

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

July 12, 2024

Consolidated Financial Results for the Six Months Ended May 31, 2024 (Under Japanese GAAP)

Company name: Lacto Japan Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 3139
 URL: <https://www.lactojapan.com/en/>
 Representative: Motohisa Miura, President
 Inquiries: Kenji Bundo, Executive Vice-President
 Scheduled date to file quarterly securities report: July 12, 2024
 Scheduled date to commence dividend payments: August 26, 2024
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (For securities analysts and institutional investors)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended May 31, 2024 (from December 1, 2023 to May 31, 2024)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
May 31, 2024	84,560	5.1	2,432	42.6	2,260	68.1	1,654	79.3
May 31, 2023	80,450	15.3	1,705	(8.7)	1,344	(19.2)	922	(23.6)

Note: Comprehensive income For the three months ended May 31, 2024: ¥ 2,596 million [68.9%]
 For the three months ended May 31, 2023: ¥ 1,537 million [(41.5)%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
May 31, 2024	165.97	165.14
May 31, 2023	93.17	92.17

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
May 31, 2024	78,253	26,969	34.4
November 30, 2023	72,038	24,724	34.2

Reference: Equity
 As of May 31, 2024: ¥ 26,936 million
 As of November 30, 2023: ¥ 24,655 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended November 30, 2023	-	24.00	-	24.00	48.00
Fiscal year ending November 30, 2024	-	31.00			
Fiscal year ending November 30, 2024 (Forecast)			-	45.00	76.00

Note: Revisions to the forecast of cash dividends most recently announced: Yes

3. Forecast of Financial Results for Fiscal Year Ending November 30, 2024 (December 1, 2023 through November 30, 2024)

	Net sales		Ordinary income		Net income attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ended November 30, 2024	164,000	3.6	4,100	44.0	3,000	46.4	301.13

Note: Revisions to the forecast of financial results most recently announced: Yes

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in accounting policies, changes in accounting estimates, and restatement:
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None
- (4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of May 31, 2024	10,021,600 shares
As of November 30, 2023	9,961,200 shares

- (ii) Number of treasury shares at the end of the period

As of May 31, 2024	63,255 shares
As of November 30, 2023	5,052 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended May 31, 2024	9,966,042 shares
Six months ended May 31, 2023	9,903,268 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Cautionary Statement)

The consolidated business results forecasts contained in this report are based on information available at the present time and certain premises thought to be reasonable. Accordingly, the final results may change substantially due to various factors.

(How to obtain supplementary materials for financial results)

Supplementary materials for financial results will be posted on our website.

(<https://www.lactojapan.com/en/ir>)

(Changes to monetary unit)

Previously, the monetary unit used for items and other matters contained in the Company's quarterly consolidated financial statements were recorded in thousands of yen. However, the monetary unit has been changed to be shown in millions of yen from the current second quarter consolidated accounting and cumulative period. For ease of comparison, figures for the previous consolidated fiscal year and cumulative second quarter have also been changed to units of millions of yen.

Table of Contents of Attachment

1. Qualitative Information on Quarterly Financial Results	5
(1) Operating Results	5
(2) Financial Position	6
(3) Consolidated Earnings and Other Forecasts	7
2. Quarterly Consolidated Financial Statements and Significant Notes	8
(1) Quarterly Consolidated Balance Sheet.....	8
(2) Quarterly Consolidated Income Statements	10
Consolidated Statement of Income	10
Second Quarter Consolidated Cumulative Period	10
Consolidated Statement of Comprehensive Income	11
Second Quarter Consolidated Cumulative Period	11
(3) Consolidated Statements of Cash-Flow	12
(4) Notes on Quarterly Consolidated Financial Statements	14
(Going Concern Assumption)	14
(Significant Changes in Shareholder's Equity)	14
(Adoption of Accounting Treatment Specific to Preparation of the Quarterly Consolidated Financial Statements)	14

Qualitative Information on Quarterly Financial Results

(1) Operating Results

During the current second quarter consolidated cumulative period (the “second quarter”), despite the impact of rising prices, Japan’s economy has been on a moderate recovery trend, with many companies improving their business results and the employment and income environment gradually improving. On the other hand, the future outlook remains uncertain due to factors such as the rapid depreciation of the yen, soaring raw material and energy prices driven by prolonged conflicts in Eastern Europe and the Middle East, and continued economic stagnation in China.

In the domestic food industry, consumers doubled down on their efforts to save money owing to price increases across a wide range of food products, leading to stagnant demand for home-cooked meals and individual consumption. However, demand for commercial use, such as in the food service industry, remained steady, supported by an increase in inbound tourism consumption. In the dairy industry, while raw milk production volume showed an increasing trend compared to the same months of the previous year, the excess inventory of domestically produced skim milk powder has been adjusted, leading to a stable situation.

Under these circumstances, the Lacto Japan Group has promoted various measures with the aim of achieving its Corporate Business Plan titled, NEXT-LJ 2025. In the second quarter, although sales of some raw materials were sluggish due to the impact of price increases on final products, domestic business sales volume increased with sales exceeding expectations. This was due to increased calls for imported raw materials thanks to a recovery in demand for commercial use, and steady sales of raw materials related to the rapidly expanding protein product market. In terms of profits, consolidated profit significantly exceeded forecasts, driven primarily by increased sales volume of high-margin products in the domestic dairy ingredients and cheese business division, as well as improved profit margins in both the dairy ingredients sales division and cheese manufacturing & sales division in the Asian business compared to the first quarter.

As a result, net sales for the second quarter were 84,560 million yen (up 5.1% year on year). Operating income was 2,432 million yen (up 42.6% year on year), ordinary income was 2,260 million yen (up 68.1% year on year), and net income attributable to owners of parent was 1,654 million yen (up 79.3% year on year).

Performance by division is as follows:

(Dairy Ingredients and Cheese Business Division)

In the sale of dairy ingredients, despite consumers’ increasing tendency to save money due to the impact of price increases on final products, the demand for commercial food recovered as the food service and leisure industries thrived, driven by the increase in inbound tourism demand. In particular, sales of ingredients for food gifts, ice cream, and chocolate were strong. Additionally, as domestic inventory adjustments for skim milk powder progressed, demand for imported products began to recover, and despite the continued depreciation of the yen, sales of dairy ingredients exceeded initial expectations. Cheese sales also performed well. As prices of final products continued to rise, there was a noticeable tendency for consumers to refrain from purchasing, and retail cheese ingredients were sluggish. However, demand for commercial cheese, particularly for the food service industry, was strong and both sales and sales volume exceeded initial expectations and those for the same period last year.

As a result, second quarter sales volume for the Dairy Ingredients and Cheese Business Division was 91,099 tons (up 6.8% year on year) with net sales of 58,932 million yen (up 3.8% year on year).

(Meat and Ingredients Division)

In the Meat and Ingredients Division, sales of both meat and processed meat products were steady. Pork sales benefited from the increased demand for U.S.-sourced products due to the surge in European market prices, which was favorable for us given that the U.S. is a major supply source. Sales of frozen pork, primarily used as ingredients for processed foods like ham and sausages, grew significantly. Additionally, the rising prices of beef and pork led to increased demand for chicken, resulting in higher sales volumes for chicken products, an area we have been focusing on in recent years. Sales of processed chicken products, which we are also actively promoting, performed well. Sales volumes for products intended for supermarket deli sections and food court menus increased compared to the previous period.

As a result, second quarter sales volume for the Meat and Ingredients Division was 15,843 tons (up 14.2% year on year) with net sales of 10,538 million yen (up 17.1% year on year).

(Functional Food Ingredients Division)

In the Functional Food Ingredients Division, sales of milk proteins, which serve as ingredients for protein products, continued to progress well. The growth of the protein-related market has been remarkable, fueled by the ongoing boom in the sports-related sector due to increased health awareness, and by the broader trend of “high protein” becoming a key development theme for food products. Lacto Japan has accumulated extensive knowledge and expertise in high-protein ingredients derived from milk through years of importing and selling dairy products. This expertise has attracted numerous customer inquiries and led to a growing number of accounts. Until now, we have focused our resources on sales activities for milk protein, which has strong demand, causing sales of other functional food ingredients to fall below projections. Going forward, we will strive to expand our business by enhancing our offerings with a wider range of proposals that combine various functional ingredients.

As a result, second quarter sales volume for the Functional Food Ingredients Division was 1,267 tons (up 12.0% year on year) with net sales of 1,608 million yen (up 1.4% year on year).

(Asian Business, Others)

In the Asian Dairy Ingredients Sales Division (trading company), both sales and sales volume in the second quarter were lower than the same period of the previous year, primarily due to a notable decline in business associated with skim milk powder exports, undertaken as part of the industry's initiative to reduce excess inventory in Japan. However, amid rising domestic demand for dairy products and a reduction of excess inventory, sales of powdered milk mixture ingredients for the Japanese market increased compared to the same quarter of the previous year. Sales of dairy ingredients to Japanese food manufacturers operating in Asia also performed well, and sales activities at our sales base in Indonesia began to gain traction. These developments will undoubtedly help to grow the business going forward, and as such, we look forward to a recovery in business performance.

As a result, second quarter sales volume was 18,518 tons (down 12.2% year on year) with net sales of 9,731 million yen (down 7.9% year on year).

In the Asian Cheese Manufacturing & Sales Division (manufacturer), sales to China decreased due to the economic downturn. Additionally, in Thailand and Malaysia, sales to processed food manufacturers were sluggish due to the impact of the strong dollar against their currencies. However, sales of products for restaurants were strong thanks to the recovery in the restaurant industry in Singapore and Malaysia and the expansion of Japanese restaurant chains in Southeast Asia. As a result, second quarter sales volume was 2,536 tons (up 7.1% year on year) with net sales of 2,679 million yen (up 19.3% year on year).

As a result, sales in the Asian and Others Business for the second quarter amounted to 13,479 million yen (up 3.1% year on year).

(2) Financial Position

i) Assets, liabilities and net assets

Total assets at the end of the second quarter increased by 6,215 million yen from the end of the previous consolidated fiscal year to 78,253 million yen.

(Current assets)

The balance of current assets at the end of the second quarter was 73,373 million yen, an increase of 6,304 million yen compared to the end of the previous consolidated fiscal year. This was due to increases of 2,944 million yen in notes and accounts receivable, 1,770 million yen in merchandise and finished goods, and 1,125 million yen in cash and deposits.

(Non-current assets)

The balance of non-current assets at the end of the second quarter was 4,880 million yen, a decrease of 89 million yen compared to the end of the previous consolidated fiscal year. This was due to an increase of 257 million yen in property, plant and equipment and an increase of 70 million yen in intangible assets, while investments and other assets decreased by 417 million yen.

(Current liabilities)

The balance of current liabilities at the end of the second quarter was 39,843 million yen, an increase of 2,810 million yen compared to the end of the previous consolidated fiscal year. This was due to an increase in short-term borrowings of 906 million yen due to an increase in working capital, an increase of 590 million yen in the current portion of long-term borrowings, and an increase of 1,082 million yen in accounts payable.

(Non-current liabilities)

The balance of non-current liabilities at the end of the second quarter was 11,440 million yen, an increase of 1,159 million yen compared to the end of the previous consolidated fiscal year. The was due to an increase of 1,199 million yen in long-term borrowings.

(Net assets)

The balance of net assets at the end of the second quarter was 26,969 million yen, an increase of 2,245 million yen compared to the end of the previous consolidated fiscal year. This was due to increases of 1,415 million yen in retained earnings, 299 million yen in deferred gains or losses on hedges, and 575 million yen in foreign currency translation adjustments.

ii) Cash flows

Cash and cash equivalents (hereinafter, "net cash") for the second quarter amounted to 8,408 million yen, an increase of 1,125 million yen compared to the end of the previous consolidated fiscal year. Cash flows for each activity are as follows:

(Cash flow from operating activities)

Net cash provided by operating activities was 1,590 million yen. This was due to an increase in trade receivables of 2,614 million yen and an increase in inventories of 1,804 million yen, while income before income taxes was recorded at 2,260 million yen.

(Cash flow from investing activities)

Net cash used in investing activities totaled 295 million yen. This was due to expenditures of 73 million yen for the purchase of intangible assets, 38 million yen for the purchase of property, plant and equipment, and 14 million yen for the purchase of investment securities. However, this was offset by income of 437 million yen from the refund of insurance reserves.

(Cash flow from financing activities)

Net cash used in financing activities was 2,195 million yen. This was due to an increase of 897 million yen in short-term borrowings and 4,200 million yen in proceeds from long-term borrowings, despite 2,411 million yen in the repayment of long-term borrowings.

(3) Consolidated Earnings and Other Forecasts

Based on our performance for the second quarter and the current business environment surrounding Lacto Japan, net sales, ordinary income, and net income attributable to owners of parent in the consolidated earnings forecast for the fiscal year ending November 30, 2024 have been revised. For details, please see the "Notice Regarding Difference Between Consolidated Earnings Forecast and Actual Results for the First Half of the Fiscal Year Ending November 2024 and Revisions to the Full-year Consolidated Earnings and Dividend Forecast" released on July 12, 2024.

Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2023 As of November 30, 2023	2nd Quarter of FY2024 As of May 31, 2024
Assets		
Current assets		
Cash and deposits	7,779	8,905
Notes and accounts receivable	18,700	21,644
Merchandise and finished goods	38,798	40,568
Raw materials and supplies	1,008	1,159
Other	783	1,097
Allowance for doubtful accounts	(1)	(2)
Total current assets	67,068	73,373
Non-current assets		
Property, plant and equipment	2,185	2,442
Intangible assets	73	144
Investments and other assets		
Other	2,731	2,315
Allowance for doubtful accounts	(21)	(21)
Total investments and other assets	2,710	2,293
Total non-current assets	4,969	4,880
Total assets	72,038	78,253

Consolidated Balance Sheet

(Millions of yen)

	FY2023 As of November 30, 2023	2nd Quarter of FY2024 As of May 31, 2024
Liabilities		
Current liabilities		
Accounts payable	14,033	15,116
Short-term borrowings	14,380	15,287
Commercial papers	3,000	3,000
Current portion of long-term borrowings	4,402	4,992
Income taxes payable	252	622
Other	964	825
Total current liabilities	37,033	39,843
Non-current liabilities		
Long-term borrowings	9,125	10,324
Retirement benefit liability	432	458
Asset retirement obligations	55	65
Other	667	591
Total non-current liabilities	10,281	11,440
Total liabilities	47,314	51,284
Net assets		
Shareholders' equity		
Share capital	1,178	1,209
Capital surplus	1,179	1,209
Retained earnings	20,066	21,481
Treasury shares	(14)	(152)
Total shareholders' equity	22,409	23,747
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	276	344
Deferred gains or losses on hedges	(56)	243
Foreign currency translation adjustment	2,025	2,601
Total accumulated other comprehensive income	2,245	3,188
Share acquisition rights	68	33
Total net assets	24,724	26,969
Total liabilities and net assets	72,038	78,253

(2) Quarterly Consolidated Income Statements

Consolidated Statement of Income

Second Quarter Consolidated Cumulative Period

(Millions of yen)

	Six months ended May 31, 2023	Six months ended May 31, 2024
Net sales	80,450	84,560
Cost of sales	76,447	79,486
Gross profit	4,002	5,073
Selling, general and administrative expenses	2,296	2,640
Operating income	1,705	2,432
Non-operating income		
Interest income	6	42
Dividend income	7	7
Share of profit of entities accounted for using equity method	6	12
Foreign exchange gains	-	28
Insurance return	8	5
Miscellaneous income	21	15
Total non-operating income	50	111
Non-operating expenses		
Interest expenses	102	138
Commission expenses	112	118
Foreign exchange losses	189	-
Miscellaneous losses	7	26
Total non-operating expenses	411	283
Ordinary income	1,344	2,260
Income before income taxes	1,344	2,260
Income taxes	422	606
Net income	922	1,654
Net income attributable to owners of parent	922	1,654

Consolidated Statement of Comprehensive Income
Second Quarter Consolidated Cumulative Period

(Millions of yen)

	Six months ended May 31, 2023	Six months ended May 31, 2024
Net income	922	1,654
Other comprehensive income		
Valuation difference on available-for-sale securities	17	67
Deferred gains or losses on hedges	441	299
Foreign currency translation adjustment	146	573
Share of other comprehensive income of entities accounted for using equity method	8	2
Total other comprehensive income	614	942
Comprehensive income	1,537	2,596
(Breakdown)		
Comprehensive income attributable to owners of parent	1,537	2,596
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statements of Cash-Flow

(Millions of yen)

	Six months ended May 31, 2023	Six months ended May 31, 2024
Cash flows from operating activities		
Income before income taxes	1,344	2,260
Depreciation	171	207
Increase (decrease) in allowance for doubtful accounts	(18)	1
Increase (decrease) in retirement benefit liability	(0)	25
Interest and dividend income	(13)	(50)
Interest expenses	102	138
Decrease (increase) in trade receivables	(1,070)	(2,614)
Decrease (increase) in inventories	(4,178)	(1,804)
Increase (decrease) in trade payables	(1,714)	886
Other, net	372	(348)
Subtotal	(5,007)	(1,297)
Interest and dividends received	13	50
Interest paid	(117)	(143)
Income taxes paid	(729)	(200)
Net cash provided by (used in) operating activities	(5,839)	(1,590)
Cash flows from investing activities		
Decrease (increase) in time deposits	(0)	(0)
Purchase of investment securities	(153)	(14)
Purchase of property, plant and equipment	(69)	(38)
Proceeds from sale of property, plant and equipment	-	4
Purchase of intangible assets	(19)	(73)
Proceeds from maturity of insurance funds	27	437
Purchase of insurance funds	(7)	(7)
Other, net	(4)	(13)
Net cash provided by (used in) investing activities	(227)	295

Consolidated Statements of Cash-Flow

(Millions of yen)

	Six months ended May 31, 2023	Six months ended May 31, 2024
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	6,678	897
Increase (decrease) in commercial papers	1,000	–
Proceeds from long-term borrowings	3,100	4,200
Repayments of long-term borrowings	(2,167)	(2,411)
Purchase of treasury shares	(0)	(166)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	13	25
Repayments of lease obligations	(94)	(112)
Dividends paid	(395)	(238)
Net cash provided by (used in) financing activities	8,133	2,195
Effect of exchange rate change on cash and cash equivalents	141	224
Net increase (decrease) in cash and cash equivalents	2,207	1,125
Cash and cash equivalents at beginning of period	5,883	7,282
Cash and cash equivalents at end of period	8,091	8,408

(4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable

(Significant Changes in Shareholder's Equity)

Not applicable

(Adoption of Accounting Treatment Specific to Preparation of the Quarterly Consolidated Financial Statements)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of tax effect accounting on net income before taxes for the consolidated fiscal year (that includes the second quarter under review) and by multiplying quarterly net income before taxes by the estimated effective tax rate.