

Consolidated Financial Results for the Nine Months Ended December 31, 2023

(Prepared pursuant to Japanese GAAP)

February 9, 2024

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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 Nine Months of the Fiscal Year Ending March 31, 2024 (April 1, 2023 – December 31, 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	%
Nine months ended December 31, 2023	460,478	4.6	16,300	46.9	17,774	61.4	11,398	92.9
Nine months ended December 31, 2022	440,302	3.0	11,095	(32.5)	11,011	(39.2)	5,908	(48.6)

Note: Comprehensive income: Nine months ended December 31, 2023 : 17,855 million yen (150.5%)
 Nine months ended December 31, 2022 : 7,127 million yen (-38.6%)

	Profit per share – basic	Profit per share – diluted
	yen	yen
Nine months ended December 31, 2023	168.76	—
Nine months ended December 31, 2022	87.48	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net asset per share
	millions of yen	millions of yen	%	yen
December 31, 2023	427,185	229,697	53.0	3,353.27
March 31, 2023	410,130	215,899	51.9	3,151.74

For reference: Equity: December 31, 2023 : 226,498 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)

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

2) Treasury stock as of period-end

December 31, 2023	3,206,132 shares
March 31, 2023	3,208,420 shares

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

Nine months ended December 31, 2023	67,544,830 shares
Nine months ended December 31, 2022	67,540,283 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 Nine months ended December 31, 2023

1. Operating Results

Forward-looking statements included in the following text are based on the judgments of the Group's management as of December 31, 2023.

(1) Overview of Operating Results

In the nine months ended December 31, 2023, the Japanese economy showed signs of gradual recovery with improvements in employment and income levels, partly due to the effects of various policies, and is expected to continue such recovery. With regard to the outlook, it is necessary to pay close attention to the impacts of conflicts in Ukraine and the Middle East, fluctuations in financial and capital markets, and the Noto Peninsula earthquake, 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, the continued high prices of various products, including food products, are affecting the purchasing behavior of consumers, although the momentum of the rise in prices of raw materials has eased.

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 nine months ended December 31, 2023, consolidated net sales were ¥460,478 million (up 4.6% YoY), operating profit was ¥16,300 million (up 46.9%), ordinary profit was ¥17,774 million (up 61.4%), and profit attributable to owners of parent was ¥11,398 million (up 92.9%).

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 nine months ended December 31, 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 ¥194,843 million (up 3.9% YoY), and operating profit was ¥7,966 million (down 1.8%).

(Net sales)

Sales of butter increased year on year due to the capture of demand over the market average, while revising prices. Sales of margarine increased year on year, boosted by market growth and our strenuous efforts to expand sales. Regarding cheese, sales were strong, due to the establishment of a system to increase production with the operation of a new line at the Taiki Plant for the mainstay product Sakeru Cheese and the launch of a new consommé flavor, etc. In addition, overall segment sales increased from the previous year partly due to the bolstering of marketing activities including web promotion.

Sales of functional food products were steady, partly due to aggressive marketing activities on mall-type e-commerce sites, although growth in the subscription-based e-commerce business became stable because of the return to normality in urban areas following the easing of restrictions related to COVID-19. In nutrition business, overall segment sales remained steady, while sales of powdered milk and other products were at the same level as in the previous fiscal year due to price revisions.

(Operating profit)

Profits decreased from the previous fiscal year partly due to the increased burden of fixed costs despite 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 ¥196,339 million (up 7.0% YoY), and operating profit was ¥5,520 million (up 356.1%).

(Net sales)

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

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

Regarding yogurt, 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. On the other hand, despite the launch of new products such as Mainichi Honebuto High-Protein Yogurt MBP and Megumi *Lactobacillus gasseri* SBT2055 PROTEIN, the demand for functional yogurt in the market has calmed down, and the sales of the “Yogurt containing *Lactobacillus gasseri* SBT2055” series were slightly lower than in the previous fiscal 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)

Profits 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 ¥39,353 million (down 4.2% YoY), and operating profit was ¥485 million (up 33.6%).

(Net sales)

Overall segment sales decreased year on year, partly due to the decrease in volumes sold caused by factors including the lower compound feed sales prices and the decline of demand for dairy cattle feed.

(Operating profit)

Operating profit increased due to cost reduction efforts, etc., despite lower sales.

4) Other

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

Net sales were ¥29,941 million (up 6.0% YoY), and operating profit was ¥2,248 million (up 60.5%).

(2) Analysis of Financial Condition

1) Assets, liabilities, and net assets

(Millions of yen)

Category	End of March 2023	End of December 2023	Change	Primary reason for change
Assets	410,130	427,185	17,054	Notes and accounts receivable-trade, and contract assets +12,176 Investment securities +8,983 Raw materials and supplies +1,727 Cash and deposits (4,861) Merchandise and finished goods (2,168)
Liabilities	194,230	197,487	3,256	Notes and accounts payable-trade +5,226 Short-term loans payable (3,658)
Net Assets	215,899	229,697	13,798	Retained earnings +7,337 Valuation difference on available-for-sale securities +5,897

2) Cash flows

(Millions of yen)

Category	Nine months ended December 31, 2022	Nine months ended December 31, 2023	Change	Primary reason for change
Cash flows from operating activities	10,161	20,532	10,370	Profit before income taxes +7,846 Decrease (increase) in notes and accounts receivable-trade +6,808 Increase (decrease) in notes and accounts payable-trade (5,462)
Cash flows from investing activities	(13,186)	(15,258)	(2,071)	Purchase of property, plant and equipment and intangible assets (2,252) Proceeds from sales of investment securities (959) Purchase of investment securities +1,090
Cash flows from financing activities	(2,336)	(10,289)	(7,953)	Repayment of long-term loans payable (5,024) Proceeds from issuance of bonds (4,971) Net increase (decrease) in short-term loans payable +2,568
Cash and cash equivalents at end of period	15,211	15,476	264	—

(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 December 31, 2023
Assets		
Current assets		
Cash and deposits	20,351	15,489
Notes and accounts receivable-trade, and contract assets	80,257	92,433
Merchandise and finished goods	40,900	38,732
Work in process	899	1,067
Raw materials and supplies	16,013	17,740
Other	6,080	6,225
Allowance for doubtful accounts	(339)	(354)
Total current assets	164,163	171,333
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	60,964	61,940
Machinery, equipment and vehicles, net	58,398	58,138
Land	48,785	48,812
Other, net	11,953	11,163
Total property, plant and equipment	180,101	180,054
Intangible assets		
Goodwill	516	466
Other	2,671	3,577
Total intangible assets	3,188	4,043
Investments and other assets		
Investment securities	50,442	59,426
Deferred tax assets	3,112	2,852
Other	9,287	9,640
Allowance for doubtful accounts	(166)	(166)
Total investments and other assets	62,676	71,753
Total non-current assets	245,966	255,851
Total assets	410,130	427,185

	(Millions of yen)	
	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable-trade	58,749	63,975
Electronically recorded obligations-operating	5,549	3,991
Short-term loans payable	17,830	14,172
Income taxes payable	1,756	3,221
Provision for bonuses	4,894	2,787
Other	28,124	31,247
Total current liabilities	116,904	119,395
Non-current liabilities		
Bonds payable	15,000	15,000
Long-term loans payable	32,178	30,224
Deferred tax liabilities	7,317	10,059
Deferred tax liabilities for land revaluation	3,815	3,815
Provision for directors' retirement benefits	6	6
Net defined benefit liabilities	8,702	8,954
Asset retirement obligations	1,207	1,220
Other	9,097	8,811
Total non-current liabilities	77,325	78,091
Total liabilities	194,230	197,487
Net assets		
Shareholders' equity		
Capital stock	20,000	20,000
Capital surplus	17,027	17,027
Retained earnings	151,908	159,245
Treasury stock	(5,327)	(5,320)
Total shareholders' equity	183,609	190,953
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,924	25,821
Deferred gains or losses on hedges	23	(4)
Revaluation reserve for land	8,571	8,571
Foreign currency translation adjustment	675	1,082
Remeasurements of defined benefit plans	76	74
Total accumulated other comprehensive income	29,270	35,545
Non-controlling interests	3,020	3,198
Total net assets	215,899	229,697
Total liabilities and net assets	410,130	427,185

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

Quarterly Consolidated Statements of Income

	(Millions of yen)	
	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Net sales	440,302	460,478
Cost of sales	373,285	385,163
Gross profit	67,017	75,314
Selling, general and administrative expenses	55,922	59,013
Operating profit	11,095	16,300
Non-operating income		
Interest income	3	20
Dividend income	925	1,064
Equity in earnings of affiliates	—	480
Other	663	778
Total non-operating income	1,591	2,344
Non-operating expenses		
Interest expenses	256	268
Equity in losses of affiliates	994	—
Loss (gain) on discontinuation of gift token	—	132
Other	424	470
Total non-operating expenses	1,675	871
Ordinary profit	11,011	17,774
Extraordinary income		
Gain on sales of non-current assets	1	23
Gain on sale of investment securities	938	91
Other	42	0
Total extraordinary income	982	115
Extraordinary loss		
Loss on sales of non-current assets	0	10
Loss on retirement of non-current assets	741	834
Impairment loss	86	233
Fire loss	2,239	—
Other	36	74
Total extraordinary loss	3,104	1,153
Profit before income taxes	8,889	16,736
Income taxes	2,864	5,208
Profit	6,024	11,527
Profit attributable to non-controlling interests	116	128
Profit attributable to owners of parent	5,908	11,398

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Profit	6,024	11,527
Other comprehensive income		
Valuation difference on available-for-sale securities	320	5,898
Deferred gains or losses on hedges	(65)	(27)
Foreign currency translation adjustment	736	461
Remeasurements of defined benefit plans	117	15
Share of other comprehensive income of entities accounted for using the equity method	(5)	(19)
Total other comprehensive income	1,103	6,327
Comprehensive income	7,127	17,855
Comprehensive income attributable to owners of parent	6,937	17,673
Comprehensive income attributable to non-controlling interests	190	181

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Cash flows from operating activities		
Profit before income taxes	8,889	16,736
Depreciation and amortization	12,880	13,173
Impairment loss	86	233
Equity in (earnings) losses of affiliates	994	(480)
Amortization of goodwill	82	84
Increase (decrease) in allowance for doubtful accounts	26	14
Increase (decrease) in provision for bonuses	(2,274)	(2,108)
Decrease (increase) in net defined benefit asset	(618)	(341)
Increase (decrease) in net defined benefit liability	348	248
Loss (gain) on sales and retirement of non-current assets	739	822
Interest and dividend income received	(928)	(1,085)
Interest expenses	256	268
Decrease (increase) in accounts receivable-other	336	397
Decrease (increase) in notes and accounts receivable-trade	(18,815)	(12,007)
Decrease (increase) in inventories	2,461	482
Increase (decrease) in notes and accounts payable-trade	9,031	3,569
Other	35	2,624
Sub total	13,531	22,631
Interest and dividend income	986	1,136
Interest expenses paid	(255)	(287)
Income taxes paid	(4,100)	(2,948)
Net cash provided by (used in) operating activities	10,161	20,532
Cash flows from investing activities		
Payments of loans receivable	(4)	(56)
Collection of loans receivable	5	61
Purchase of property, plant and equipment and intangible assets	(13,193)	(15,446)
Proceeds from sales of property, plant and equipment and intangible assets	25	25
Purchase of investment securities	(1,262)	(171)
Proceeds from sales of investment securities	1,160	200
Other	82	127
Net cash provided by (used in) investing activities	(13,186)	(15,258)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,623)	(54)
Repayment of long-term loans payable	(533)	(5,558)
Proceeds from issuance of bonds	4,971	—
Purchase of treasury stock	(2)	(5)
Cash dividends paid	(4,055)	(4,055)
Cash dividends paid to non-controlling interests	(2)	(2)
Other	(89)	(613)
Net cash provided by (used in) financing activities	(2,336)	(10,289)
Effect of exchange rate on cash and cash equivalents	265	152
Net increase (decrease) in cash and cash equivalents	(5,095)	(4,862)
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	15,211	15,476

(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 Nine months ended December 31, 2022 (April 1 to December 31, 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	187,444	183,536	41,082	412,063	28,239	440,302	—	440,302
Sales to outside customers	187,444	183,536	41,082	412,063	28,239	440,302	—	440,302
Inter-segment sales and transfers	10,911	82	1,027	12,021	10,122	22,143	(22,143)	—
Total	198,356	183,618	42,110	424,085	38,361	462,446	(22,143)	440,302
Segment profit	8,111	1,210	363	9,685	1,401	11,086	8	11,095

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 8 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 Nine months ended December 31, 2023 (April 1 to December 31, 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	194,843	196,339	39,353	430,537	29,941	460,478	—	460,478
Sales to outside customers	194,843	196,339	39,353	430,537	29,941	460,478	—	460,478
Inter-segment sales and transfers	10,554	68	994	11,617	9,615	21,233	(21,233)	—
Total	205,398	196,407	40,348	442,154	39,556	481,711	(21,233)	460,478
Segment profit	7,966	5,520	485	13,971	2,248	16,220	80	16,300

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 80 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)".