

Consolidated Financial Results for the Six Months Ended September 30, 2022 (Prepared pursuant to Japanese GAAP)

November 10, 2022

Company name: MEGMILK SNOW BRAND Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange (Prime Market), Sapporo Securities Exchange
 Stock code: 2270
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(Amounts rounded down to the nearest million yen)

1. Consolidated Results for the First Six Months of the Fiscal Year Ending March 31, 2023 (April 1, 2022 – September 30, 2022)

(1) Consolidated Operating Results

(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 September 30, 2022	289,064	0.8	7,348	(39.8)	6,883	(48.2)	2,301	(73.2)
Six months ended September 30, 2021	286,904	—	12,210	10.1	13,277	10.8	8,575	19.2

Note: Comprehensive income: Six months ended September 30, 2022 : 1,312 million yen (-84.3%)
 Six months ended September 30, 2021 : 8,355 million yen (-12.5%)

	Profit per share – basic	Profit per share – diluted
	yen	yen
Six months ended September 30, 2022	34.08	—
Six months ended September 30, 2021	126.99	—

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of the first quarter of the fiscal year ended March 31, 2022. As a result, the Company has omitted year-on-year change in net sales for the first half of the previous fiscal year ended March 31, 2021, as this was prior to application of the above accounting standard. Assuming, however, that the above accounting standard, etc. had been applied effective from the first quarter of the fiscal year ended March 31, 2021, the year-on year change would be 1.4%.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net asset per share
	millions of yen	millions of yen	%	yen
September 30, 2022	403,787	206,452	50.4	3,011.14
March 31, 2022	401,890	209,528	51.5	3,061.75

For reference:

Equity: September 30, 2022: 203,386 million yen
 March 31, 2022: 206,777 million yen

2. Dividends

Record date or period	Cash dividends per share				
	End-Q1	End-Q2	End-Q3	Year-end	Total
Year ended March 31, 2022	yen —	yen —	yen —	yen 60.00	yen 60.00
Year ending March 31, 2023	—	—			
Year ending March 31, 2023 (forecast)			—	60.00	60.00

Note: Revisions from the latest release of dividend forecasts: None

3. Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	yen
Full Year	575,000	3.0	14,000	(22.5)	15,500	(22.5)	9,300	(22.9)	137.69

Note: Revisions from the latest release of earnings forecasts: None

Notes

(1) Material reclassifications of subsidiaries during the period: None

(2) Accounting methods specific to quarterly consolidated financial statements: None

(3) Changes in accounting policy, changes in accounting estimates, and retrospective restatement

1) Changes in accordance with amendments to accounting standards, etc.: None

2) Changes other than noted in 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Common stock issued

1) Issued shares as of period-end (including treasury stock)

September 30, 2022	70,751,855 shares
March 31, 2022	70,751,855 shares

2) Treasury stock as of period-end

September 30, 2022	3,207,254 shares
March 31, 2022	3,216,075 shares

3) Average number of shares (during the respective period)

Six months ended September 30, 2022	67,538,595 shares
Six months ended September 30, 2021	67,533,293 shares

***This summary of financial statements is not subject to audit by certified public accountant and auditing firm.**

*Appropriate Use of Earnings Forecasts and Other Important Information

(Earnings Forecasts)

Business forecasts contained in this report are based on the assumptions of management in the light of information available as of the release of this report. MEGMILK SNOW BRAND makes no assurances as to the actual results, which may differ from forecasts due to various factors such as changes in the business environment.

(Supplementary materials and presentation handouts)

Supplementary materials are attached to this report.

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(Supplementary Information)

Supplementary Information for the Six Months Ended September 30, 2022

1. Operating Results

Forward-looking statements included in the following text are based on the judgments of the Group's management as of September 30, 2022.

(1) Overview of Operating Results

In the six months ended September 30, 2022, although the Japanese economy is exhibiting a modest recovery in consumer spending, the future outlook remains uncertain due to factors including the situation in Ukraine becoming drawn out and the rapid depreciation of the yen.

In the food industry, prices have been continuing to increase for various products, including foods, caused by soaring global raw materials and energy prices, and this has impacted sentiment towards spending. In addition, although there has been some recovery from the COVID-19 pandemic, demand for dining out is still in the process of recovering.

In this business environment, the MEGMILK SNOW BRAND Group pursued initiatives to "Establish earnings bases in four business sectors (Dairy Products; Beverages & Desserts; Nutrition; and Feedstuffs & Seed)" in accordance with the Group Medium-term Management Plan 2022. In the six months ended September 30, 2022, the Group undertook: (1) strategic expansion and further product mix improvement of yogurt, cheese, and other mainstay products, centered on functionality; (2) simultaneous pursuit of scale expansion and profit generation through continuation of marketing investment in the nutrition business field; (3) strategic expansion and development of an earnings base in the feedstuffs and seed business area; and (4) bolstering of the Group's overall strengths by making full use of the Group's management resources and by improving the productivity of the value chain.

Amid the spread of COVID-19, the Group also took steps to prevent COVID-19 infections among Group employees and endeavored to provide a stable supply of safe and reliable products to customers.

As a result, in the six months ended September 30, 2022, consolidated net sales were ¥289,064 million (up 0.8% YoY), operating profit was ¥7,348 million (down 39.8%), ordinary profit was ¥6,883 million (down 48.2%), and profit attributable to owners of parent was ¥2,301 million (down 73.2%).

While not constituting a reclassification of a specified subsidiary, during the three months ended June 30, 2022, the importance of Belle Neige Direct Co., Ltd. increased, and therefore it has been included in the scope of consolidation.

Additionally, during the three months ended June 30, 2022, The National Federation of Agricultural Co-operative Associations converted preferred shares into common shares, thereby decreasing MEGMILK SNOW BRAND Co., Ltd.'s shareholding ratio of Kyodo Milk Industry Co., Ltd., making Kyodo Milk Industry Co., Ltd. no longer an affiliate of MEGMILK SNOW BRAND Co., Ltd. As a result, Kyodo Milk Industry Co., Ltd. has been removed from the scope of entities accounted for using the equity method.

Operating results by business segment for the six months ended September 30, 2022 were as follows. Net sales by segment are sales to outside customers.

1) Dairy Products

This segment comprises the manufacture and sale of dairy products (cheese, butter, powdered milk), margarine, nutrition business products (functional foods and infant formula), and other products. Net sales were ¥120,150 million (up 2.0% YoY), and operating profit was ¥4,944 million (down 21.8%).

(Net sales)

Sales of butter increased year on year due to proactive efforts to expand sales of household butter mainstay products and an increase in sales of commercial-use butter accompanying the recovery in demand for dining out.

Sales of margarine declined year on year due to the dip in the overall market and the impact of price revisions.

In cheese, sales of natural cheeses were strong and increased year on year for the three months ended September 30, 2022 due to the sales resumption of some Sakeru Cheese products which had been paused. Sales of sliced cheese, 6P Cheese, and other processed cheeses declined year on year due to the decline in consumer sentiment amid the environment of price increases on foods and other daily necessities, but a recovery trend emerged from the start of the three months ended September 30, 2022. As a result, overall sales of cheeses declined year on year, but sales are recovering.

Sales of functional food products continued to grow, owing to continued strong sales in the subscription-based e-commerce business, proactive marketing investment, and increasing health-consciousness among consumers.

(Operating profit)

Operating profit decreased year on year due to factors including increased raw materials costs, higher operating expenses, and an increase in fixed expenses.

2) Beverages & Desserts

This segment comprises the manufacture and sale of drinking milk, fruit juice beverages, yogurt, desserts, and other products.

Net sales were ¥122,411 million (down 3.1% YoY), and operating profit was ¥729 million (down 79.1%).

(Net sales)

With regards to sales of beverages (both milk-based and other beverages), sales of MBP Drink, the first beverage type of its kind in Japan as a food with functional claims for increasing bone density, were strong, but sales in this segment declined year on year, especially for milk, due to factors including the decline in consumer sentiment amid the environment of price increases for food and other daily necessities.

In yogurt sales, sales were strong of products including Makiba no Asa Yogurt and Nachure Megumi plain yogurt, but overall sales declined year on year due to factors including the settling down of sales of functional yogurt, which had increased during the previous fiscal year as a result of TV exposure.

Dessert sales increased year on year, due to factors including the strong sales of both the new product Snow Brand Coffee Pudding and the classic CREAM SWEETS series.

(Operating profit)

Operating profit decreased due to factors including increased raw materials costs, higher operating expenses, and a decline in sales volume.

3) Feedstuffs & Seed

This segment comprises the manufacture and sale of cattle feed, pasture forage/crop and vegetable seeds, landscaping, and other products.

Net sales were ¥27,524 million (up 11.3% YoY), and operating profit was ¥828 million (down 43.3%).

(Net sales)

Overall segment sales increased year on year, due to factors including the rise in compound feed sales prices.

(Operating profit)

Operating profit decreased due to factors including the decline in gross profit resulting from the increase in raw materials costs.

4) Other

This segment comprises joint distribution center services, real estate rental, and other businesses.

Net sales were ¥18,977 million (up 5.4% YoY), and operating profit was ¥835 million (down 6.7%).

(2) Analysis of Financial Condition

1) Assets, liabilities, and net assets

(Millions of yen)

Category	End of March 2022	End of September 2022	Change	Primary reason for change
Assets	401,890	403,787	1,896	Notes and accounts receivable-trade, and contract assets +8,579 Buildings and structures, net +3,472 Cash and deposits (5,815) Investment securities (3,375)
Liabilities	192,361	197,334	4,972	Notes and accounts payable-trade +5,569 Electronically recorded obligations-operating +476 Income taxes payable +282 Deferred tax liabilities (1,538)
Net Assets	209,528	206,452	(3,075)	Retained earnings (2,150) Valuation difference on available-for-sale securities (2,032)

2) Cash flows

(Millions of yen)

Category	Six months ended September 30, 2021	Six months ended September 30, 2022	Change	Primary reason for change
Cash flows from operating activities	18,642	9,189	(9,453)	Profit before income taxes (8,332) Decrease (increase) in accounts receivable-other (3,046) Decrease (increase) in notes and accounts receivable-trade (2,249) Increase (decrease) in notes and accounts payable-trade +3,753
Cash flows from investing activities	(10,982)	(11,013)	(31)	Purchase of investment securities (1,250) Purchase of property, plant and equipment and intangible assets +1,318
Cash flows from financing activities	(4,139)	(4,590)	(450)	Cash dividends paid (1,349) Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation +1,076
Cash and cash equivalents at end of period	25,479	14,162	(11,316)	—

(3) Explanation of Forward-Looking Statements, including the Forecast of Consolidated Results

There is no revision to the forecast of consolidated results disclosed in the Summary of Financial Results on August 10, 2022.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	19,991	14,175
Notes and accounts receivable-trade, and contract assets	72,297	80,876
Merchandise and finished goods	47,408	46,373
Work in process	890	948
Raw materials and supplies	13,851	15,347
Other	6,009	6,061
Allowance for doubtful accounts	(309)	(347)
Total current assets	160,139	163,436
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	55,113	58,585
Machinery, equipment and vehicles, net	58,973	58,346
Land	49,426	49,488
Other, net	15,379	14,109
Total property, plant and equipment	178,892	180,530
Intangible assets		
Goodwill	582	598
Other	2,709	2,669
Total intangible assets	3,291	3,267
Investments and other assets		
Investment securities	48,107	44,732
Deferred tax assets	2,936	2,938
Other	8,715	9,069
Allowance for doubtful accounts	(193)	(187)
Total investments and other assets	59,566	56,552
Total non-current assets	241,751	240,350
Total assets	401,890	403,787

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable-trade	53,447	59,016
Electronically recorded obligations-operating	5,277	5,754
Short-term loans payable	17,969	23,161
Income taxes payable	2,227	2,510
Provision for bonuses	4,876	4,897
Other	29,336	29,817
Total current liabilities	113,134	125,157
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	39,378	34,101
Deferred tax liabilities	6,607	5,069
Deferred tax liabilities for land revaluation	3,815	3,815
Provision for director's retirement benefits	14	14
Net defined benefit liabilities	8,826	9,001
Asset retirement obligations	1,250	1,219
Other	9,333	8,955
Total non-current liabilities	79,226	72,177
Total liabilities	192,361	197,334
Net assets		
Shareholders' equity		
Capital stock	20,000	20,000
Capital surplus	17,027	17,027
Retained earnings	147,231	145,080
Treasury stock	(5,347)	(5,325)
Total shareholders' equity	178,911	176,783
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	18,976	16,944
Deferred gains or losses on hedges	90	141
Revaluation reserve for land	8,571	8,571
Foreign currency translation adjustment	326	977
Remeasurements of defined benefit plans	(99)	(32)
Total accumulated other comprehensive income	27,866	26,602
Non-controlling interests	2,750	3,066
Total net assets	209,528	206,452
Total liabilities and net assets	401,890	403,787

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	286,904	289,064
Cost of sales	239,172	244,320
Gross profit	47,731	44,743
Selling, general and administrative expenses	35,521	37,395
Operating profit	12,210	7,348
Non-operating income		
Interest income	2	1
Dividend income	401	513
Equity in earnings of affiliates	646	—
Other	487	582
Total non-operating income	1,538	1,097
Non-operating expenses		
Interest expenses	206	169
Equity in losses of affiliates	—	1,149
Other	264	242
Total non-operating expenses	471	1,561
Ordinary profit	13,277	6,883
Extraordinary income		
Gain on sales of non-current assets	2	1
National subsidies	—	25
Insurance claim income	—	17
Total extraordinary income	2	43
Extraordinary loss		
Loss on sales of non-current assets	24	0
Loss on retirement of non-current assets	734	574
Impairment loss	170	66
Fire loss	—	2,239
Other	8	36
Total extraordinary loss	937	2,917
Profit before income taxes	12,342	4,010
Income taxes	3,668	1,647
Profit	8,674	2,363
Profit attributable to non-controlling interests	98	61
Profit attributable to owners of parent	8,575	2,301

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit	8,674	2,363
Other comprehensive income		
Valuation difference on available-for-sale securities	(820)	(1,886)
Deferred gains or losses on hedges	16	51
Foreign currency translation adjustment	301	709
Remeasurements of defined benefit plans	188	78
Share of other comprehensive income of entities accounted for using the equity method	(6)	(3)
Total other comprehensive income	(319)	(1,050)
Comprehensive income	8,355	1,312
Comprehensive income attributable to owners of parent	8,234	1,191
Comprehensive income attributable to non- controlling interests	120	121

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	12,342	4,010
Depreciation and amortization	8,493	8,533
Impairment loss	170	66
Equity in (earnings) losses of affiliates	(646)	1,149
Amortization of goodwill	50	53
Increase (decrease) in allowance for doubtful accounts	(11)	1
Increase (decrease) in provision for bonuses	(92)	16
Decrease (increase) in net defined benefit asset	(377)	(410)
Increase (decrease) in net defined benefit liability	302	159
Loss (gain) on sales and retirement of non-current assets	755	573
Interest and dividend income received	(404)	(514)
Interest expenses	206	169
Decrease (increase) in accounts receivable-other	3,657	610
Decrease (increase) in notes and accounts receivable-trade	(5,802)	(8,052)
Decrease (increase) in inventories	45	(154)
Increase (decrease) in notes and accounts payable-trade	2,099	5,852
Other	869	(1,276)
Sub total	21,659	10,787
Interest and dividend income	478	571
Interest expenses paid	(205)	(169)
Income taxes paid	(3,289)	(2,000)
Net cash provided by (used in) operating activities	18,642	9,189

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from investing activities		
Payments of loans receivable	(2)	(2)
Collection of loans receivable	34	3
Purchase of property, plant and equipment and intangible assets	(11,141)	(9,823)
Proceeds from sales of property, plant and equipment and intangible assets	10	17
Purchase of investment securities	(7)	(1,258)
Proceeds from sales of investment securities	0	—
Other	123	49
Net cash provided by (used in) investing activities	(10,982)	(11,013)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	334	194
Proceeds from long-term loans payable	20	—
Repayment of long-term loans payable	(311)	(310)
Purchase of treasury stock	(3)	(1)
Cash dividends paid	(2,703)	(4,053)
Cash dividends paid to non-controlling interests	(2)	(2)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,076)	—
Other	(396)	(417)
Net cash provided by (used in) financing activities	(4,139)	(4,590)
Effect of exchange rate on cash and cash equivalents	129	271
Net increase (decrease) in cash and cash equivalents	3,649	(6,143)
Cash and cash equivalents at beginning of period	21,829	19,979
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	326
Cash and cash equivalents at end of period	25,479	14,162

(4) Notes to the Quarterly Consolidated Financial Statements

(Notes on the Assumption of a Going Concern)

Not applicable.

(Notes Concerning Significant Changes in Shareholders' Equity (if any))

Not applicable.

(Additional Information)

Due to the fire that occurred on June 30, 2022 at the Ami Distribution Center of SBS Flec Co., Ltd., an equity-method affiliate, a fire loss was recorded under extraordinary loss in the six months ended September 30, 2022 based on a reasonable estimate of the amount of loss on inventory and other goods stored at the Ami Distribution Center.

In addition, a loss on non-current assets, etc. of ¥1,511 million that is expected for SBS Flec Co., Ltd. is included in equity in losses of affiliates.

The above is calculated based on what is known about the situation at the current point in time, and is subject to change.

(Segment and Other Information)
【Segment information】

I Six months ended September 30, 2021 (April 1 to September 30, 2021)

1. Net sales and income/loss by reportable segment and breakdown of revenue

(Millions of yen)

	Reportable segment (note 1)				Other (note 2)	Total	Adjustments (note 3)	Amount recorded on consolidated statements of income (note 4)
	Dairy Products	Beverages and Desserts	Feedstuffs and Seed	Total				
Net sales								
Revenue from contracts with customers	117,806	126,344	24,741	268,892	18,011	286,904	—	286,904
Sales to outside customers	117,806	126,344	24,741	268,892	18,011	286,904	—	286,904
Inter-segment sales and transfers	6,382	62	475	6,919	6,216	13,136	(13,136)	—
Total	124,189	126,406	25,216	275,812	24,227	300,040	(13,136)	286,904
Segment profit	6,326	3,489	1,460	11,276	895	12,172	38	12,210

Notes: 1. Net sales for reportable segments are mainly revenue from sales of merchandise and finished goods.

2. "Other" comprises businesses, such as joint distribution center services and real estate rental that are not included in reportable segments. Net sales of "Other" are mainly revenue from distribution services.

3. The 38 million yen adjustment for segment profit is for elimination of intersegment transactions.

4. Segment profit adjustments are based on operating profit reported on the quarterly consolidated statements of income for the corresponding period.

2. Impairment loss on non-current assets or goodwill by reportable segment

(Significant change in amount of goodwill)

Not applicable.

II Six months ended September 30, 2022 (April 1 to September 30, 2022)

1. Net sales and income/loss by reportable segment and breakdown of revenue

(Millions of yen)

	Reportable segment (note 1)				Other (note 2)	Total	Adjustments (note 3)	Amount recorded on consolidated statements of income (note 4)
	Dairy Products	Beverages and Desserts	Feedstuffs and Seed	Total				
Net sales								
Revenue from contracts with customers	120,150	122,411	27,524	270,086	18,977	289,064	—	289,064
Sales to outside customers	120,150	122,411	27,524	270,086	18,977	289,064	—	289,064
Inter-segment sales and transfers	7,167	54	661	7,883	6,736	14,620	(14,620)	—
Total	127,317	122,465	28,186	277,969	25,714	303,684	(14,620)	289,064
Segment profit	4,944	729	828	6,501	835	7,337	11	7,348

Notes: 1. Net sales for reportable segments are mainly revenue from sales of merchandise and finished goods.

2. "Other" comprises businesses, such as joint distribution center services and real estate rental that are not included in reportable segments. Net sales of "Other" are mainly revenue from distribution services.

3. The 11 million yen adjustment for segment profit is for elimination of intersegment transactions.

4. Segment profit adjustments are based on operating profit reported on the quarterly consolidated statements of income for the corresponding period.

2. Impairment loss on non-current assets or goodwill by reportable segment

(Significant change in amount of goodwill)

Not applicable.

(Revenue Recognition)

Breakdown of revenue from contracts with customers is presented in "(4) Notes to the Quarterly Consolidated Financial Statements (Segment and Other Information)".

(Significant Subsequent Events)

Not applicable.