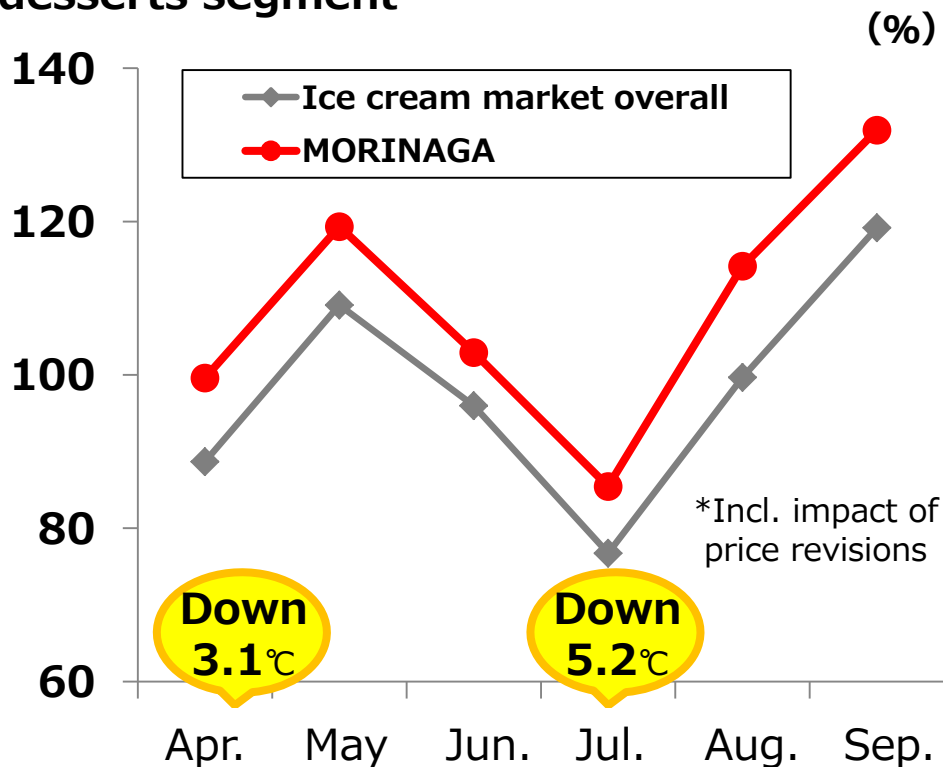


**Strong per SKU earnings capacity**

Sources: Market size – Ice Cream Data Book; Share - intage SRI data; Manufacturer market share and net sales per SKU: SRI data. Data based on sales figures for all sales channels Japan-wide. One SKU defined as products worth ¥10mn or more.

# Existing Domains : Frozen Desserts Segment

## Monthly net sales growth in frozen desserts segment



**Above-market sales even in months when temperatures were lower than average**

### Expanding availability



- Online promotions
- Packaging featuring anime characters



- Online promotions
- Earlier sales launch of autumn and winter products

**Steady development of next-generation brands**

Sources: Intage SRI data; Data based on sales figure. Japan Meteorological Agency's monthly average of daily high temperatures for Tokyo

# Existing Domains : *Jumbo group* strategy

Strong competitive advantage of “freshness” marketing

*Choco Monaka Jumbo*



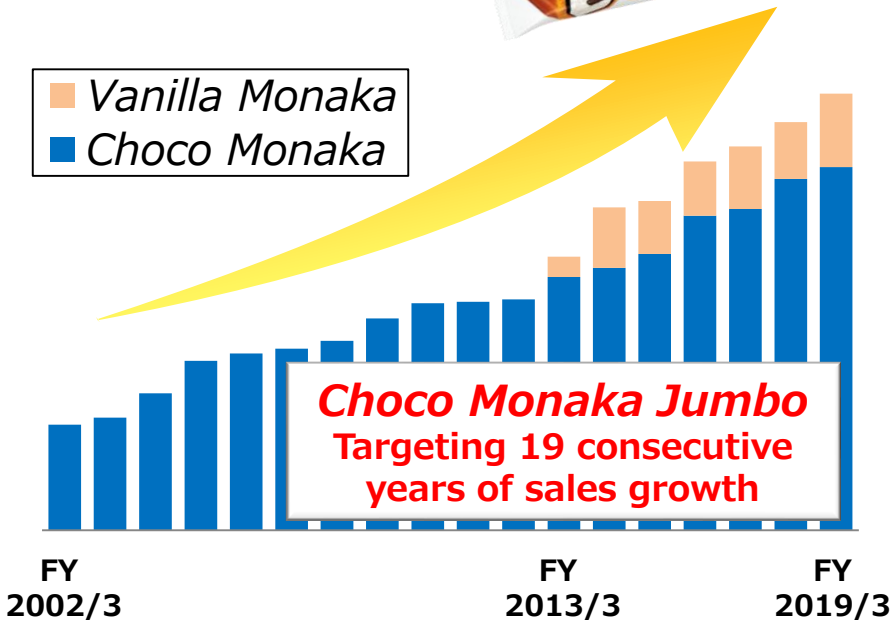
*Vanilla Monaka Jumbo*



■ *Vanilla Monaka*  
■ *Choco Monaka*

Initiatives for expanding ratio of stores stocking *Vanilla Monaka Jumbo*

TV and newspaper ads for *Vanilla Monaka Jumbo*



Continue initiatives to improve store turnover, including target-specific promotions



Sources: Intage SRI data; Data based on sales figure  
**MORINAGA & CO., LTD.**

# Wellness Domain : *in* jelly strategy

## Function-specific product lineup and strong brand value

Enhancement of lineup



[Respond to tougher competition]

### Advertise function-based and drinking scenes



For the exam season



For keeping in shape in the new fiscal year



For preventing heatstroke



Naomi Osaka seen drinking *in* Jelly during 2019 French Open



For beauty



For sports

Stronger emphasis on consumption when playing sport



Sep. 2019TV commercial



# Wellness Domain : *in jelly* strategy

## 【Cultivate Next Generation of Users】

### Provide differentiated new functions and drinking scenes

High performance

High value-added

Apr



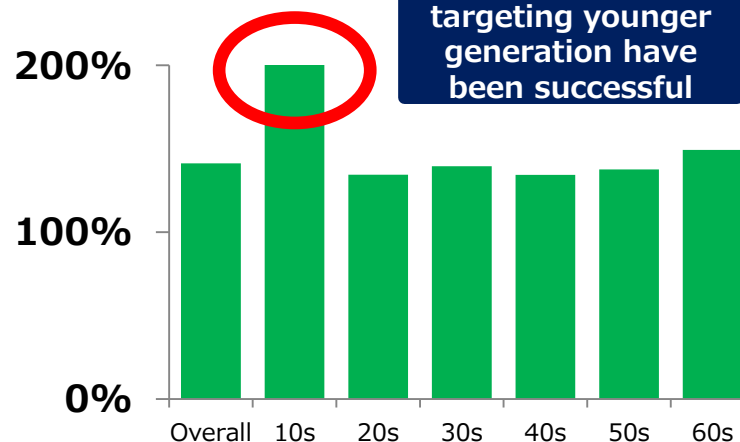
6 essential nutrients

Apr.



10,000mg of protein

■ *in jelly* Analysis of purchase rate by age group



Women

Available only at convenience stores

Jul.



Collagen

Mar.



Glucose

Nov.



Caffeine and Arginine

Seasonal limited

New function etc.

Oct.



VitaminC 1,000mg



*in Jelly* for sitting exams



*in Jelly* for your alma mater



*in Jelly* for society

Sources: Intage SRI data; Growth rate as of September 2019 with purchase rates in March 2015 set as 100%

# Wellness Domain : Tap new needs with proprietary technologies

## Wellness products Configuration: 44.4% (+1.0pt)

Growing senior population

Increasing healthcare needs

Development of products

Continuation of basic research

### ■ Active investment in advertising



Wheat Germ



Protein



Glucose



High-cacao content

### ■ Research & academic announcement



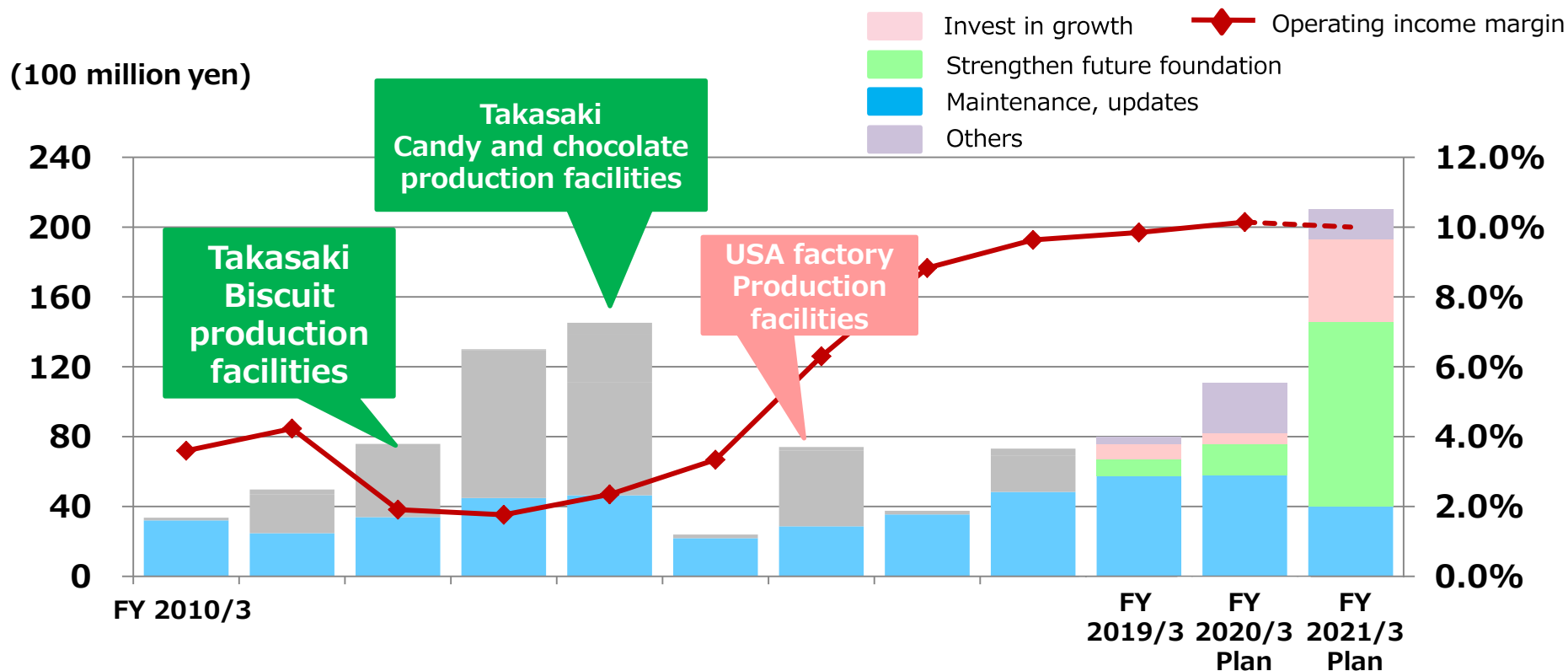
Cacao flavanols

Cacao lignin

\*Wellness net sales ratio = wellness products ÷ sales in domestic confectionery & foodstuffs and health product groups

# Capital Investment & Factory Reorganization

## Capital investment and operating income margin trends



\*Gray shading is used up to FY3/19 because detailed investment categories were not used at that time.

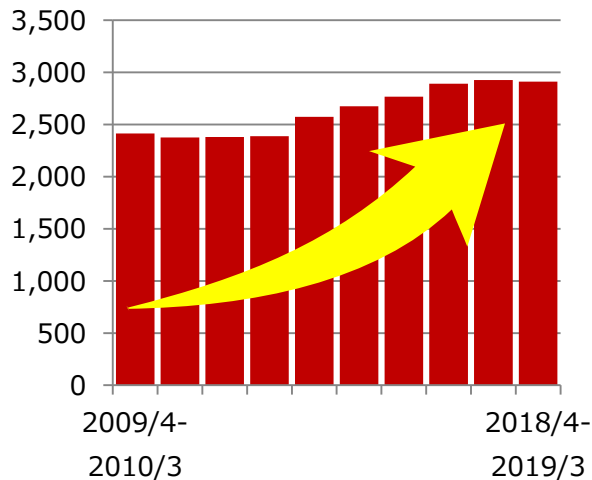
**Aiming to strengthen future foundation and invest in growth to ensure stable future earnings**

# Capital Investment & Factory Reorganization

(100 million yen)

Strengthen future foundation

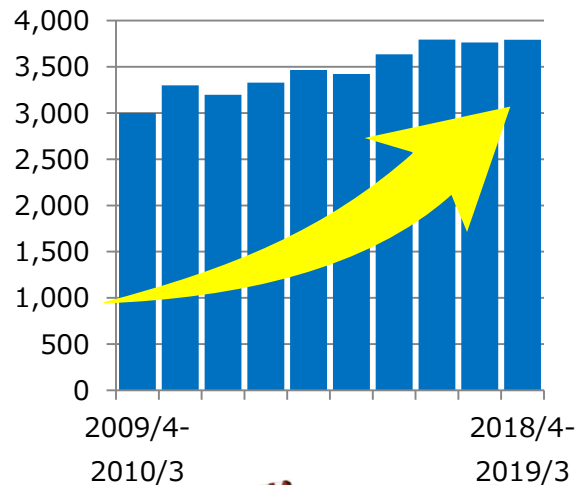
## Chocolate market



- Carré de chocolat sales growth owes to increased consumption by seniors
- Focus on improving profit structure, such as enhancing added value

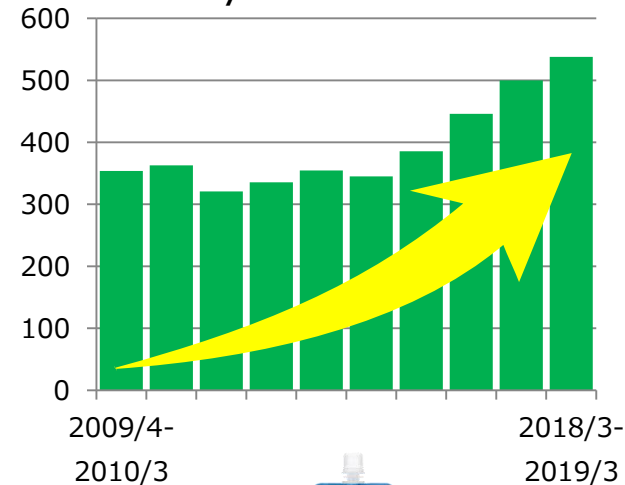
Invest in growth

## Ice cream market



- Growth in Choco Monaka store turnover and increased availability of Vanilla Monaka
- Step up development of next-generation products

## Jelly drinks market



- Success of age-specific initiatives and initiatives promoting different functions of in Jelly series
- Focus even more on branding

Sources: Intage SRI; Chocolate market – cumulative sales for Apr. 1, 2009 to Mar. 31, 2019; Ice cream market – cumulative sales for Apr. 1, 2009 to Mar. 31, 2019; Jelly drinks market (pouch with mouth stopper category) – cumulative sales for Apr.1, 2009 to Mar. 31, 2019

## Global Domain : Sales Trend of Overseas Business

(100 million yen)

| Areas<br>(converted<br>into Yen) | FY2019/3<br>cml Q2 | FY2020/3<br>cml Q2 | Y/Y change<br>(%) | FY2020 full-<br>year forecast<br>(revised)  | Forecasted<br>Y/Y change<br>(%) |
|----------------------------------|--------------------|--------------------|-------------------|---|---------------------------------|
| USA                              | 22                 | 28                 | 127%              | 62  | 125                             |
| China, Taiwan,<br>Exports        | 25                 | 22                 | 89%               | 55  | 109                             |
| (Indonesia)                      | 14                 | —                  |                   | 2019/1<br>Cancelled Indonesia joint venture |                                 |
| Total                            | 62                 | 50                 | 82%               | 118   | 116                             |

\*Exclude Indonesia

|                         |      |      |        |      |        |
|-------------------------|------|------|--------|------|--------|
| Overseas<br>sales ratio | 5.9% | 4.8% | -1.1pt | 5.7% | -0.2pt |
|-------------------------|------|------|--------|------|--------|

# Global Domain : USA *HI-CHEW* strategy

## *HI-CHEW* as the cornerstone

### USA

**Population:  
2.5x Japan**

**USA candy market:  
Market growth of roughly  
4x that of Japan's;  
competition between  
manufacturers extremely  
fierce**

### ■ USA candy market ■ Net sales and market share by product

**Candy market  
1.5 trillion**

**Confectionery market  
About 4.4  
trillion**

| Product               | %          |
|-----------------------|------------|
| Skittles              | 5.4        |
| Twizzlers             | 5.3        |
| Starburst             | 2.7        |
| ⋮                     | ⋮          |
| <b><i>HI-CHEW</i></b> | <b>0.7</b> |

\*Confectionery market = chocolate, chewing gum, candy

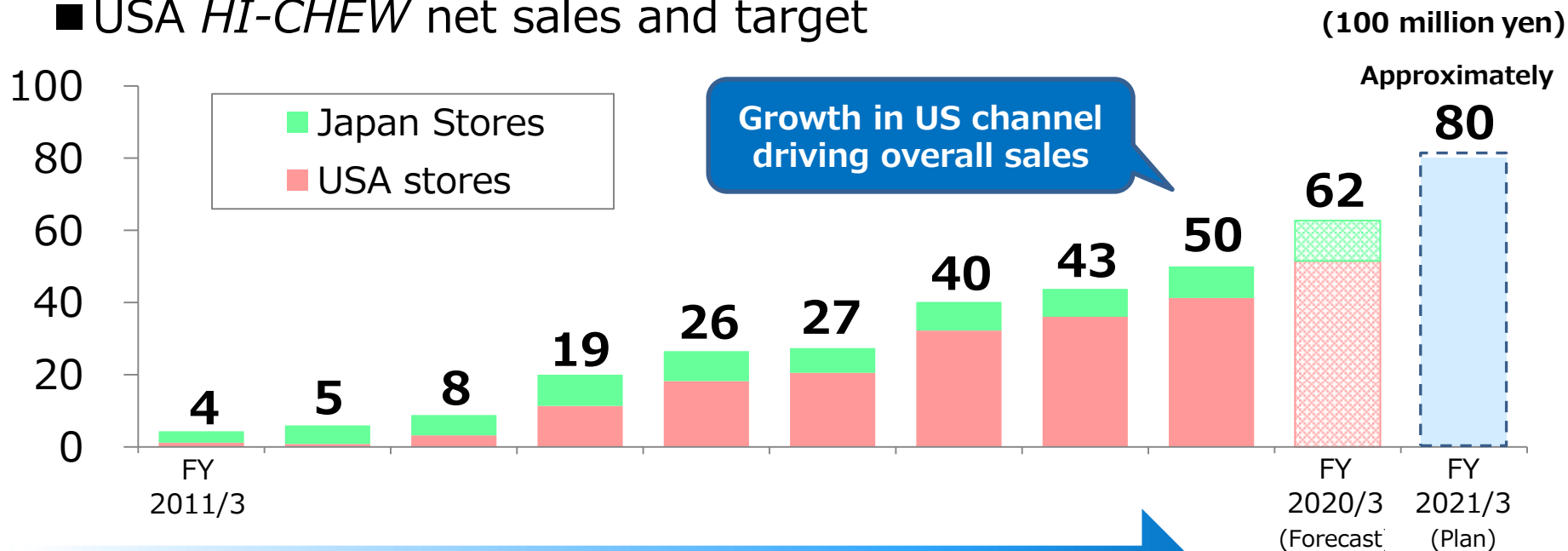
\*Candy market = gummies, caramel, soft candy, mints, etc.

# Aim to succeed in the US on the back of *HI-CHEW*'s unique value

Sources: 2018 GlobalData, Data for *HI-CHEW* from Morinaga & Co. Ltd. Data for other products from 2018 GlobalData.

# Global Domain : USA *HI-CHEW* strategy

## ■ USA *HI-CHEW* net sales and target



Launch of sales at chain stores across the US

Launch sales at influential chains

Expand to other chains

Air TV ads as sales channels expand

Promote product introduction and improve store turnover

Expand target customers and product recognition

Boost store turnover

# Global Domain : USA *HI-CHEW* strategy

Promote product introduction and aim to further expand sales

## ■ *HI-CHEW* at top 10 US retailers

| Rank | Name of enterprise | business category    | <i>HI-CHEW</i> introduction |
|------|--------------------|----------------------|-----------------------------|
| 1    | Wal-Mart           | Mass retailer        | ○                           |
| 2    | Kroger             | Supermarket          | ○                           |
| 3    | Costco             | Club store           | ○                           |
| 4    | Home Depot         | DIY                  | —                           |
| 5    | CVSH               | Drugstore            | ○                           |
| 6    | Walgreens          | Drugstore            | ○                           |
| 7    | Amazon.com         | E-commerce           | ○                           |
| 8    | Target             | Mass retailer        | ○                           |
| 9    | Lowe's             | DIY, home appliances | —                           |
| 10   | Albertsons/Safeway | Supermarket          | ○                           |

Boost availability and brand recognition



USA-wide TV ads

Aim to increase store turnover

Step up trial promotions

Expand product lineup

■ Despite introduction at USA chains nationwide, region-specific issues remain regarding availability and recognition

⇒ **Room for market expansion**



Source: NRF's (National Retail Federation) 2017 USA retail sales ranking



## Global Domain : USA *HI-CHEW* strategy

### Steady establishment of stable production bases

#### Significant improvement in production quality performance



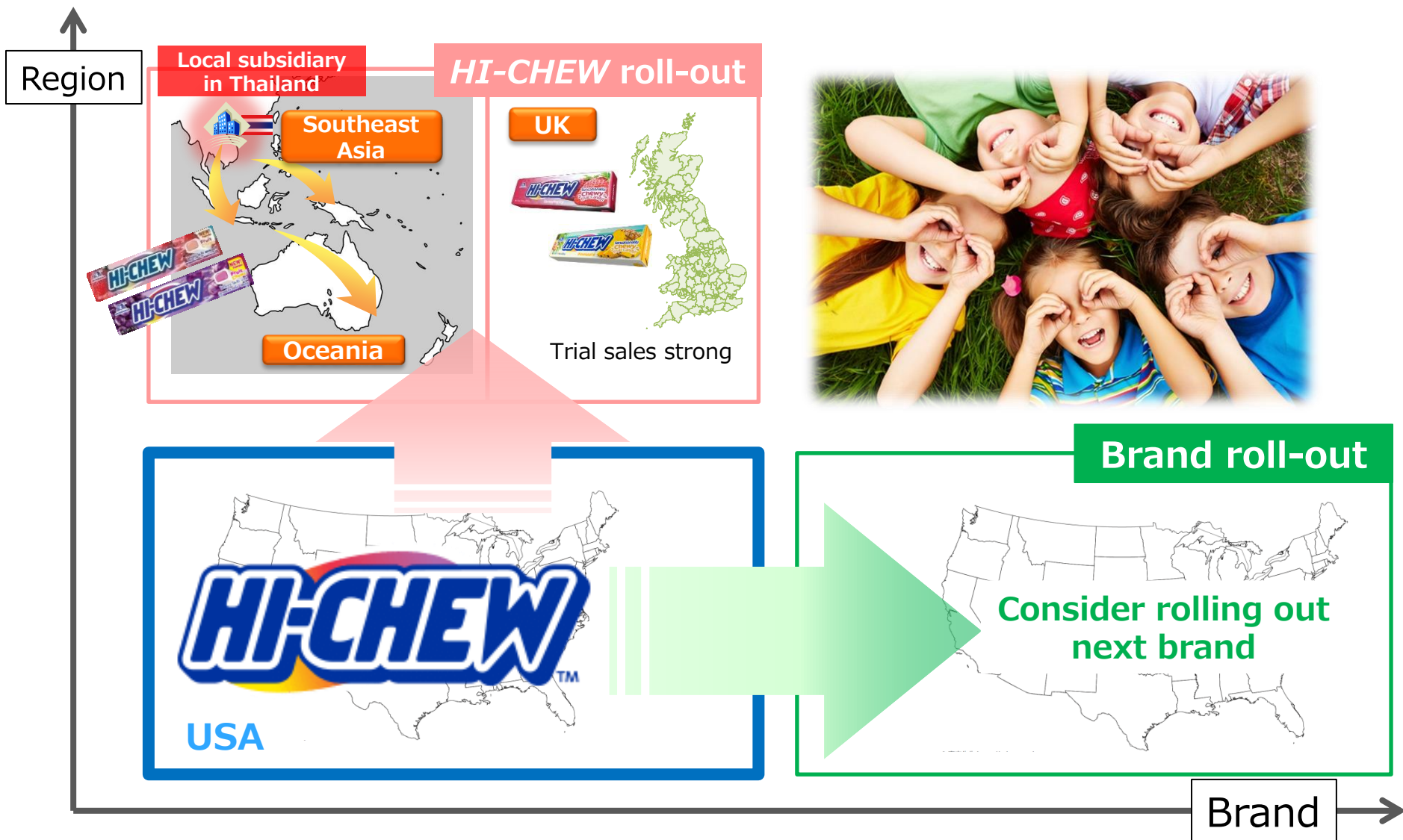
- Strengthened production management system
- Nurturing of local personnel
- Initiatives on integrating production and retail

#### USA plant capacity expansion



- Production boost of 30% with installation of manufacturing line (scheduled to come online in Jan. 2020)

# Global Domain : New business strategies



## Cash Flow Utilization

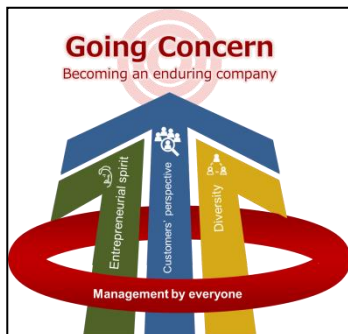
We offer suitable return to shareholders by prioritizing investments in **improved productivity, stronger product development capabilities** and **accelerated growth**, premised on building a solid financial foundation.



# Aiming to enhance longer-term corporate value

**Aiming to enhance longer-term corporate value**

**: Diversity at Morinaga**



# Innovation

# New Value

Diversification of workforce

Diversification of knowledge

**Leveraging of each person's individuality**



# Newspaper advertisement marking Morinaga's 120th anniversary



Selected by  
the Japan Newspaper  
Publishers & Editors  
Association in August 2019  
as an "Ad that Leaves an  
Impression"



# 120th Anniversary Project



## Morinaga Angel Museum “Morium” Scheduled to open in spring 2020

\*The concept of this tour-focused facility is to have visitors experience firsthand the wide array of value that Morinaga generates.