

# Financial Results Presentation

- for the Fiscal Year ended March 31, 2014 -



May 2014

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

# 1. Overview of FYE March 2014 Financial Results

## 2. FYE March 2015 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 FYE March 2014 Financial Results

# Financial Results for FYE March 2014



(Unit: billion yen)

	FYE March 2013	FYE March 2014	Year on Year Change	Year on Year (%)
Net Sales	591.2	599.3	8.1	1.4%
Operating Income	10.2	12.0	1.8	17.9%
Ordinary Income	10.6	12.4	1.8	17.5%
Net Income	5.0	4.8	-0.2	-3.5%
<b>ROS</b> (Ordinary Income / Net Sales)	1.8%	2.1%		
<b>ROA</b> (Ordinary Income / Total Assets)	2.9%	3.4%		
<b>ROE</b> Net Income / Equity Capital)	4.4%	4.1%		

- Sales were up, reflecting increases in such product groups as chilled cup-type drinks and food service & institutional food products as well as a solid contribution from consolidated subsidiaries
- Against backdrop of rising raw material prices and raw material milk prices and other factors that created a difficult operating environment, the Company emphasized low-cost operations, with a focus on streamlined production expenses, and reduced sales promotion expenses. Achieved higher ordinary income
- Booked impairment loss due to plant integration designed to achieve more efficient production structure. Also booked extraordinary loss, largely due to plant restructuring expenses

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



Areas to be Strengthened and Developed	Net Sales (Billion yen)	Year on Year (%)
Yogurt	52.6	-1%
Cheese	42.4	-1%
Chilled cup-type drinks	44.4	2%
Functional food materials & health food	5.7	3%
<b>Total</b>	<b>145.0</b>	<b>0%</b>

Liquid diet (Clinico)	(29.0)	(2%)
Overseas Business (Consolidated)	(25.7)	(36%)

Product Group	Product	Year on Year (%)
Yogurt	Bifidus brand	-4%
Chilled cup-type drinks	Mt.Rainier	4%
Milk	Morinaga Oishii Gyunyu Milk	-3%

Profit Growth Areas	Net Sales (Billion yen)	Year on Year (%)
Food service & institutional food products	41.6	4%
Ice cream	51.0	0%
Home deliveries	20.7	-2%
Chilled tea	18.4	-9%
<b>Total</b>	<b>131.7</b>	<b>-1%</b>

Margin Improvement Areas	Net Sales (Billion yen)	Year on Year (%)
Milk	56.0	0%
Nutritional food products	12.6	-6%
Chilled desserts	19.8	-3%
<b>Total</b>	<b>88.5</b>	<b>-2%</b>

Note: Liquid diet indicates net sales at Clinico Co., Ltd., which is a consolidated subsidiary of the Company.

# Shares of Home-Use Products



Category	Share		
	FYE March 2013	FYE March 2014	Rank
Chilled cup-type coffee	<b>53%</b>	<b>52%</b>	<b>1</b>
Chilled tea beverages	<b>71%</b>	<b>70%</b>	<b>1</b>
Yogurt	<b>13%</b>	<b>12%</b>	<b>2</b>
Chilled desserts	<b>25%</b>	<b>24%</b>	<b>1</b>
Cheese	<b>14%</b>	<b>13%</b>	<b>3</b>
Ice cream	<b>13%</b>	<b>13%</b>	<b>2</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 2012–Mar 2013 and Apr 2013–Mar 2014). Company estimates for liquid diet only.

# Status of Consolidated Subsidiaries



Category	Net Sales (billion yen)	Year on Year (%)	No. of Companies	Major Subsidiaries
Production & production sales	112.8	4%	13	Yokohama Milk Industry MK Cheese
Sales	130.9	0%	4	Daily Foods Hokkaido Morinaga Industry Sales
Other	134.6	8%	13	Clinico Milei
Total	378.3	4%	30	

Note: Totals are simple sums





## 2. FYE March 2015 Business Forecasts

# Issues Requiring Attention in FYE March 2015



**Further rises in raw material costs and a changing consumer environment mainly due to consumption tax increase**

**Rising raw material prices**  
**-5.0 billion yen**

**Higher consumption tax**  
(reduced disposable income)

**Revised raw material milk prices**  
**-2.8 billion yen**  
for drinking(-1.0 billion yen)  
for processing, such as cheese  
(-1.8 billion yen)

**Implement revised product pricing**

**Improve raw material handling**

**Streamline sales promotion expenses**

**Low-cost operation**

**Expand sales through introduction of new products**

# Addressing Higher Cost of Raw Materials and Raw Material Milk



- **Implement revised product pricing and volume changes**

Dairy products : from October 2013

Home-use cheese : from March 2014

Consider and apply price revisions in other product groups, irrespective of end users (consumers or food service & institutional customers)

- **Cut costs by improving raw material handling**

Expand procured ingredient production districts and base of suppliers

Change in packaging containers

Reduce procurement logistics costs

- **Streamline sales promotion expenses**

Narrow scope of product introductions and target areas and then concentrate efforts on these products in selected areas

Implement effective campaign strategies

Review standardized product pricing structure

# Sales Targets in Areas to be Strengthened and Developed and Profit Growth Areas (Non-consolidated)



(Unit: billion yen)

	FYE March 2014	FYE March 2015	Year on Year Change	Year on Year (%)
Yogurt	52.6	53.7	1.1	2%
Cheese	42.4	43.5	1.1	3%
Chilled cup-type drinks	44.4	46.0	1.6	4%
Functional food materials & health food	5.7	6.0	0.3	6%
Total in areas to be Strengthened and Developed	145.0	149.2	4.2	3%
Liquid diet (Clinico)	(29.0)	(31.0)	(2.0)	(7%)
Overseas Business (Consolidated)	(25.7)	(26.2)	(0.5)	(2%)
Food service & institutional food products	41.6	42.5	0.9	2%
Ice cream	51.0	52.5	1.5	3%
Home deliveries	20.7	20.5	-0.2	-1%
Chilled tea	18.4	18.6	0.2	1%
Total in Profit Growth Areas	131.7	134.1	2.4	2%



Bi Kapureze, a Caprese salad recipe developed with another company



Mt. Rainier enjoys No. 1 share of market



Shore up home-delivery channels

Note: Liquid diet indicates net sales at Clinico Co., Ltd., which is a consolidated subsidiary of the Company.

- Expand lineup of No. 1 products in each categories
- Regain share in the yogurt and cheese markets and expand sales
- Propose collaborative activities with other companies



Urahoro Nyugyo commercial whipping cream

Yogurt Promoting product reintroductions and new products



# Meeting New Market Needs



**Greek yogurt *PARTHENO***  
Sales area expansion From Tokyo area  
only to three major metropolitan regions



**Product promotion for the fast-growing drinkable yogurt market**



**Favorable sales of drinks in convenient single-serving size  
DreamCap 330ml containers**

# Enhancing Access to Information on Functional Ingredients



## Highlight functional qualities on website

The screenshot displays the Morinaga website's research section. At the top, there is a navigation bar with links for 'Bifidobacterium Research', 'Bifidobacterium Strains', 'Bifidobacterium Production', 'Bifidobacterium BB536', 'Bifidobacterium Research Center', and 'Research Results'. The main content area features a large blue banner for 'Bifidobacterium Research Institute' with the text 'あなただけのこころ、ビフィズス菌のこころより理解してもらって、お腹の中から健康をサポートします。' Below this, there is a section titled 'NEW! ビフィズス菌BB536を含むヨーグルトの少量での整腸作用' (Small amount of intestinal regulation effect of yogurt containing Bifidobacterium BB536). A sub-section highlights 'まずは知ってほしい ビフィズス菌BB536の6つのポイント' (6 points to know about Bifidobacterium BB536). The lower part of the page features a colorful illustration of a woman and children, with the text '森永乳業 Presents ラクトフェリンとノロウイルスについて知ろう。' (Let's learn about Lactoferrin and Norovirus). Below the illustration are three circular icons: 'モラック乳酸菌について' (About Morak Lactobacillus), 'からだを守るしくみ' (How the body is protected), and '腸内細菌について' (About Gut Bacteria).

## Enhance access to information through media

The screenshot shows a Japanese newspaper article from Yomiuri Shimbun. The main headline is 'インフルエンザ感染軽減' (Reduction of Influenza Infection) and 'モラック 森永乳業、東大と確認' (Morak, Morinaga Milk Industry, Confirmed with University of Tokyo). The article features a large illustration of a young girl in a red dress, with text bubbles and a bar chart. The text discusses the benefits of Lactoferrin, particularly in relation to norovirus and influenza. A sub-headline reads '昨日「インフルエンザ」の予防薬として話題となった「ラクトフェリン」に注目!!' (Attention to 'Lactoferrin' which became a hot topic as a flu prevention drug yesterday!!). The article also mentions 'ちびまる子ちゃん' (Chibi Maruko-chan) and 'さくらももこデビュー30周年記念原著作まつり' (Sakuramomoko 30th Anniversary Original Work Festival). The bottom of the page features a large banner for 'ビフィズス菌 海外開く' (Bifidobacterium Overseas Expansion) with the text 'フォーカス 森永乳業① 技術力で原料拡張狙う' (Focus: Morinaga Milk Industry ① Aiming for raw material expansion with technology).

Source: Yomiuri Shimbun national morning edition, April 17, 2014

Source: Fuji Sankei Business i, May 8, 2013

Source: Nikkan Kogyo Shimbun, March 28, 2014

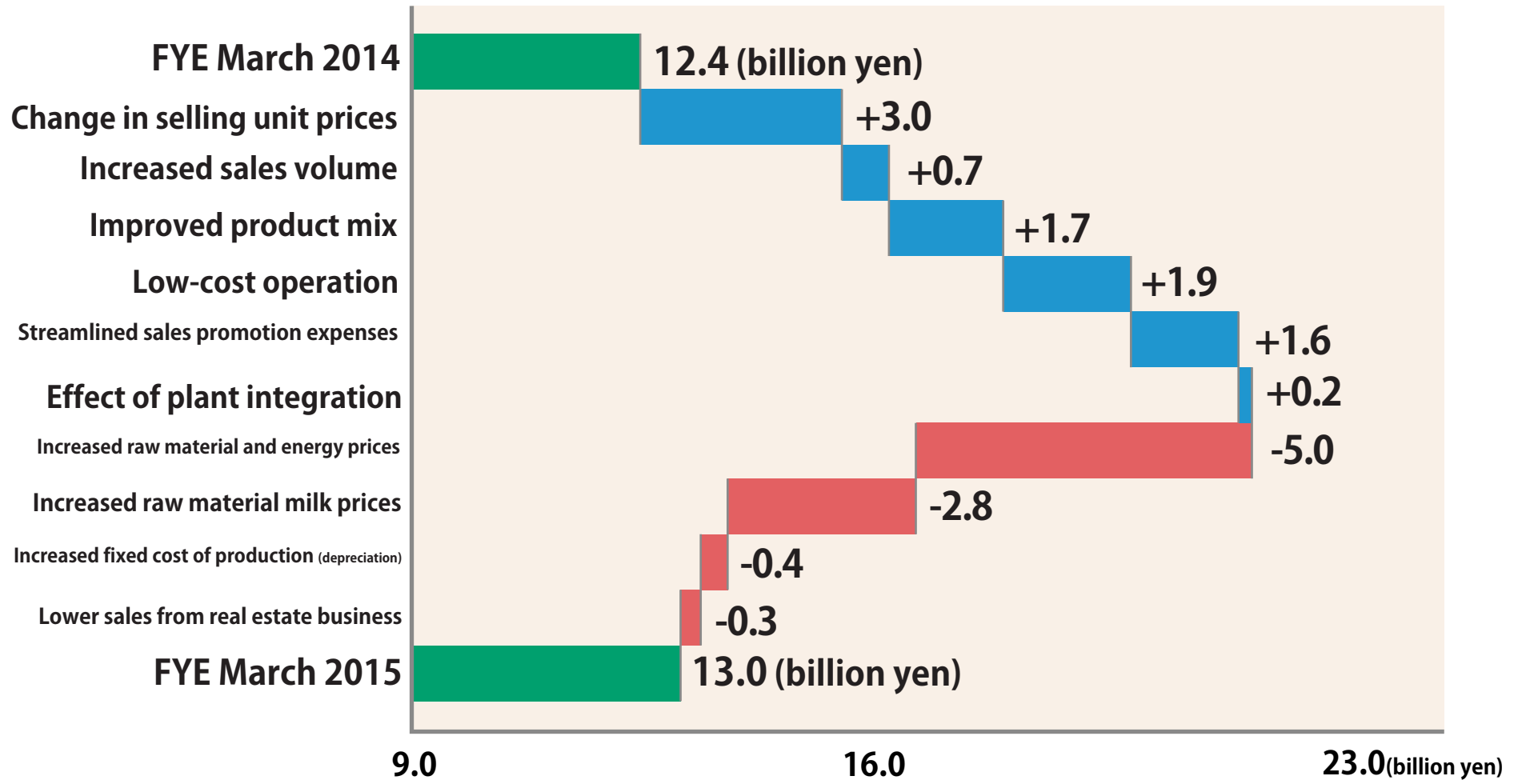
# FYE March 2015 Business Forecasts



(Unit: billion yen)

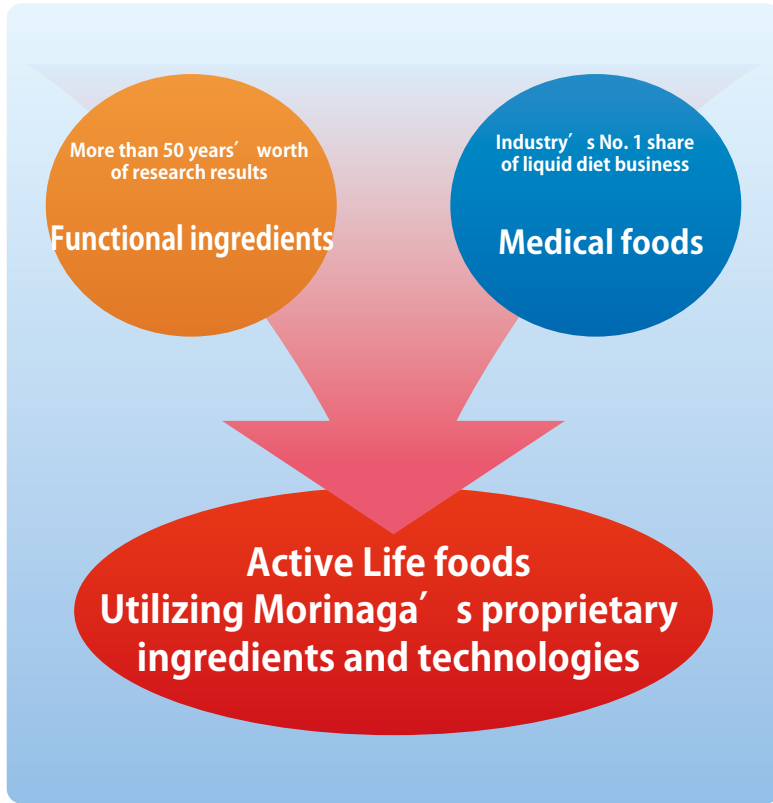
	FYE March 2014	FYE March 2015	Year on Year Change	Year on Year (%)
Net Sales	599.3	605.0	5.7	1.0%
Operating Income	12.0	12.6	0.6	5.2%
Ordinary Income	12.4	13.0	0.6	4.9%
Net Income	4.8	6.0	1.2	24.0%
RO S (Ordinary Income / Net Sales)	2.1%	2.1%		
RO A (Ordinary Income / Total Assets)	3.4%	3.4%		
RO E (Net Income / Equity Capital)	4.1%	4.8%		

# Change in Consolidated Ordinary Income (Forecast)





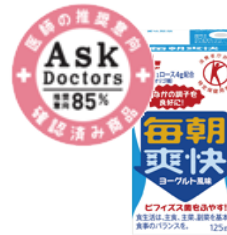
# Expanding Active Life Foods Lineup



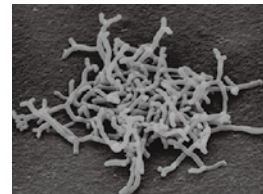
Mouth care product  
*OrabARRIER*



Debuted *PREMIL*, a low-fat milk series for building future healthy bodies, in a new container featuring a reclosable cap



First food product to acquire the Ask Doctors mark indicating status as doctor-approved product



*Bifidobacterium longum BB536*



Lactoferrin



Milk peptide

Promote products utilizing proprietary ingredients and technologies  
Enhance supply capabilities through capital investment at Morinaga-Hokuriku Milk Industry's Fukui Plant

# Expanding Active Life Foods Lineup



Peptide EX, a supplement full of the protein an active body needs



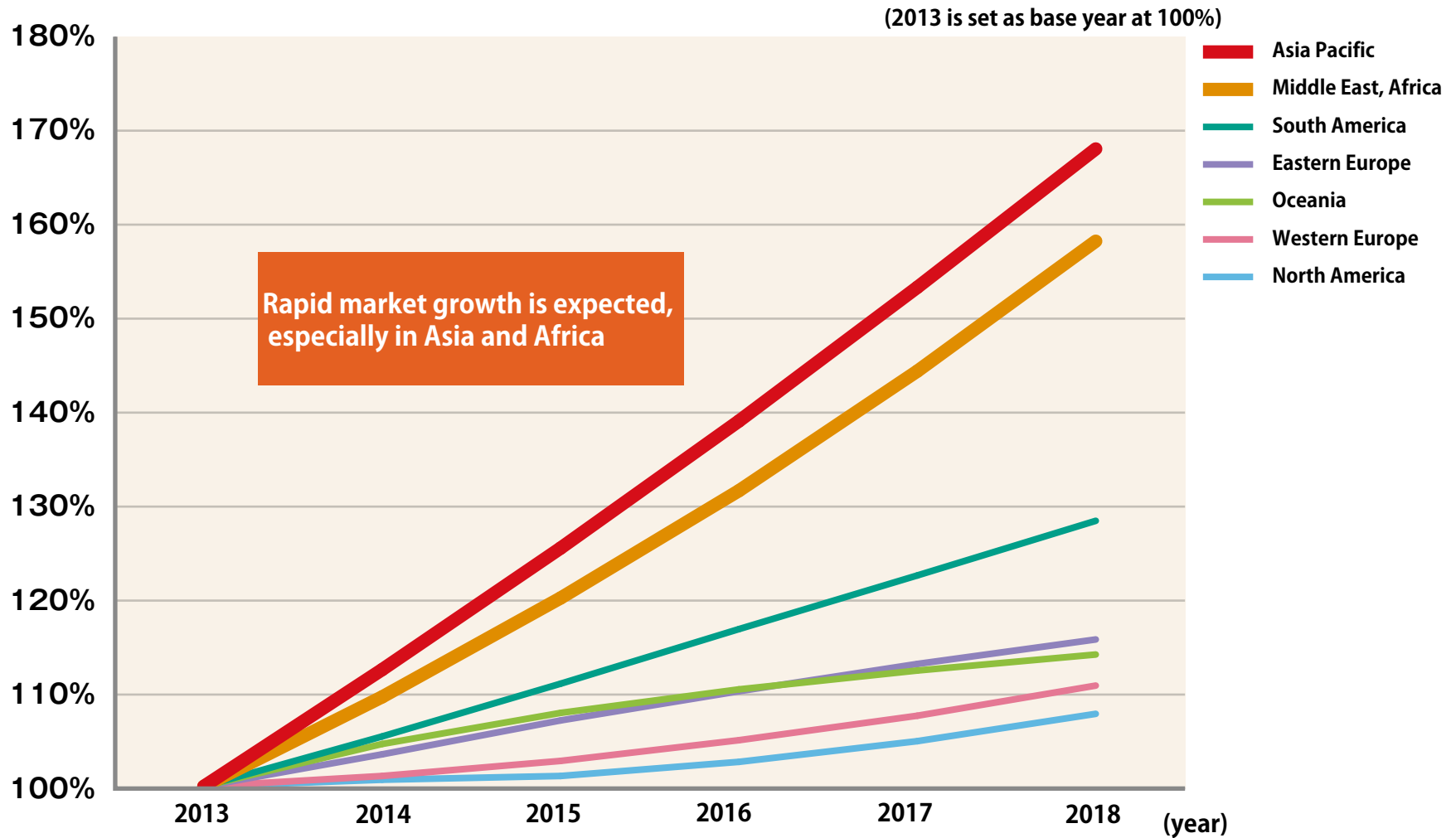
Commercial thickening agent



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

- **Expand production capacity at Milei GmbH**  
Total investment of around 20 billion yen
- **Secure stable supply of dairy by-products from Milei GmbH**  
Establish supply base for dairy ingredients in Europe
- **Brisk export business**  
Expand sales, with an emphasis on infant formula in Asia, particularly Pakistan, and lactoferrin for customers in Indonesia
- **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

# Infant Formula Sales Expectations: Global Market



Data adapted from information provided by Euromonitor International

# Expand Production Capacity at Milei GmbH



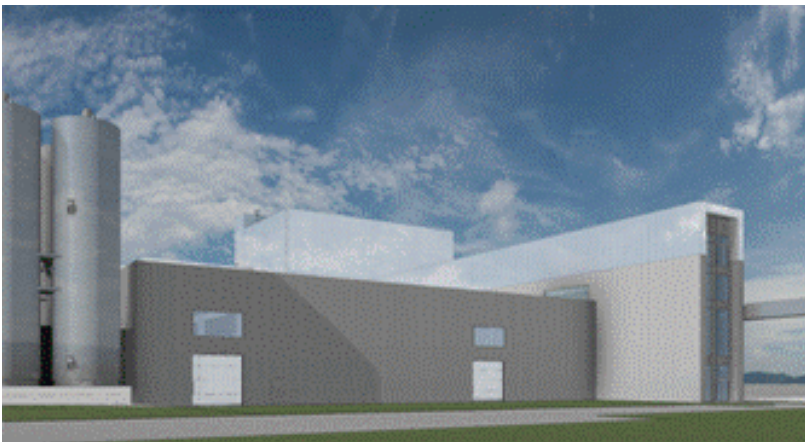
## FYE March 2021 Plan

**Manufacturing volume: 100,000 tons** (up 25% from FYE March 2014)

**Net sales: 190 million euros (approximately 27 billion yen)** (up 50% from FYE March 2014)

**Total investment: 145 million euros (approximately 20 billion yen)**

## Conceptual drawing of Milei GmbH





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