

# **Financial Results Presentation**

**- First Half of the Fiscal Year Ending March 31, 2016 -**

- 1. Overview of 1H of FYE March 2016 Financial Results**
- 2. Outlook of Financial Results for the Year Ending March 2016**

**November 2015**

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

# 1. Overview of 1H of FYE March 2016 Financial Results

# Financial Results for 1H of FYE March 2016



(Unit: billion yen)

	1H of FYE March 2015	1H of FYE March 2016	Year on Year (%)	Year-on-Year Change	Change from initial forecast
Net Sales	<b>315.8</b>	<b>323.3</b>	<b>2.4%</b>	<b>7.5</b>	<b>5.3</b>
Operating Income	<b>5.2</b>	<b>10.1</b>	<b>96.2%</b>	<b>5.0</b>	<b>2.5</b>
Ordinary Income	<b>5.6</b>	<b>10.6</b>	<b>90.3%</b>	<b>5.0</b>	<b>2.6</b>
Profit attributable to owners of parent	<b>3.3</b>	<b>5.7</b>	<b>75.0%</b>	<b>2.5</b>	<b>1.8</b>
ROS (Ordinary Income / Net Sales)	<b>1.8%</b>	<b>3.3%</b>			

# Highlights of the First Half



## **[Ordinary income] Year-on-year change of +5 billion yen**

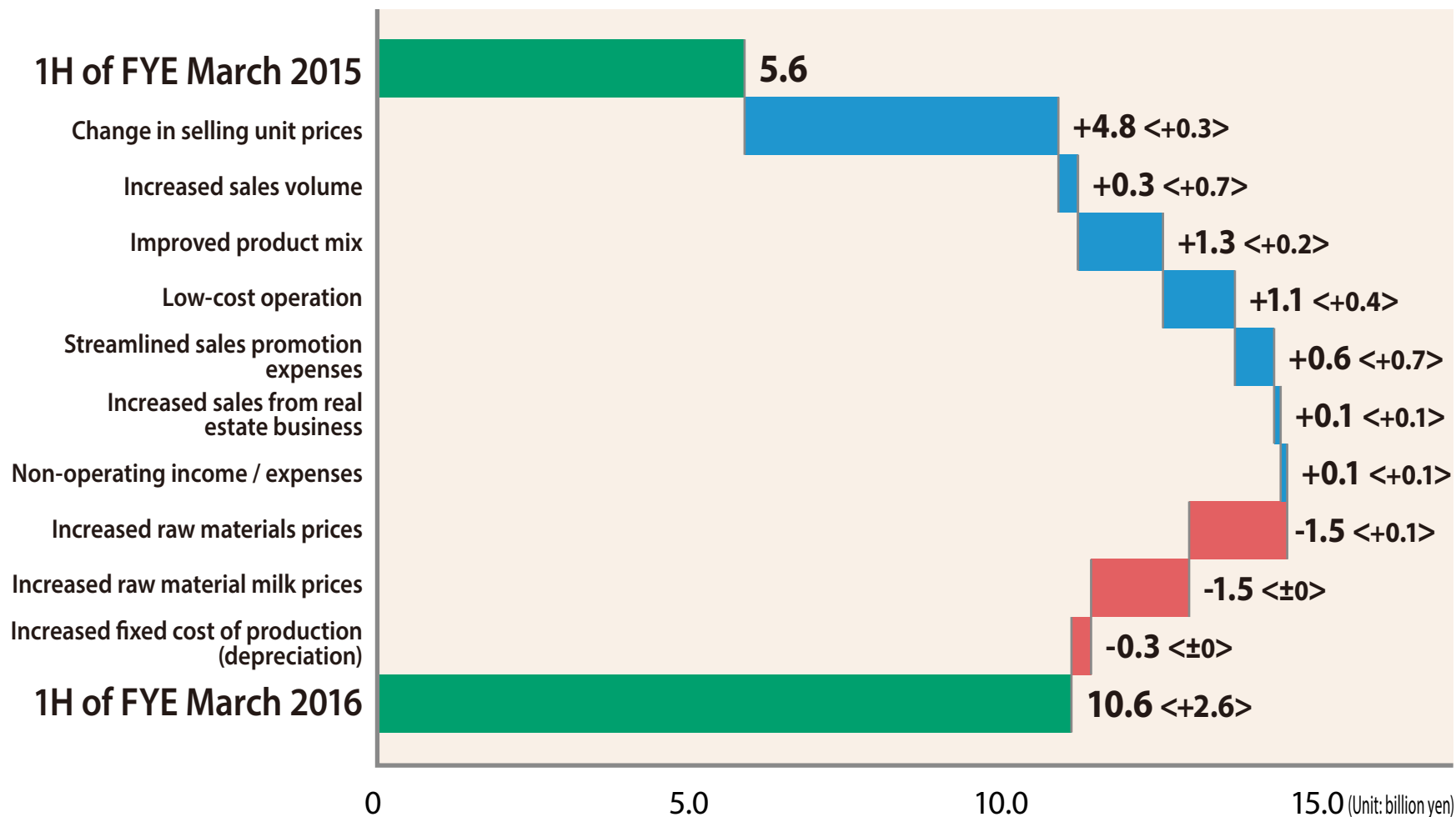
<Change from initial forecast of 2.6 billion yen>

- **Change in selling unit prices (year-on-year change of +4.8 billion yen)**  
<Change from initial forecast of 0.3 billion yen>  
Carried out price revisions in response to rising costs of raw materials
- **Increased sales volume (year-on-year change of +0.3 billion yen)**  
<Change from initial forecast of 0.7 billion yen>  
Brisk demand, primarily for yogurt, milk, and powdered milk
- **Improved product mix (year-on-year change of +1.3 billion yen)**  
<Change from initial forecast of 0.2 billion yen>  
Penetration of new spec products and expansion of ice cream and individual yogurt portions
- **Streamlined sales promotion expenses (year-on-year change of +0.6 billion yen)**  
<Change from initial forecast of 0.7 billion yen>  
Targeted injection of funds for carrying out price revision plan
- **Increased raw materials prices (year-on-year change of -1.5 billion yen)**  
<Change from initial forecast of 0.1 billion yen>  
Although there was a slump in the dairy ingredients market as well as energy prices, the falling value of the yen also had a major influence
- **Increased raw material milk prices (year-on-year change of -1.5 billion yen)**  
<Change from initial forecast of ±0 billion yen>  
Prices have risen since April (+3 yen/kg for milk for drinking).

# Factors Attributable to Increases and Decreases in Ordinary Income



Figures in the < > are changes from initial forecast figures



# Net Sales by Business, Product Category, and Main Products



	Net Sales (Billion yen)	Year on Year (%)
<b>B-to-B Business</b>	<b>37.7</b>	<b>-1 %</b>
Food service & institutional food products	<b>35.0</b>	<b>-1 %</b>
Functional food materials	<b>2.7</b>	<b>-1 %</b>

	Net Sales (Billion yen)	Year on Year (%)
<b>International Business</b>	<b>13.4</b>	<b>6 %</b>

	Net Sales (Billion yen)	Year on Year (%)
<b>Health and Nutritional Food Business</b>	<b>21.5</b>	<b>7 %</b>
Nutritional food products	<b>6.6</b>	<b>13 %</b>
(CLINICO)	<b>14.5</b>	<b>4 %</b>

Note 1: B-to-B business figures are before consolidation elimination

Note 2: "CLINICO" indicates the figures for the consolidated subsidiary CLINICO Co., Ltd.

Note 3: B-to-C business figures are only non-consolidated and for households

	Net Sales (Billion yen)	Year on Year (%)
<b>B-to-C Business</b>	<b>170.1</b>	<b>1 %</b>
Chilled cup-type drinks	<b>24.6</b>	<b>-4 %</b>
Chilled tea	<b>9.1</b>	<b>-6 %</b>
Ice cream	<b>28.8</b>	<b>3 %</b>
Yogurt	<b>25.6</b>	<b>4 %</b>
Cheese	<b>15.5</b>	<b>4 %</b>
Milk	<b>32.5</b>	<b>5 %</b>
Chilled desserts	<b>9.4</b>	<b>-4 %</b>
Commercial milk (home deliveries etc.)	<b>11.3</b>	<b>0 %</b>

Product Group	Product	Year on Year (%)
Chilled cup-type drinks	Mt.RAINIER CAFFÈ LATTE	<b>-5%</b>
Yogurt	Bifidus brand	<b>2%</b>
Milk	Morinaga Oishii Gyunyu Milk	<b>-2%</b>

## **2. Outlook of Financial Results for the Year Ending March 2016**

# FYE March 2016 Full-Year Business Forecasts

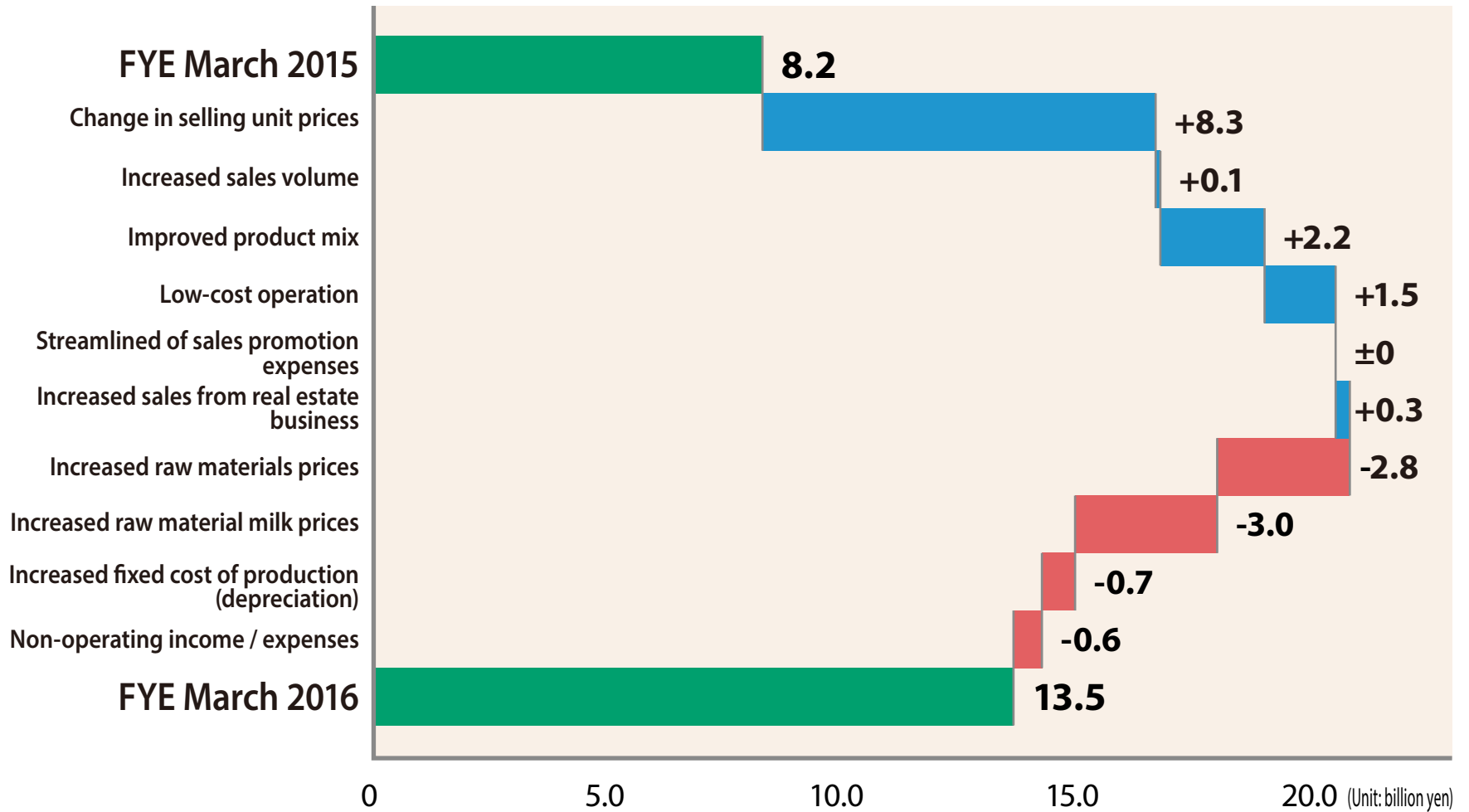


(Unit: billion yen)

	FYE March 2015	FYE March 2016	Year on Year (%)	Year-on-Year Change	Change from initial forecast
Net Sales	594.8	605.0	1.7%	10.2	5.0
Operating Income	6.8	12.7	86.6%	5.9	2.4
Ordinary Income	8.2	13.5	64.0%	5.3	2.5
Profit attributable to owners of parent	4.2	9.0	116.1%	4.8	4.0
ROS (Ordinary Income / Net Sales)	1.4%	2.2%			
ROA (Ordinary Income / Total Assets)	2.2%	3.6%			
ROE (Net Income / Equity Capital)	3.4%	7.0%			



# Outlook of Increases/Decreases in Consolidated Ordinary Income (Full Year)



# Sales Plan by Business and Product Category (FYE March 2016)



	Net Sales (Billion yen)	Year on Year (%)
B-to-B Business	<b>76.2</b>	<b>1 %</b>

	Net Sales (Billion yen)	Year on Year (%)
International Business	<b>27.2</b>	<b>4 %</b>

	Net Sales (Billion yen)	Year on Year (%)
Health and Nutritional Food Business	<b>43.3</b>	<b>6 %</b>

	Net Sales (Billion yen)	Year on Year (%)
B-to-C Business	<b>316.0</b>	<b>1 %</b>
Chilled cup-type drinks	<b>44.6</b>	<b>-2 %</b>
Chilled tea	<b>17.1</b>	<b>-3 %</b>
Ice cream	<b>44.8</b>	<b>2 %</b>
Yogurt	<b>49.1</b>	<b>3 %</b>
Cheese	<b>32.1</b>	<b>3 %</b>

Note 1: B-to-B business figures are before consolidation elimination

Note 2: B-to-C business figures are only non-consolidated and for households

## <4 Basic Policies>

**1. Rebuilding our business domains for growth**

**2. Improving asset efficiency and promoting rationalization**

**3. Strengthening the business base**

**4. Making a difference in society**

# Rebuilding Our Business Domains for Growth



## Expanding sales of highly individual products and responding to changing needs

### Concentrating our resources on growing markets

- Doubling supply capabilities for Greek Yogurt PARTHENO (November; Tokyo Tama Plant)

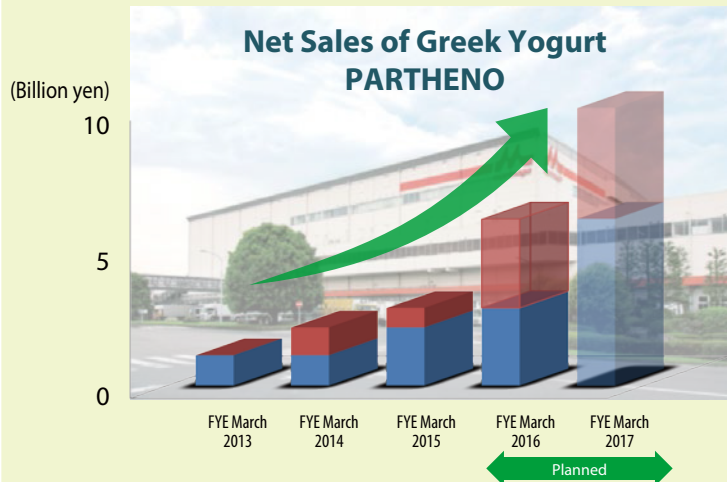


- Expanding highly individual and high-added-value products such as ice creams and cheeses



Premium flavor at your fingertips  
MOW, PARM

Expanded eating opportunities  
Mozzarella Cheese, 6P Cheese



### Plan for expanded sales of Mt. RAINIER CAFFÈ LATTE

- Actively investing in advertising and expanding promotions

### Reviewing low-margin products and improving profitability

- Refining the product lineup and rearranging the manufacturing line

# Rebuilding Our Business Domains for Growth



Differentiation by promoting functional effects and increasing value addition

## Expanding B-to-C functional food products and active life food products

- High protein food series  
Release of GO-UP (September)



Alleviating insufficient protein intake  
such as locomotive syndrome and modern malnutrition

- Oral care with Orabaria  
Commercial sales (October)



With the patented active ingredient, Orabaria®  
Developing products for the oral care market, which has been growing in recent years

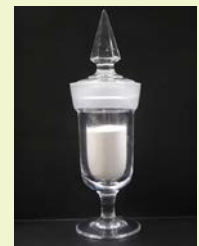
- Enhancement of PREMIL milk  
with extra nutrients and  
Lactoferrin immune system  
boosting yogurt



PREMIL (left) and Lactoferrin yogurt lineup

## Strengthening sales through B-to-B channels

- Set up the Food Ingredients Department as a new organization integrating institutional and functional materials, and reorganized our research labs (July)
- Released Milk Fine, a milk-flavored concentrated paste, and Brain Peptide, with patented anti-Alzheimer's compounds (June, October)



Brain Peptide

# Rebuilding Our Business Domains for Growth



## Facilitating globalization

### Active medium-to-long term investment

- Investment in the new Milei GmbH plant to expand sales of high-added-value dairy products (plant to commence operation in summer 2016)



The new Milei GmbH plant under construction

### Steady development of growth businesses

- Business partnership with the Chinese Want Want Group for chilled dairy products (yogurt and puddings) (sales commence in April)
- Expanding export of infant formula  
Targeting Pakistan (where we have the number 1 share of the import market) and South East Asian countries such as Vietnam



Business partnership with the Chinese Want Want Group (local plant)

# Improving Asset Efficiency and Promoting Rationalization



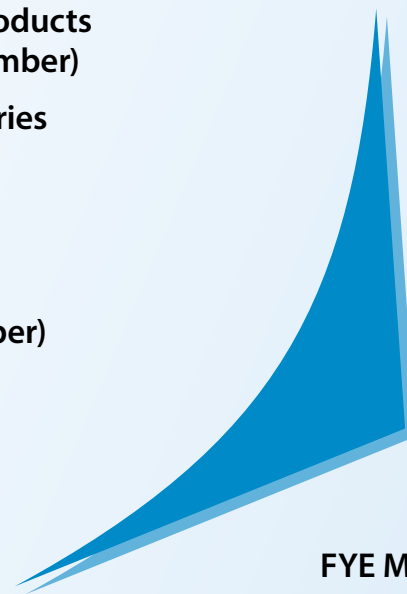
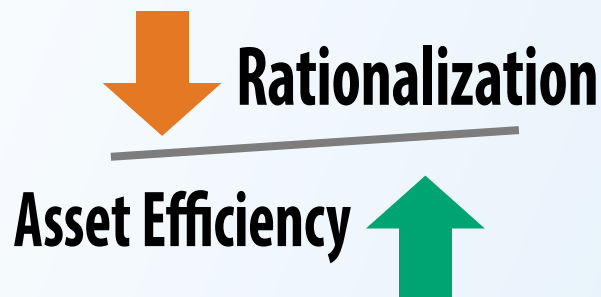
Rearranging the sales system and improving asset efficiency by selling off idle assets

## Reorganization of subsidiaries

- Business transfer of the home-use frozen products business of 1 consolidated subsidiary (November)
- Stock transfer for 2 unconsolidated subsidiaries (August and December)

## Sale of unutilized land

- Total capital gains of 5.2 billion yen (December)



**ROE**

FYE March 2015 Results 3.4%

→ **FYE March 2016 Forecast 7.0%**

# Strengthening the Business Base and Making a Difference in Society



## Raising corporate value and responding to changes in the external environment

### Strengthening the governance system and ensuring full disclosure of information

- Appointment of more outside directors (1→2) (June)
- Creation of Corporate Governance Guidelines (October)
- Release of Annual Report (October)  
English edition to be released in late November



Morinaga Milk Industry Annual Report 2015

## Environmental consciousness and community service activities

### Environmental sustainability initiatives

- Improvement of in-house power generation rate and resource recovery rate



2015 marks the 40th anniversary of the establishment of the free child-rearing counseling service, Angel 110

### Community service activities

- Continuation of Great East Japan Earthquake recovery efforts
- 40th anniversary of the establishment of Angel 110 free child-rearing counseling service



Support for businesses affected by the Great East Japan Earthquake  
Meeting to propose nursing meals



**(Reference materials)**

# (Ref.) Shares of Home-Use Products

(1H of FYE March 2016)



Category	Share		
	1H of FYE March 2015	1H of FYE March 2016	Rank
Chilled cup-type coffee	51%	45%	1
Chilled tea	69%	71%	1
Yogurt	12%	12%	2
Chilled desserts	23%	21%	1
Cheese	13%	13%	3
Ice cream	13%	13%	3

Note: Shares of home-use products by monetary amount. Source: INTAGE Inc. (share of sales amounts in Apr 2014 - Sep 2014 and Apr 2015 - Sep 2015).

# (Ref.) Status of Consolidated Subsidiaries

(1H of FYE March 2016)



Category	Net Sales (Billion yen)	Year on Year (%)	No. of Companies	Major Subsidiaries
Production & production sales	<b>61.4</b>	<b>2%</b>	<b>12</b>	<ul style="list-style-type: none"> <li>• Yokohama milk industry</li> <li>• MK CHEESE</li> </ul>
Sales	<b>71.4</b>	<b>2%</b>	<b>4</b>	<ul style="list-style-type: none"> <li>• Daily Foods</li> <li>• Hokkaido Morinaga Milk Industry Sales</li> </ul>
Other	<b>73.1</b>	<b>4%</b>	<b>13</b>	<ul style="list-style-type: none"> <li>• CLINICO</li> <li>• Milei</li> <li>• MORINAGA ENGINEERING</li> </ul>
Total	<b>205.9</b>	<b>3%</b>	<b>29</b>	

Note: Simple total prior to consolidation elimination



# MORINAGA MILK INDUSTRY CO., LTD.

## 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.