

Consolidated Financial Results for the Six Months Ended September 30, 2023 (Prepared pursuant to Japanese GAAP)

November 10, 2023

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 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, 2024 (April 1, 2023 – September 30, 2023)

(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, 2023	305,669	5.7	11,242	53.0	12,240	77.8	7,698	234.5
Six months ended September 30, 2022	289,064	0.8	7,348	(39.8)	6,883	(48.2)	2,301	(73.2)

Note: Comprehensive income: Six months ended September 30, 2023 : 13,219 million yen (907.3%)
 Six months ended September 30, 2022 : 1,312 million yen (-84.3%)

	Profit per share – basic	Profit per share – diluted
	yen	yen
Six months ended September 30, 2023	113.98	—
Six months ended September 30, 2022	34.08	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net asset per share
	millions of yen	millions of yen	%	yen
September 30, 2023	425,884	225,064	52.1	3,284.51
March 31, 2023	410,130	215,899	51.9	3,151.74

For reference: Equity: September 30, 2023 : 221,857 million yen
 March 31, 2023 : 212,879 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, 2023	yen —	yen —	yen —	yen 60.00	yen 60.00
Year ending March 31, 2024	—	—			
Year ending March 31, 2024 (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, 2024 (April 1, 2023 – March 31, 2024)

(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	616,000	5.4	18,200	39.4	19,500	34.7	12,200	33.6	180.62

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, 2023	70,751,855 shares
March 31, 2023	70,751,855 shares

2) Treasury stock as of period-end

September 30, 2023	3,205,251 shares
March 31, 2023	3,208,420 shares

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

Six months ended September 30, 2023	67,544,301 shares
Six months ended September 30, 2022	67,538,595 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 for the Six months ended September 30, 2023

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, 2023.

(1) Overview of Operating Results

In the six months ended September 30, 2023, the Japanese economy showed gradual recovery with improvements in employment and income levels, partly due to the effects of various policies. With regard to the outlook, it is necessary to pay close attention to the impacts of rising prices and fluctuations in financial and capital markets, etc., amid continuing global monetary tightening.

In the food industry, demand for dining out has been recovering, partly due to an increase in inbound demand. On the other hand, global increases in costs such as prices of raw materials and energy have caused the continued high prices of various products, including food products, affecting the purchasing behavior of consumers.

Amid this business environment, the MEGMILK SNOW BRAND Group has formulated the Group Mid-term Management Plan 2025 with "Creating new seeds for growth," "Expanding volume by utilizing our production bases" and "Strengthening and supporting domestic dairy production bases" as the three pillars of its business strategy.□

In FY2023, the first year of the Plan, we were committed to advancing the Plan, with "responding to cost increases" by enhancing productivity and reviewing cost structures in all value chains and by setting appropriate prices, "maintaining and expanding the top line" in response to changes in the environment, and "planning and implementing initiatives to create new seeds for growth" for overseas markets particularly in Asia, e-commerce businesses, etc., positioned as our key priorities.

As a result, in the six months ended September 30, 2023, consolidated net sales were ¥305,669 million (up 5.7% YoY), operating profit was ¥11,242 million (up 53.0%), ordinary profit was ¥12,240 million (up 77.8%), and profit attributable to owners of parent was ¥7,698 million (up 234.5%).

For both dairy products and beverages & desserts segments, net sales increased year on year due to appropriate price revisions. In addition, profit increased partly due to the bolstering of marketing activities in addition to the penetration of the price revisions implemented since last year.

Operating results by business segment for the six months ended September 30, 2023 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 ¥126,531 million (up 5.3% YoY), and operating profit was ¥5,099 million (up 3.1%).

(Net sales)

Sales of butter increased year on year due to price revisions and the acquisition of demand over the market average. Sales of margarine increased year on year, boosted by market growth and our strenuous efforts to expand sales. Regarding cheese, overall segment sales increased year on year, resulting from strong sales of processed cheeses including mini cheese and sliced cheese.

Sales of functional food products increased year on year, although growth in the subscription-based e-commerce business became stable because of crowds in the city returning to what they were before with the easing of restrictions related to COVID-19. Sales of powdered milk and other products decreased year on year due to price revisions. As a result, in nutrition business, overall segment sales remained at the same level as the previous fiscal year.

(Operating profit)

Operating profit increased due to price revisions in response to various cost increases.

2) Beverages & Desserts

This segment comprises the manufacture and sale of drinking milk, fruit juice beverages, yogurt, desserts, and other products. Net sales were ¥132,059 million (up 7.9% YoY), and operating profit was ¥3,691 million (up 406.2%).

(Net sales)

With regards to sales of beverages (both milk-based and other beverages), sales of MBP Drink, a food with functional claims, Mainichi Honebuto MBP® in large package, Clean Ca Iron, Yukijirushi Coffee and other products were strong.

As a result, overall sales in this segment increased year on year.

With regards to sales of yogurt, the sales of "Yogurt containing *Lactobacillus gasseri* SBT2055" lineup decreased slightly year on year, due to the stagnation of demand for functional yogurt in the market. On the other hand, sales remained solid for family-use products such as Makiba no Asa Yogurt and Nachure Megumi, and as a result, overall yogurt sales increased year on year.

Dessert sales increased year on year, mainly due to the strong sales of the core CREAM SWEETS series, Asia Sabo series and others.

(Operating profit)

Operating profit increased due to price revisions in response to various cost increases.

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 ¥27,072 million (down 1.6% YoY), and operating profit was ¥761 million (down 8.1%).

(Net sales)

Overall segment sales decreased year on year, partly due to the decrease in volumes sold caused by factors including the decline of demand for dairy cattle feed as a result of restraints on raw milk production, while compound feed sales prices rose.

(Operating profit)

Operating profit decreased mainly due to a decline in gross profit resulting from a decrease in sales.

4) Other

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

Net sales were ¥20,006 million (up 5.4% YoY), and operating profit was ¥1,656 million (up 98.3%).

(2) Analysis of Financial Condition

1) Assets, liabilities, and net assets

(Millions of yen)

Category	End of March 2023	End of September 2023	Change	Primary reason for change
Assets	410,130	425,884	15,754	Notes and accounts receivable-trade, and contract assets +14,274 Investment securities +7,437 Cash and deposits (7,906)
Liabilities	194,230	200,820	6,589	Notes and accounts payable-trade +7,394 Income taxes payable +2,089 Short-term loans payable (3,751)
Net Assets	215,899	225,064	9,164	Valuation difference on available-for-sale securities +4,903 Retained earnings +3,637

2) Cash flows

(Millions of yen)

Category	Six months ended September 30, 2022	Six months ended September 30, 2023	Change	Primary reason for change
Cash flows from operating activities	9,189	10,846	1,656	Profit before income taxes +7,533 Decrease (increase) in notes and accounts receivable-trade (6,050)
Cash flows from investing activities	(11,013)	(8,967)	2,046	Purchase of investment securities +1,090 Purchase of property, plant and equipment and intangible assets +925
Cash flows from financing activities	(4,590)	(9,955)	(5,364)	Repayment of long-term loans payable (5,026)
Cash and cash equivalents at end of period	14,162	12,431	(1,730)	—

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

There are no revisions to the forecast of consolidated results disclosed in the "Notice of Revisions to FY2023 Consolidated Earnings Forecasts" announced on October 24, 2023.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	20,351	12,445
Notes and accounts receivable-trade, and contract assets	80,257	94,531
Merchandise and finished goods	40,900	41,848
Work in process	899	933
Raw materials and supplies	16,013	16,963
Other	6,080	5,842
Allowance for doubtful accounts	(339)	(359)
Total current assets	164,163	172,205
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	60,964	62,120
Machinery, equipment and vehicles, net	58,398	59,129
Land	48,785	48,812
Other, net	11,953	9,787
Total property, plant and equipment	180,101	179,850
Intangible assets		
Goodwill	516	493
Other	2,671	3,230
Total intangible assets	3,188	3,724
Investments and other assets		
Investment securities	50,442	57,879
Deferred tax assets	3,112	2,868
Other	9,287	9,524
Allowance for doubtful accounts	(166)	(168)
Total investments and other assets	62,676	70,103
Total non-current assets	245,966	253,678
Total assets	410,130	425,884

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable-trade	58,749	66,143
Electronically recorded obligations-operating	5,549	4,021
Short-term loans payable	17,830	14,078
Income taxes payable	1,756	3,845
Provision for bonuses	4,894	5,178
Other	28,124	30,067
Total current liabilities	116,904	123,335
Non-current liabilities		
Bonds payable	15,000	15,000
Long-term loans payable	32,178	30,424
Deferred tax liabilities	7,317	9,348
Deferred tax liabilities for land revaluation	3,815	3,815
Provision for directors' retirement benefits	6	6
Net defined benefit liabilities	8,702	8,756
Asset retirement obligations	1,207	1,218
Other	9,097	8,915
Total non-current liabilities	77,325	77,485
Total liabilities	194,230	200,820
Net assets		
Shareholders' equity		
Capital stock	20,000	20,000
Capital surplus	17,027	17,027
Retained earnings	151,908	155,546
Treasury stock	(5,327)	(5,318)
Total shareholders' equity	183,609	187,255
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,924	24,827
Deferred gains or losses on hedges	23	41
Revaluation reserve for land	8,571	8,571
Foreign currency translation adjustment	675	1,086
Remeasurements of defined benefit plans	76	75
Total accumulated other comprehensive income	29,270	34,602
Non-controlling interests	3,020	3,206
Total net assets	215,899	225,064
Total liabilities and net assets	410,130	425,884

(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, 2022	Six months ended September 30, 2023
Net sales	289,064	305,669
Cost of sales	244,320	255,312
Gross profit	44,743	50,357
Selling, general and administrative expenses	37,395	39,114
Operating profit	7,348	11,242
Non-operating income		
Interest income	1	15
Dividend income	513	564
Equity in earnings of affiliates	—	282
Other	582	654
Total non-operating income	1,097	1,516
Non-operating expenses		
Interest expenses	169	185
Equity in losses of affiliates	1,149	—
Loss (gain) on discontinuation of gift token	—	127
Other	242	204
Total non-operating expenses	1,561	518
Ordinary profit	6,883	12,240
Extraordinary income		
Gain on sales of non-current assets	1	15
National subsidies	25	—
Insurance claim income	17	—
Other	—	0
Total extraordinary income	43	16
Extraordinary loss		
Loss on sales of non-current assets	0	4
Loss on retirement of non-current assets	574	495
Impairment loss	66	186
Fire loss	2,239	—
Other	36	26
Total extraordinary loss	2,917	712
Profit before income taxes	4,010	11,544
Income taxes	1,647	3,714
Profit	2,363	7,830
Profit attributable to non-controlling interests	61	131
Profit attributable to owners of parent	2,301	7,698

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit	2,363	7,830
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,886)	4,907
Deferred gains or losses on hedges	51	18
Foreign currency translation adjustment	709	468
Remeasurements of defined benefit plans	78	10
Share of other comprehensive income of entities accounted for using the equity method	(3)	(15)
Total other comprehensive income	(1,050)	5,389
Comprehensive income	1,312	13,219
Comprehensive income attributable to owners of parent	1,191	13,030
Comprehensive income attributable to non-controlling interests	121	189

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	4,010	11,544
Depreciation and amortization	8,533	8,717
Impairment loss	66	186
Equity in (earnings) losses of affiliates	1,149	(282)
Amortization of goodwill	53	55
Increase (decrease) in allowance for doubtful accounts	1	21
Increase (decrease) in provision for bonuses	16	282
Decrease (increase) in net defined benefit asset	(410)	(283)
Increase (decrease) in net defined benefit liability	159	48
Loss (gain) on sales and retirement of non-current assets	573	483
Interest and dividend income received	(514)	(579)
Interest expenses	169	185
Decrease (increase) in accounts receivable-other	610	528
Decrease (increase) in notes and accounts receivable-trade	(8,052)	(14,102)
Decrease (increase) in inventories	(154)	(1,728)
Increase (decrease) in notes and accounts payable-trade	5,852	5,761
Other	(1,276)	948
Sub total	10,787	11,786
Interest and dividend income	571	630
Interest expenses paid	(169)	(186)
Income taxes paid	(2,000)	(1,384)
Net cash provided by (used in) operating activities	9,189	10,846
Cash flows from investing activities		
Payments of loans receivable	(2)	(9)
Collection of loans receivable	3	13
Purchase of property, plant and equipment and intangible assets	(9,823)	(8,897)
Proceeds from sales of property, plant and equipment and intangible assets	17	17
Purchase of investment securities	(1,258)	(167)
Other	49	75
Net cash provided by (used in) investing activities	(11,013)	(8,967)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	194	(170)
Repayment of long-term loans payable	(310)	(5,336)
Purchase of treasury stock	(1)	(3)
Cash dividends paid	(4,053)	(4,052)
Cash dividends paid to non-controlling interests	(2)	(2)
Other	(417)	(390)
Net cash provided by (used in) financing activities	(4,590)	(9,955)
Effect of exchange rate on cash and cash equivalents	271	170
Net increase (decrease) in cash and cash equivalents	(6,143)	(7,906)
Cash and cash equivalents at beginning of period	19,979	20,338
Increase in cash and cash equivalents from newly consolidated subsidiaries	326	—
Cash and cash equivalents at end of period	14,162	12,431

(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.

(Segment and Other Information)

【Segment information】

I 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.

II Six months ended September 30, 2023 (April 1 to September 30, 2023)

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	126,531	132,059	27,072	285,663	20,006	305,669	—	305,669
Sales to outside customers	126,531	132,059	27,072	285,663	20,006	305,669	—	305,669
Inter-segment sales and transfers	7,278	47	669	7,995	6,560	14,555	(14,555)	—
Total	133,810	132,107	27,741	293,659	26,566	320,225	(14,555)	305,669
Segment profit	5,099	3,691	761	9,552	1,656	11,209	32	11,242

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 32 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)

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