



**Morinaga Milk**  
**Medium Term Business Plan**  
(FYE March 2020 ~ FYE March 2022)

**MORINAGA MILK INDUSTRY CO., LTD.**

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# The Previous Medium Term Business Plan in Hindsight (Basic Policies)



Previous Medium Term Business Plan

## Four basic policies



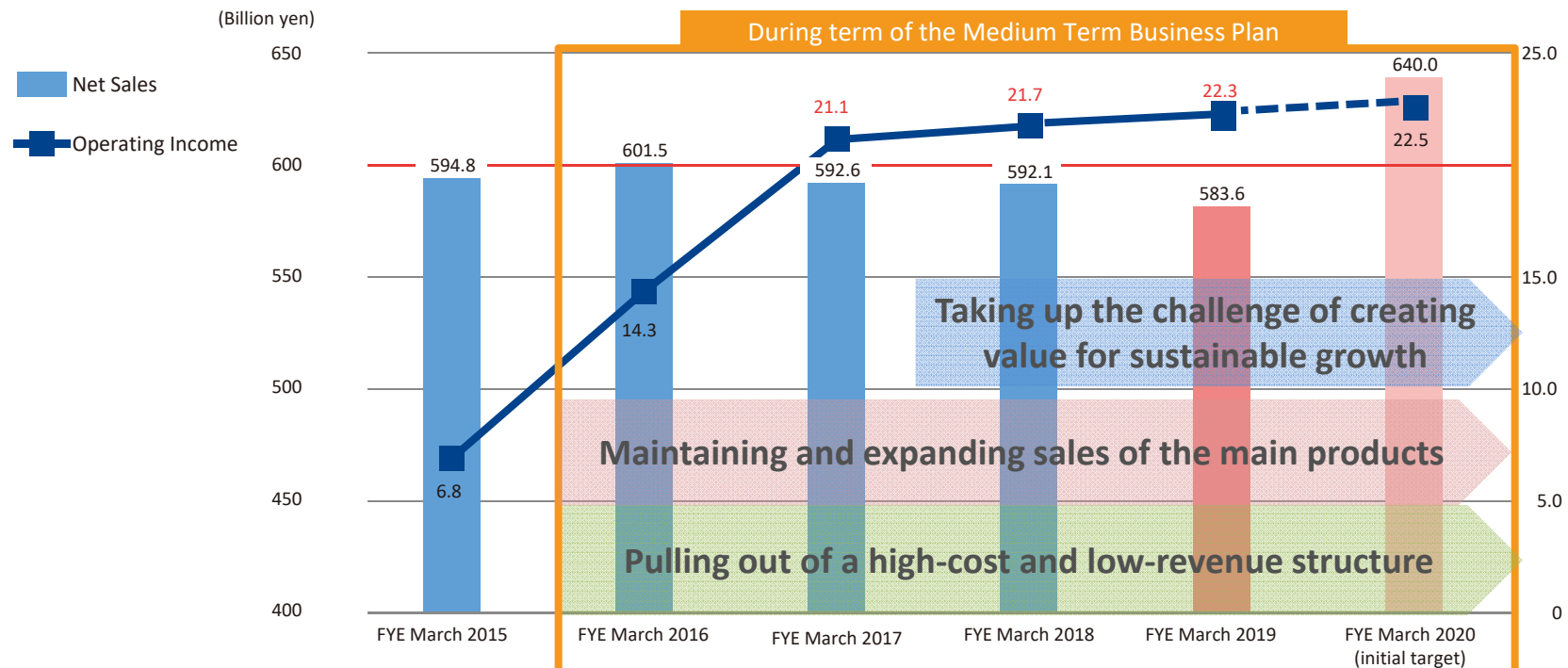
## Four business pillars



# The Previous Medium Term Business Plan in Hindsight (Performance Transition)



Previous Medium Term Business Plan



	FYE March 2015	FYE March 2016	FYE March 2017	FYE March 2018	FYE March 2019	FYE March 2020 (initial target)
ROS (Operating Income / Net Sales)	1.1%	2.4%	3.6%	3.7%	3.8%	3.5%
ROE (Net Income / Equity Capital)	3.4%	8.4%	9.8%	10.5%	8.6%	8.0%
Free Cash Flow (operating CF + investing CF)	-9.1 billion yen	6.0 billion yen	16.1 billion yen	8.2 billion yen	-20.3 billion yen	Over 30.0 billion yen over the five years of the plan

# Previous Medium Term Business Plan in Hindsight (Assessment by Theme)



Previous Medium Term Business Plan

## ● Business efficiency: Maintaining operating profit margin at levels over 3.5%

### • Reduce SKUs:

Reduce household products

Reduce number of SKUs from 1,200 (FYE March 2016) to under 1,000 (FYE March 2019)

**Reduction effect 2.1 billion yen**

**20% reduction in number of SKUs**

### • Promotion efficiency:

Optimize advertising methods and focus sales promotion efforts in carefully chosen areas

**Improvement effect 1.6 billion yen**

### • Production efficiency:

Improve yields and streamline manufacturing expenses

Decision to suspend production at two key plants

**Manufacturing streamlining 2.7 billion yen**

**Streamlining effect achieved by suspending production: 2.5 billion yen** (next medium term business plan, compared to FYE March 2018)

### • Business transfer:

Frozen foods wholesale and household tea leaves

**Sales decrease Approx. 18 billion yen**

**Improved operating profit margin**

### • Asset compression:

Sale of real estate, transfer of beneficial interest in trust

**Extraordinary income approx. 16 billion yen** (including the next mid-term business plan period)

**Pulling out of a high-cost and low-revenue structure**

**Assessment ○**

# Previous Medium Term Business Plan in Hindsight (Assessment by Theme)



Previous Medium Term Business Plan

- Address diversifying needs, long-span approach to functional ingredients

- Reorganization:

Rebuild product development and marketing departments

**Build a product development system that looks toward the future**

- Sales promotion:

Implement aggressive sales promotion activities for functional ingredients

**Expand B-to-B Bifidobacterium and LAC-Shield™**

**Issues remain for expansion of Morinaga Milk's B-to-C products**



**Taking up the challenge of creating value for sustainable growth**

Assessment

- Develop and expand new products and value-added products

- Increase lateral expansion:

Strengthen lateral develop between businesses for renewed growth

**Sluggish growth for mainstay products**

**Targets not reached for products under development**

- Production capacity:

Large-scale investment in the Kobe Plant and Tone Plant, MILEI's new plant, etc.

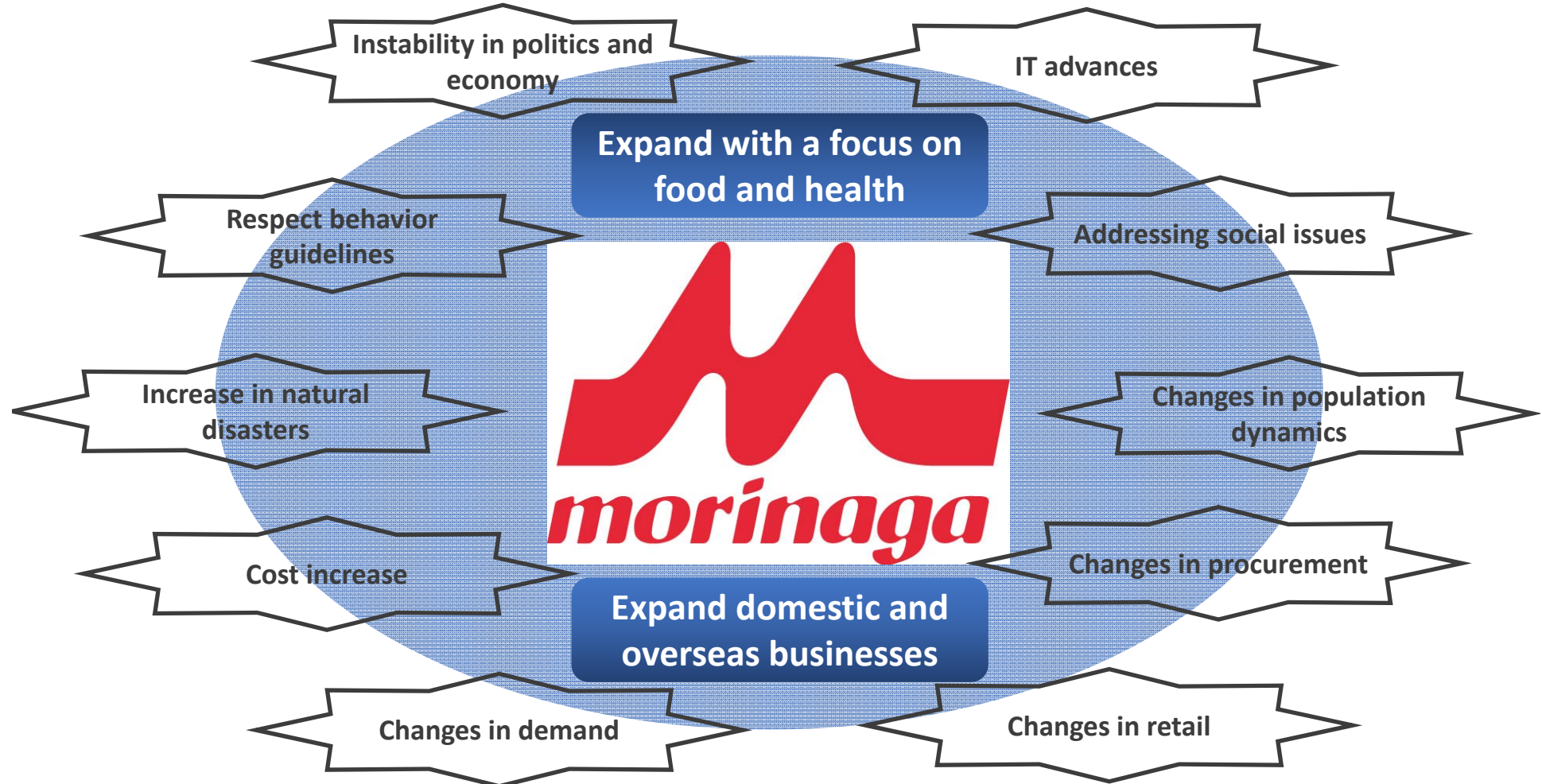
**Targets brought forward, aggressive investment**



**Maintaining and expanding sales of main products**

Assessment

# Change of the External Environment



**Achieve certain results by taking measures to achieve targets  
Begin new medium-term plan one year ahead of schedule to address changes in the external environment**

# Long Term Vision (Morinaga Milk Group 10-year Vision)






**Vision 1** A company that balances “delicious and pleasurable food” with “health and nutrition”

**Vision 2** A global company that exerts a unique presence worldwide

**Vision 3** A company that persistently helps make social sustainability a reality

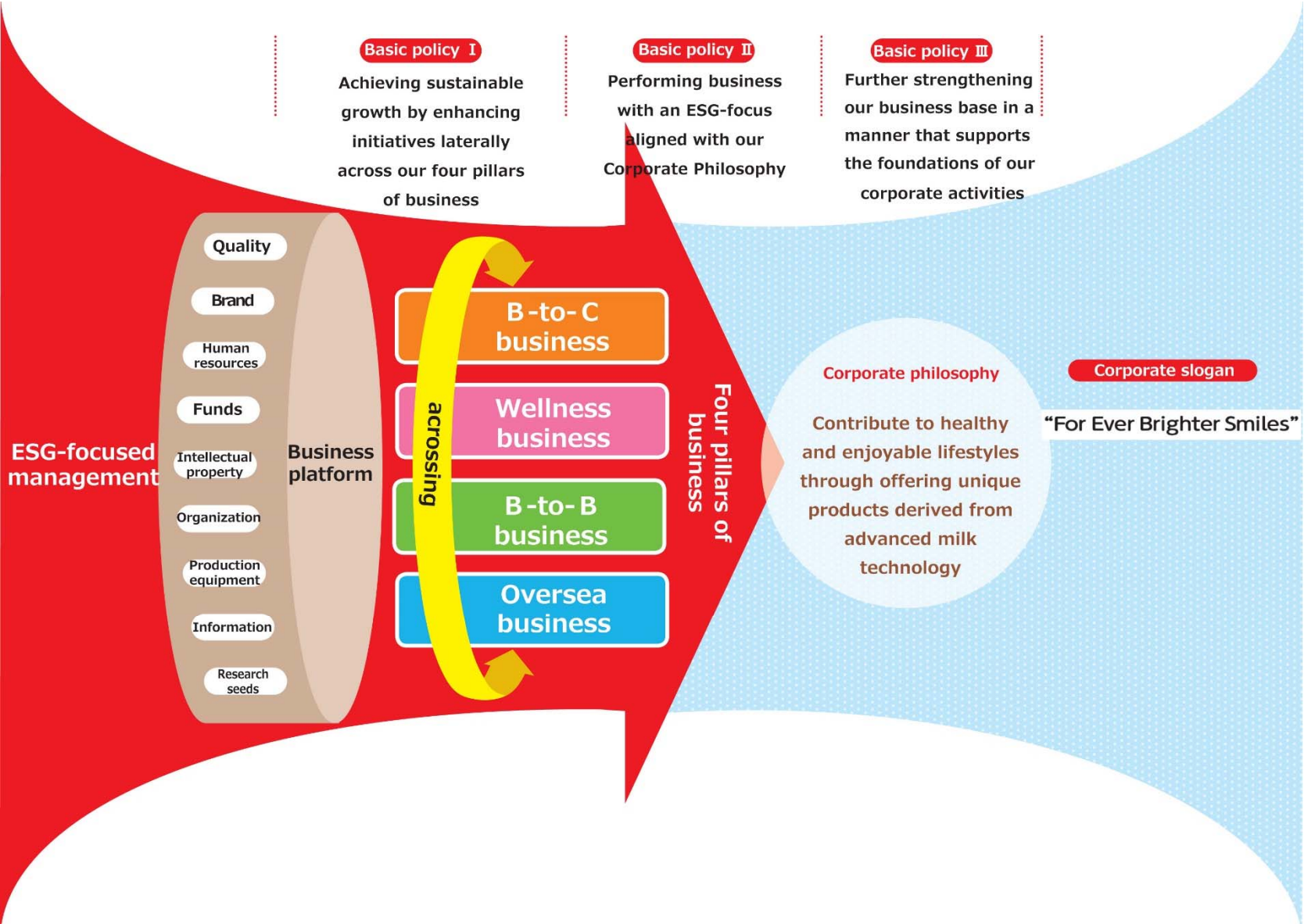
## 10-year Targets

(for the fiscal year ending March 31, 2029)

Operating profit margin	3.8 %		<b><u>At least 7%</u></b>
R O E	8.6 %		<b><u>At least 10%</u></b>
Ratio of overseas sales	5.0 %		<b><u>At least 15%</u></b>



# Basic Policies of the new Medium-term Business Plan







# Main Management Indicators



(Unit: billion yen)

	FYE March 2019	FYE March 2020 (Forecast)	FYE March 2022 (Plan)	Differences between FYE March 2019: Increases/Decreases	Differences between FYE March 2019: Rate of increase/decrease
<b>Net Sales</b>	583.6	593.0	<b>630.0</b>	<b>+46.4</b>	<b>+8.0%</b>
<b>Operating Income</b>	22.3	23.0	<b>30.0</b>	<b>+7.7</b>	<b>+34.3%</b>
<b>Profit attributable to owners of parent</b>	14.0	*19.5	<b>19.2</b>	<b>+5.2</b>	<b>+37.0%</b>
<b>Operating Income Margin</b>	3.8%	3.9%	<b>4.8%</b>		
<b>ROE (Net Income / Equity Capital)</b>	8.6%	11.1%	<b>9.3%</b>		
<b>Ratio of overseas sales</b>	5.0%	5.8%	<b>7.1%</b>		
<b>Dividend (yen)</b>	55 yen	60 yen	Target payout ratio of 20%		

• We have set targets of 630 billion yen in net sales and 30 billion yen in operating income.

\* This includes 7.0 billion yen (estimated) in extraordinary income from the transfer of fixed assets (beneficial interest in trust). (FYE March 2020)

# Policy 1: Achieving Sustainable Growth by Enhancing Initiatives Laterally across Our Four Pillars of Business

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## Priority themes

①

**Further enhancing our main brands**

②

**Accelerating development of bifidobacteria and proprietary seeds**

③

**Developing overseas business**

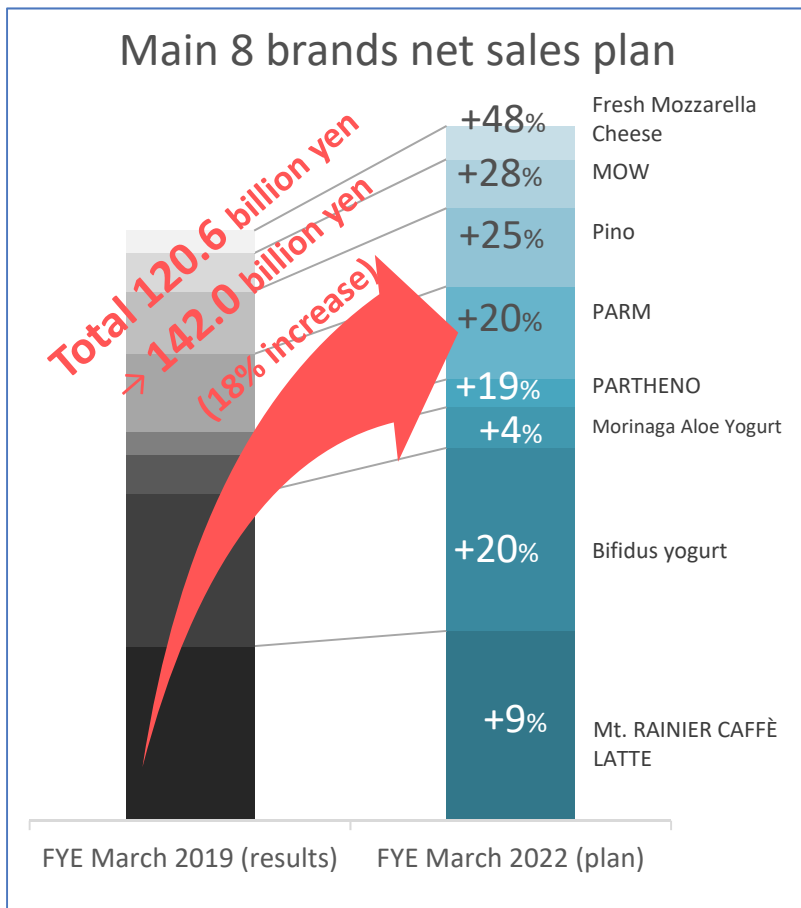
④

**Building the foundations of next-generation healthcare business**

# Theme 1: Further Enhancing our Main Brands



## Optimize the value of the eight brands that support the Morinaga Milk Group's foundation



- Mt. RAINIER CAFFÈ LATTE**  
 Optimize brand exposure by strengthening the lineup, including dairy alternative ingredients  
 Create sales areas utilizing Morinaga Milk's proposal capacity, including other cup-type drinks
- Bifidus yogurt**  
 Capitalize on bifidobacteria to set Morinaga Milk products apart from competitors; expand their reach, including other functional yogurt series
- Morinaga Aloe Yogurt**  
 Starting point with sale of products with functional claims through functions of aloesterol  
 Ensure absolute dominance in the fruit yogurt market by pursuing Morinaga Milk's own strengths
- PARTHENO**  
 As the top brand in this category, create new demand based on plain flavors
- PARM**  
 Propose new functional value and develop ice cream that becomes a national favorite as the top brand for ice cream bars
- Pino**  
 In addition to health values, cultivate a wide range of consumers, including seniors, and expand sales channels
- MOW**  
 Exhaustively pursue high-quality ingredients and production methods, based on the avoidance of stabilizing agents and emulsifiers
- Fresh Mozzarella Cheese**  
 Expand by proposing recipes with 100 g types and one-bit types; aim for 50% increase

# Theme 2: Accelerating Development of Bifidobacteria and Proprietary Seeds (Including Lactoferrin)



Carry out strategy to differentiate Morinaga Milk from competitors by equating Morinaga Milk with bifidobacteria; Increase income **150%** compared to FYE March 2019

B-to-C	Wellness	B-to-B	Overseas

**Capital investment in Morinaga-Hokuriku Milk Industry Co., Ltd.**  
**Future plans: Quadruple supply of bacteria**

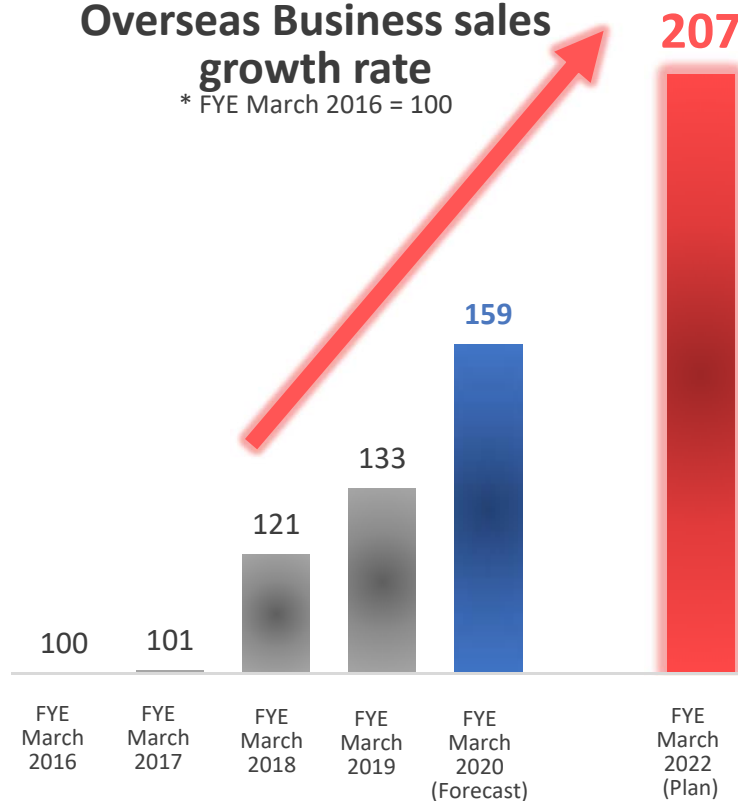
## Theme 3: Developing Overseas Business



**Ten-year target: Triple as percentage of net sales**  
**As core of business, ensure high ongoing growth and establish solid foundation**

### Overseas Business sales growth rate

\* FYE March 2016 = 100



### ● Growth strategy for Overseas business

- Establish sales bases at four global poles
  - Bases in the **EU, North America, China, and Southeast Asia**
  - Expand B-to-B business
- Expand bifidobacteria and lactoferrin
  - **Top share in global market for lactoferrin**
  - Grow into long-term revenue source
  - Strengthen expansion of **bacteria business (bifidobacteria)**
  - Become a major player in the bacteria business**
- Further growth for MILEI GmbH
- Expand infant and toddler milk
  - Restore the Morinaga brand to its position in the **top 10 of the world's share**



# Theme 4: Building the Foundations of Next-generation Healthcare Business



**Utilize techniques developed with dairy and provide products that improve health**  
**Contribute to the extension of healthy lifespans**

- **Develop products that address health issues** and create a business structure that can provide them appropriately
- **Create a foundation for a next-generation health care business** that helps extend healthy lifespans and improve wellbeing
- **Develop nutritional supplements for all generations** and build up digital and EC channel

## Roadmap for next-generation healthcare business



# Initiatives to Grow Business and Streamline: Improve Profitability



- **Further improvement of the product mix**
  - **Provide creative, high-value products**
    - Improve product mix with a product line-up including high value-added products
    - In reducing SKUs, address on an individual basis while keeping in mind the total number of SKUs
- **Sales promotions, marketing efficiency**
  - **Optimal allocation of funds, maximization of value**
    - Invest funding with a focus on main brands and cultivating products
    - Cooperative market strategy across four businesses
- **Continue low-cost operations**
  - **Pursue overall efficiency for the Group**
    - Carry out ongoing low-cost operations such as manufacturing, procurement, distribution, and indirect sectors



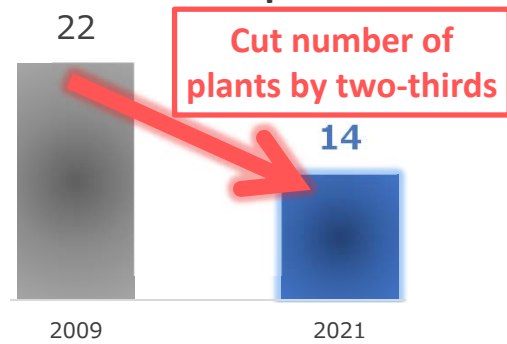
**Ongoing implementation of initiatives to grow business and streamline, carrying on efforts in the previous Medium Term Business Plan**

# Initiatives to Grow Business and Streamline: Improve Profits in Milk Business

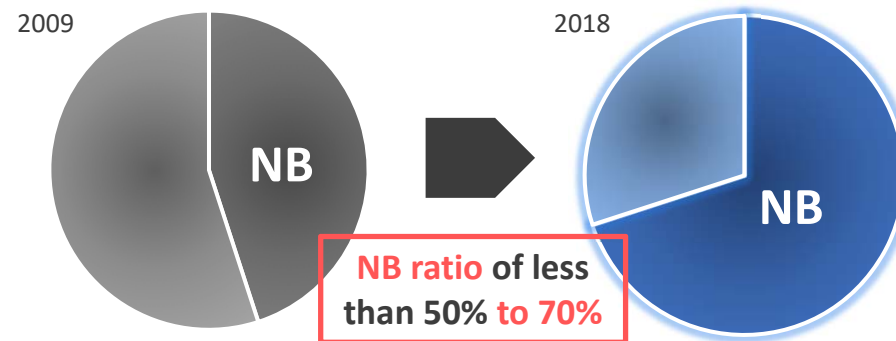


## ● Initiatives in past 10 years

- Elimination and consolidation of commercial milk plants



- Shift to national brand (NB)



- Improve profitability by developing and expanding differentiated products

- Cultivate markets with products such as “Makiba no Sora Milk” and “PREMiL”

- Thoroughly revise prices to reflect higher costs

- Revise prices to address higher row milk prices; reflecting increases in other operating costs will be an issue for the future

## ● Direction going forward

- Initiatives to **break out of unprofitable businesses**

- Develop differentiated products such as the “Oishii Gyunyu Milk”
- Optimize the production system and eliminate and consolidate plants
- Make further changes to products with low profitability

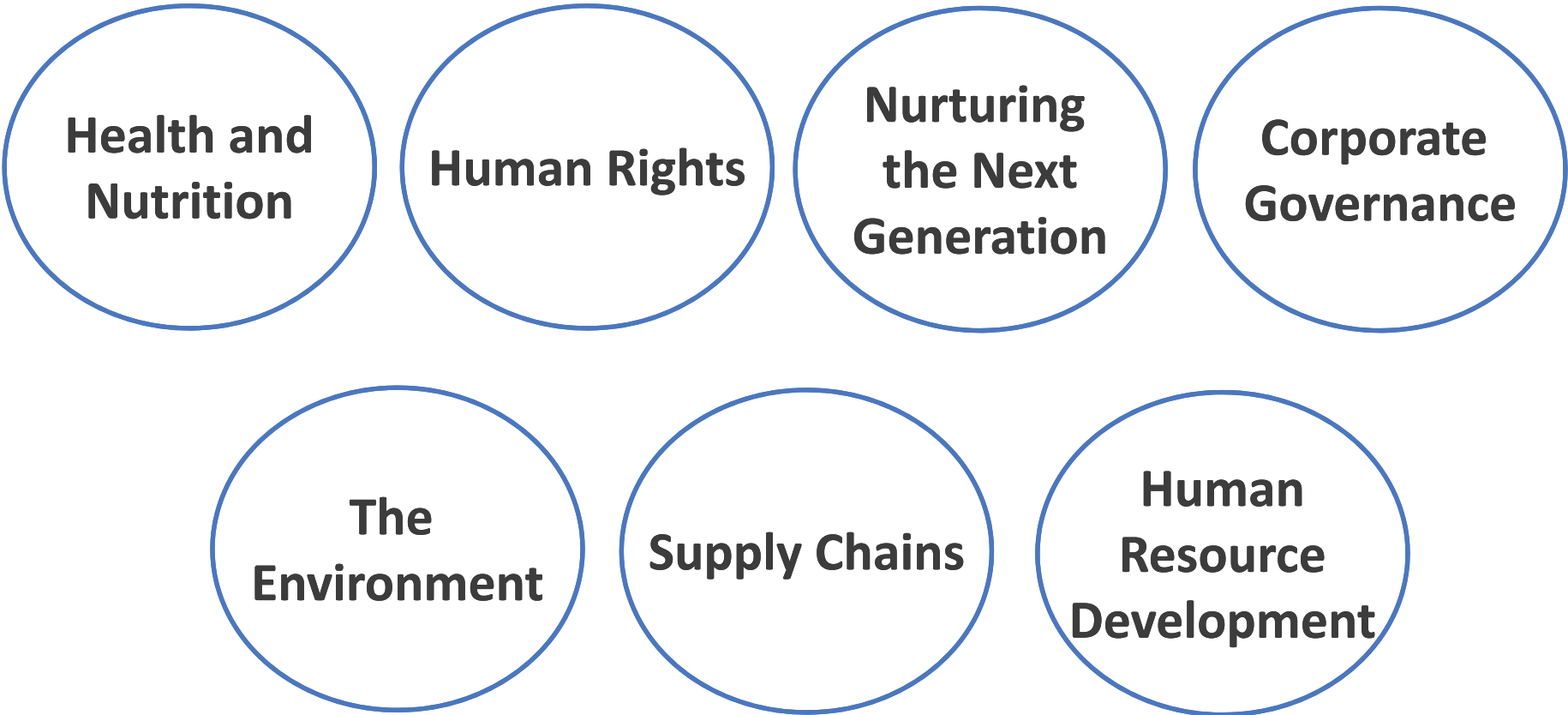


**New Medium Term Business Plan aims to cut losses in half during the period and return to profitability in six years**

## Policy 2: Performing Business with an ESG-focus (Priority Issues)



**Establish Seven Priority Issues**  
**Set KPI for all Priority Issues and aim to achieve them**



# Policy 2: Performing Business with an ESG-focus (Themes)



## ◆ Health and Nutrition We offer health and nutrition by developing and selling products that combine functionality and good taste “for ever brighter smiles.”

### ● Provide health and nutrition to all generations

- Contribute to the extension of healthy lifespans
  - Research and development of nutritious and functional ingredients (bifidobacteria, peptides, proteins, lactoferrins, and others), provision of products and services, and sharing of information
- Contributing to the healthy growth of babies and infants
  - Contributing to the enhanced nutrition of babies and infants with high-quality infant milk and infant food
  - Supporting low-birth-weight infants and infants with inborn metabolism errors

## ◆ The Environment Manufacturing safe and reliable products while striving to reduce energy use and cut waste and helping to create a sustainable society

- Expand environmental activities, which had been centered on the production division, to all consolidated companies and all divisions
- Consider environmental impact of supply chain overall from procurement of raw materials to disposal
- Make further reductions in environmental load in manufacturing activities
- Promote use of environment-friendly packaging

## ◆ Human Rights Carry out business activities that consider human rights, respect diversity, and create an environment in which all people can perform to their full potential

- Identify human rights issues and devise countermeasures in dialogue with NPOs, NGOs and experts
- Identify cases of human rights infringement
- Identify ingredients and suppliers that affect Company management
- Respond to the Group’s foreign workers (including those working for cooperating companies)
- Promote diversity and inclusion

## Policy 2: Performing Business with an ESG-focus (Themes)



### ◆ **Supply Chains** We procure raw materials and manufacture products with an emphasis on safety and reliability, and consistently provide high-quality products.

- Efficient supply chain management tailored to material risks
- Build a system to supply safe and high-quality products
- Stable supply by strengthening the management system for environmental and human rights risks

### ◆ **Nurturing the Next Generation** We support the healthy growth of children who will contribute to creating a sustainable society.

- Provide a place to learn about food culture and nutrition in order to acquire the basic skills to live a healthy and enjoyable lifestyle
- Provide a place to learn about the gifts of nature and the techniques and research that utilize them

### ◆ **Human Resource Development** We will focus on developing human resources who can achieve “For Ever Brighter Smiles.”

- Encourage independent growth of individual employees by promoting diversity
- Develop human resources who can perform in a global business environment
- Ensure the health of employees with an approach that emphasizes both physical and mental aspects

### ◆ **Corporate Governance** We will continue to work on establishing and augmenting a highly effective governance system to achieve sustainable growth and improve corporate value.

- Transparent, equitable, prompt and bold decision-making based on diverse values in board of directors meetings
- Strengthen the management system

**Set KPI for each initiative  
Implement PDCA while communicating with stakeholders**



## Policy 2: Performing Business with an ESG-focus (Main KPIs)



Priority Issues	Direction of thoughts and activities	Main KPI
Health and Nutrition	Contributions to the extension of healthy lifespans	Bring products incorporating nutritious functional ingredients onto the market
Health and Nutrition	Contribute to the healthy growth of babies and infants	Provide bifidobacterium breve (M-16V); continue to provide in over 120 facilities in Japan and overseas
The Environment	Expand environmental activities, which had been centered on production divisions, to all consolidated companies and all divisions	Offices with ISO 14001 certification: Ensure that all offices of consolidated companies have earned this certification by 2030
The Environment	Promote use of environment-friendly packaging	Weight of plastic packaging covered by the Containers and Packaging Recycling Law: Down 10% over 2013
Human Rights	Identify ingredients and suppliers that affect Company management	Create a list of important suppliers
Human Rights	Address issue of foreign employees of Group (including cooperating companies)	Set up a working environment for the Group's foreign employees
Supply Chains	Efficient supplier management corresponding to materials risk	Strengthen mechanism for evaluating supplier management level depending on materials risk
Supply Chains	Create a system for providing safe and high-quality products	Acquire FSSC22000 at all of the Group's 29 plants in fiscal year 2020
Nurturing the Next Generation	Provide a place to learn about food culture and nutrition in order acquire the basic skills to live a healthy and enjoyable lifestyles, and provide a place to learn about the gifts of nature and the techniques and research that utilize them	Total participants over three-year period starting in 2019: 300,000
Nurturing the Next Generation	Establish an environment in which the next generation can be raised	Provide ongoing consultation on infants with the Angel 110 hotline; handle calls from 1 million people in fiscal 2020
Human Resource Development	Raise human resources who can perform in a global business environment	Pursue a program for training global human resources
Human Resource Development	Encourage the independent growth of each individual employee by pursuing diversity	Provide ongoing training for female leaders, training to encourage balance between work and childcare, and pre-management training; HR department will carry out interviews of young employees
Corporate Governance	Transparent, equitable, prompt and bold decision-making based on diverse values in board of directors meetings	Evaluation scores and comments in evaluation of board of directors (diversity of board of directors, substance of discussions)
Corporate Governance	Strengthen management system	Augment regular committees (Personnel Remuneration Committee, Internal Control System Committee, CSR Committee)

## Policy 3: Further Strengthening Our Business Base



### Strengthen management foundation through initiatives linking the long-term vision and management guidelines

<b>1. Corporate Brand</b>	Achieve the corporate communication theme of “Partnering Together for Life for a Health Body and Mind”
<b>2. Human Resource Development</b>	Address rapid decline in working population, improve Group’s management control level
<b>3. Capital Investment</b>	Set up the new bacteria plant, increase production capacity for lactoferrin; improve efficiency and make investments for streamlining after production is suspended at Kinki and Tokyo Plants
<b>4. Research &amp; Development</b>	Promote R&D in priority areas, allocate resources in optimal way, strengthen development capacity; clarify research issues addressing changes in external environment
<b>5. Capital, Interest-bearing Debt</b>	Secure financing in anticipation of large-scale investments in the future (capital investments, M&A), sell assets, bring DER to 0.5 or lower
<b>6. Capital Policy</b>	Generate 100 billion yen in operating cash flow over three years; allocate to “growth investments,” “financial stability,” and “shareholder returns”

## Policy 3: Further Strengthening Our Business Base

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### 1. Corporate Brand

- **Shift from multi-brand strategy to strategy aimed at strengthening the corporate brand**

Initiatives bringing out Morinaga Milk's uniqueness, allocation of resources to each function



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### 2. Human Resource Development

- **Secure human resources**

Broaden hiring practices to include mid-career hiring, an arrangement for a rehiring former employees, and hiring of foreign workers

Create an environment that makes it easier for the elderly and those returning from childcare leave to work, and provide an environment in which everyone can perform

- **Optimal employee assignment and retention in Group overall**

Streamline with use of AI and the IoT, reduced manpower and introduction of robots in plants, review and outsource operations, and carry out IT reforms

# Policy 3: Further Strengthening Our Business Base



## 3. Capital Investment

- **Active investment in growth areas (see Slide 42)**  
 Augment of bacteria production line: Morinaga-Hokuriku Milk Industry Co., Ltd.  
 Develop new pouch containers: Tohoku Morinaga Milk Industry Co., Ltd.
- **Continue to review domestic production system**  
 Aim to optimize domestic production system even after suspending production at Kinki Plant and Tokyo Plant, as decided during the previous Medium Term Business Plan, and consider eliminating and consolidating plants

Cumulative impact on operating income (compared to FYE March 2018: billion yen)	FYE March 2019	FYE March 2020 (plan)	FYE March 2021 (plan)	FYE March 2022 (plan)
	-0.3	-1.3	+1.0	+2.5

Costs increased temporarily for a second fiscal year, but major effects of streamlining, such as a reduction in fixed costs and greater efficiency in manufacturing, are factored into plans for FYE March 2021 and beyond

## 4. Research & Development

- **Pursue R&D in priority areas and allocate resources optimally**  
 Pursue health and nutrition research for all generations and take up challenge of addressing social issues  
 Pursue research into bifidobacteria, intestinal flora, and brain-gut interaction
- **Realize “For Ever Brighter Smiles” through R&D**  
 Go even further in pursuing deliciousness and fun  
 Train research staff and groom them for succession

# Policy 3: Further Strengthening Our Business Base



## 5. Capital, Interest-bearing debt

- Improve asset efficiency by maximizing value of head office building assets and promoting sale of idle assets

Sale of 50.1% of equity (beneficial interest in trust) in Morinaga Plaza Building

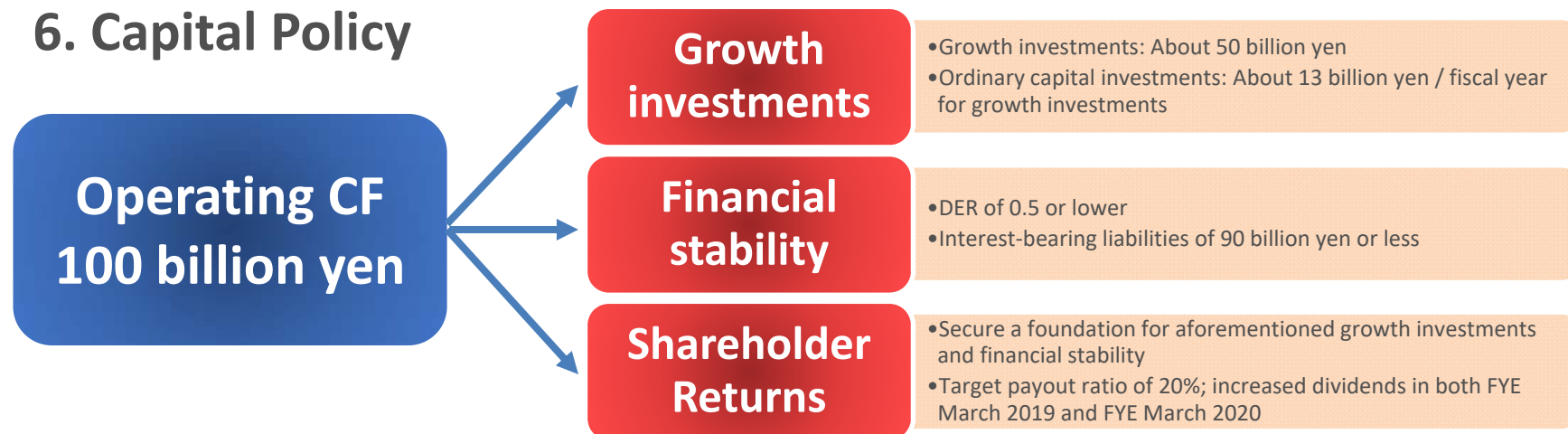
(Timely disclosure on April 11, 2019)

→ Extraordinary income increased by 7 billion yen (FYE March 2020)

- Return interest-bearing liabilities, secure funding capacity

	FYE March 2017	FYE March 2018	FYE March 2019	FYE March 2020 (plan)	FYE March 2022 (plan)
Interest-bearing debt (billion yen)	88.2	88.6	105.5	100.0	90.0
DER (times)	0.62	0.56	0.63	0.54	0.42

## 6. Capital Policy



# Sales and Operating Income by Business Segment



(Unit: billion yen)

Net Sales	FYE March 2019	FYE March 2020 (Forecast)	FYE March 2022 (Plan)	Differences between FYE March 2019: Increases/Decreases	Differences between FYE March 2019: Rate of increase/decrease
B-to-C Business*	303.8	310.0	333.0	+29.2	+9.6%
Wellness Business*	56.0	56.5	61.0	+5.0	+8.9%
B-to-B Business	96.9	97.5	101.0	+4.1	+4.2%
Overseas Business	28.9	34.5	45.0	+16.1	+55.5%
Other / Deleted	97.9	94.5	90.0	-7.9	-8.1%
<b>Total</b>	<b>583.6</b>	<b>593.0</b>	<b>630.0</b>	<b>+46.4</b>	<b>+8.0%</b>

Operating Income	FYE March 2019	FYE March 2020 (Forecast)	FYE March 2022 (Plan)	Differences between FYE March 2019: Increases/Decreases	Differences between FYE March 2019: Rate of increase/decrease
B-to-C Business*	10.4	11.0	15.2	+4.8	+46.4%
Wellness Business*	3.2	3.0	4.2	+1.0	+30.8%
B-to-B Business	5.8	6.1	7.1	+1.3	+21.5%
Overseas Business	1.6	1.9	3.5	+1.9	+124.1%
Other / Deleted	1.3	1.0	0	-1.3	--.-%
<b>Total</b>	<b>22.3</b>	<b>23.0</b>	<b>30.0</b>	<b>+7.7</b>	<b>+34.3%</b>

\* Adjust figures for FYE March 2019 to figures after move to move targeted products between B-to-C business and Wellness business (former Health and Nutrition business)



# Target Net Sales by Product Field in B-to-C Business (Non-consolidated)



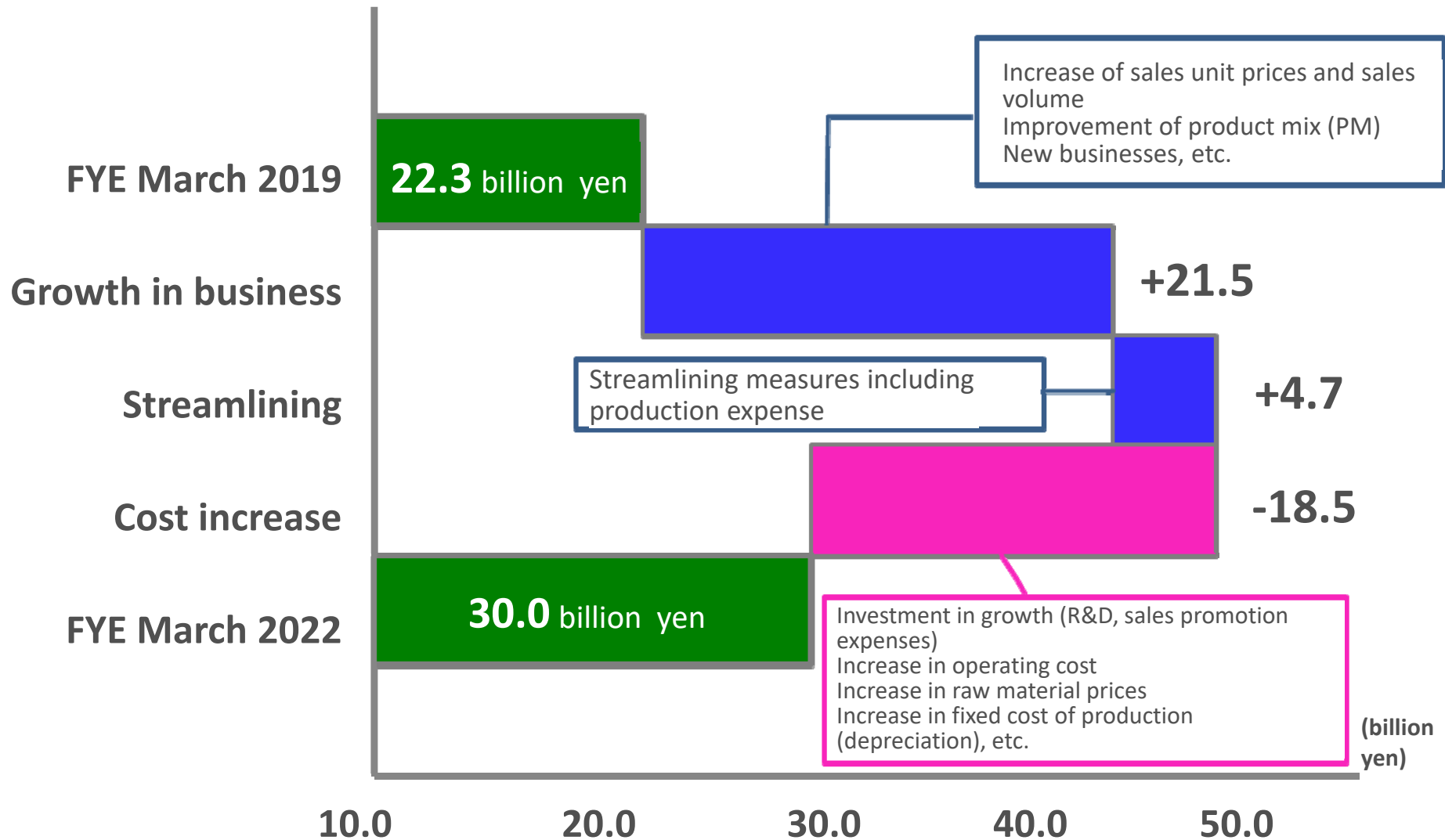
(Unit: billion yen)

	FYE March 2019	FYE March 2022 (Plan)	Sales growth rate
<b>Beverages*</b>	67.2	<b>70.0</b>	+4%
<b>Yogurt</b>	51.0	<b>65.0</b>	+27%
<b>Ice cream</b>	45.2	<b>52.0</b>	+15%
<b>Cheese</b>	33.3	<b>35.0</b>	+5%
<b>Milk</b>	52.9	<b>52.0</b>	-2%
<b>Chilled desserts</b>	11.0	<b>11.0</b>	±0%
<b>Commercial milk (Home deliveries, etc.)</b>	21.4	<b>23.0</b>	+8%
<b>Total for main brands*</b>	120.6	<b>142.0</b>	+18%

\* Beverages: Drinks overall, including chilled-cup drinks and chilled tea

\* Total for main brands: Total for the eight brands of Mt. RAINIER CAFFÈ LATTE, Bifidus Yogurt, Morinaga Aloe Yogurt, Partheno, PARM, Pino, MOW, Fresh Mozzarella Cheese

# Factors Attributable to Increases and Decreases in Operating Income





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## Cautionary Note Regarding Business Forecasts

Figures for plans, policies, and other figures included in this report other than actual past results are forecasts of future business performance, and are calculated based on management's estimates and understanding of the information available to the Company at the time this presentation was prepared.

Accordingly, these forward-looking figures contain elements of risk and uncertainty, and actual results may differ from these forecasts for a variety of reasons. These elements of potential risk and uncertainty include economic conditions in the Company's major markets, trends in demand for the Company's products, exchange rate movements, and regulatory changes and changes in accounting standards and business practices in Japan and other countries.

Monetary amounts in this presentation are shown in billions of yen, with amounts of less than 0.1 billion yen rounded to the nearest 0.1 billion yen, and as a result, total figures may differ from the sum of the corresponding breakdown figures.