

# Financial Results Presentation

- for the First Half of the Fiscal Year ended March 31, 2014



November 2013

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

# 1. Overview of 1H of FYE March 2014 Financial Results

## 2. FYE March 2014 Full-Year Business Forecasts

### 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 condition 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.

# 1. Overview of 1H of FYE March 2014 Financial Results

# Financial Results for 1H of FYE March 2014



(Unit: billion yen)

	1H of FYE March 2013	1H of FYE March 2014	Year on Year Change	Year on Year (%)
<b>Net Sales</b>	<b>317.1</b>	<b>320.9</b>	<b>3.8</b>	<b>1.2%</b>
<b>Operating Income</b>	<b>9.6</b>	<b>9.6</b>	<b>0.0</b>	<b>0.2%</b>
<b>Ordinary Income</b>	<b>9.8</b>	<b>10.1</b>	<b>0.3</b>	<b>3.1%</b>
<b>Net Income</b>	<b>5.2</b>	<b>4.8</b>	<b>-0.4</b>	<b>-7.4%</b>
<b>ROS</b> (Ordinary Income / Net Sales)	<b>3.1%</b>	<b>3.2%</b>		

- Sales by consolidated subsidiaries up, complementing higher sales of yogurt and food service & institutional food products
- Against backdrop of rising raw material prices and other factors that created a difficult operating environment, the Company emphasized low-cost operations, particularly steps to streamline production expenses, and reduced sales promotion expenses. Achieved higher ordinary income
- Quarterly net income on track with initial expectations. Booked impairment loss on plant integration, as planned, under extraordinary loss

# Sales by Product Group and Major Product (Non-Consolidated)



Areas to be Strengthened and Developed	Net Sales (Billion yen)	Year on Year (%)
Yogurt	28.0	2%
Cheese	20.6	-4%
Chilled cup-type drinks	25.3	1%
Functional food materials & health food	2.7	-3%
<b>Total</b>	<b>76.6</b>	<b>0%</b>

<b>Liquid diet (Clinico)</b>	<b>(14.4)</b>	<b>(1%)</b>
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Note: Liquid diet indicates net sales at Clinico Co., Ltd., which is a consolidated subsidiary of the Company. Food service & institutional food products excludes dairy ingredient products.

Product Group	Product	Year on Year (%)
Yogurt	Bifidus brand	-2%
Chilled cup-type drinks	Mt.Rainier	3%
Milk	Morinaga Oishii Gyunyu Milk	1%

Profit Growth Areas	Net Sales (Billion yen)	Year on Year (%)
Food service & institutional food products	19.7	4%
Ice cream	32.6	-2%
Home deliveries	10.8	-2%
Chilled tea	10.1	-7%
<b>Total</b>	<b>73.2</b>	<b>-1%</b>

Margin Improvement Areas	Net Sales (Billion yen)	Year on Year (%)
Milk	29.0	-1%
Nutritional food products	6.0	-17%
Chilled desserts	10.5	-3%
<b>Total</b>	<b>45.5</b>	<b>-4%</b>

**Total net sales (non-consolidated): 234.6 billion yen, -1% (year on year)**

# Shares of Home-Use Products



Category	Share		
	1H of FYE March 2013	1H of FYE March 2014	Rank
Chilled cup-type coffee	<b>53%</b>	<b>52%</b>	<b>1</b>
Chilled tea beverages	<b>69%</b>	<b>72%</b>	<b>1</b>
Yogurt	<b>13%</b>	<b>12%</b>	<b>2</b>
Chilled desserts	<b>23%</b>	<b>23%</b>	<b>1</b>
Cheese	<b>14%</b>	<b>14%</b>	<b>2</b>
Ice cream	<b>13%</b>	<b>12%</b>	<b>3</b>
Liquid diet	<b>36%</b>	<b>36%</b>	<b>1</b>

Note: Shares of home-use products by monetary amount.

Source: INTAGE Inc. (Share of sales amounts in Apr-Sep 2012 and Apr-Sep 2013). Company estimates for liquid diet only.

# Status of Consolidated Subsidiaries



No. of Consolidated Subsidiaries	Net Sales (Year on Year % Change)
30	4%

Note: Simple sum before consolidated elimination

## Clinico Co., Ltd.

Sales of liquid diet products. Favorable demand for liquid diet products, packaged in our premium aseptic MOAS pouches

## Milei GmbH



German company producing and selling such dairy by-products as lactose and whey. Sales of dairy by-products shifting in favorable direction

## Morinaga Engineering Co., Ltd.

Design and construction of food processing plants. Sales up, owing to completion of large project to install factory equipment

## Morinaga Rakunou Hanbai Inc.

Sales of feed and feed additives to dairy farmers. Selling prices trending high, mainly due to rising cost of imported roughage resulting from weaker yen





## 2.FYE March 2014 Full-Year Business Forecasts

# FYE March 2014 Full-Year Business Forecasts



(Unit: billion yen)

	FYE March 2013	FYE March 2014	Year on Year Change	Year on Year (%)
Net Sales	591.2	598.0	6.8	1.2%
Operating Income	10.2	11.5	1.3	13.1%
Ordinary Income	10.6	12.0	1.4	13.7%
Net Income	5.0	5.1	0.1	1.7%
<b>R O S</b> (Ordinary Income / Net Sales)	1.8%	2.0%		
<b>R O A</b> (Ordinary Income / Total Assets)	2.9%	3.3%		
<b>R O E</b> (Net Income / Equity Capital)	4.4%	4.3%		

# Points of Interest for Second Half



## Sales Forecasts for Areas to be Strengthened and Developed

Areas to be Strengthened and Developed	1H Net Sales	Year on Year (%)	FYE March 2014 Net Sales	Year on Year (%)
Yogurt	26.0	2%	54.0	2%
Cheese	21.6	0%	42.2	-2%
Chilled cup-type drinks	19.2	3%	44.5	2%
Functional ingredients & health food	2.9	5%	5.6	1%
<b>Total</b>	<b>69.7</b>	<b>2%</b>	<b>146.3</b>	<b>1%</b>

(Unit: billion yen)



Lipton Chilled Cup-type Tea

- Expand lineup of No.1 products in each category
- Promote new products that create a market buzz
- Foster year-end demand for commercial whipping cream
- Shore up home-delivery channels
- Enrich lineup of medical foods and foods for nursing care



Dessert Yogurt  
*Doublei*



Greek Yogurt  
*PARTHENO*



New production facility at Urahoro  
Nyugyo Commercial whipping cream



Grated cheese for  
curry



*Yawaraka-tei*  
for nursing care



Shore up home-delivery channels



Products jointly developed with  
female high school students

# Points of Interest for Second Half



## ● New products featuring health and functional qualities

Using the catchphrase "Boost immunity," develop home-delivery channels for yogurt containing lactobacillus selected from several thousands of strains of bacteria cultivated by the Company



Karada tsuyokusuru yogurt  
Lactoferrin and BB536



Directly marketed product  
Lactoferrin Original Type

Lactoferrin Product Group



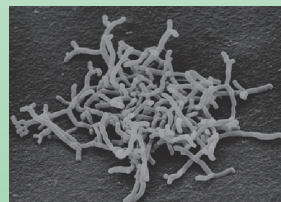
November 5, 2013  
Norovirus Prevention Seminar

## ● Additional R&D on Functional Ingredients

Lactoferrin: Protects against noroviruses  
Bifidobacterium longum B-3: Decreases amount of body fat  
Aloe: Improves condition of skin



Lactoferrin



Bifidobacterium longum BB536



- Emphasis on new products and mainstay products, such as functional yogurts, which feature health and functional qualities
- Expand B-to-B channels, particularly for lactoferrin and Bifidobacterium longum

## Reorganize domestic production, achieving low-cost operations

- **Plant integration, particularly in the milk business**

Steadily discontinue production, terminating operations at the Sapporo Plant in April, Morinaga-Hokuriku Milk Industry's Fukui Plant (milk business) in August, and Shimizu Milk Industry in September

- **Improve raw material handling and yields**

Absorb rising cost of raw materials through resourceful approaches, including a review of procurement methods. Eliminate wasteful manufacturing processes

- **Streamline sales promotion expenses**

To absorb rising cost of raw materials (3.6 billion yen / year) and rising cost of raw material milk (1.2 billion yen / year), streamline sales promotion expenses more effectively (utilization efficiency up 600 million yen / year over initial plan)

- **Widespread price revisions for dairy products**

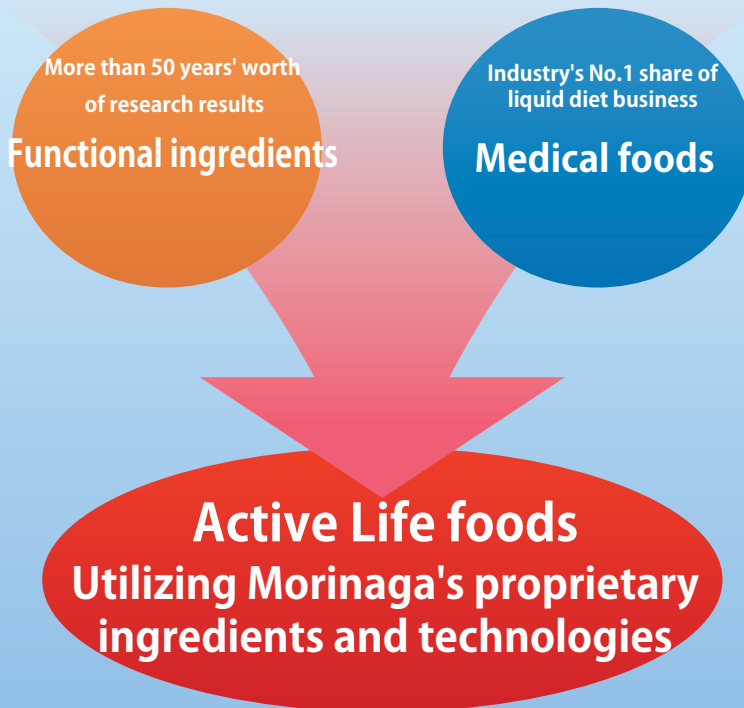
The Company revised B-to-B prices in October (increases of between 1%-4%)

# Key Initiatives: Cultivate Products That Are No.1 in Their Respective Categories and Apply Process of Selection and Concentration



## Create new markets, strengthen brands

Develop and expand Active Life foods lineup



Promote products in fye March 2015 and develop them into a series

## Concentrate management resources in areas to be strengthened and developed

### ● Invest in growing markets

Upgrades to facilities for Bifidobacterium powder, which is enjoying brisk demand, started ahead of schedule at Morinaga-Hokuriku Milk Industry's Fukui Plant

### ● Review of Milei's production structure

Invest management resources, including funds for facilities and equipment, with an eye toward balanced supply and demand for dairy by-products over the medium to long term

### ● Concentrate investment in human resources and enrich inherent capabilities

Increase staffing in Functional Ingredients Business and International Business

Reinforce activities in the Whey Research Laboratory, which makes and develops high-value-added whey products, and the International Nutritional Foods Research Laboratory, which pursues research into nutritional foods for overseas markets

## Expand into growth markets and strengthen raw material procurement base

- **Brisk export business**

Expand sales, with an emphasis on infant formula in Asia, particularly Pakistan, and lactoferrin for customers in Indonesia

- **Promote collaboration with China's Want Want Group**

Promote collaboration utilizing technological expertise in the development and production of yogurt and chilled desserts

- **Expand joint venture business (infant formula) in Indonesia**

Market continues to grow and domestic sales are favorable. Considering ramping up production to meet demand

- **Expand presence in Bifidobacterium powder market**

Aggressively raise market profile in Europe, the United States and Asia

- **Secure and develop human resources**

Cultivate global talent through local assignments and short-term study exchanges overseas

- **Secure stable supply of dairy by-products from Milei GmbH**

Establish supply base for dairy ingredients in Europe

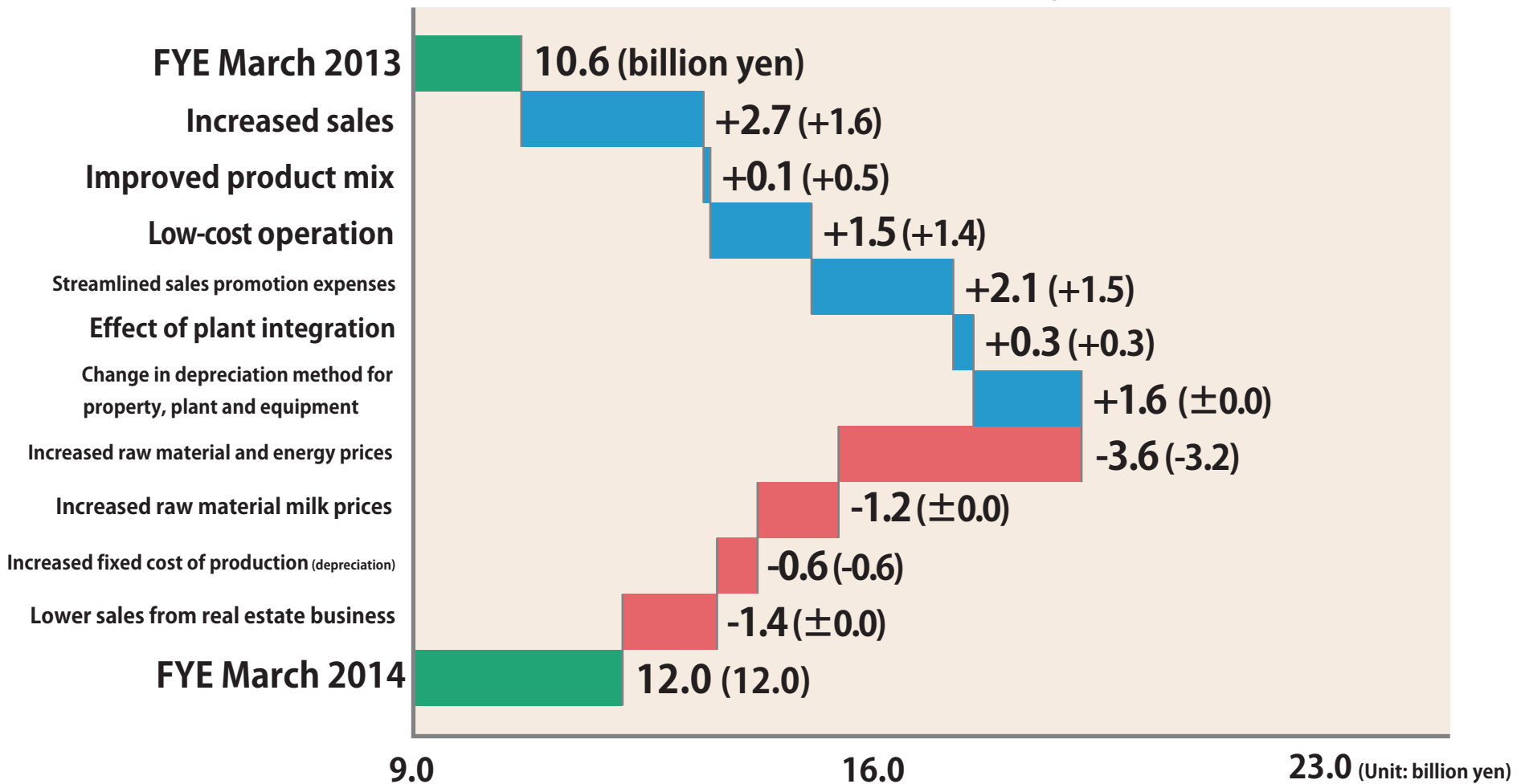


Milei GmbH of Germany

# Change in Consolidated Ordinary Income (Forecast)



Figures in parentheses are initial forecasts







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