



March 14, 2024

Company name: Morinaga Milk Industry Co., Ltd.  
5-2, Higashishimbashi 1-chome, Minato-ku,  
Tokyo  
Representative: Yohichi Ohnuki,  
President & Representative Director  
(Code: 2264, Prime Market of the Tokyo Stock Exchange)

## Notice Concerning Action to Implement Management That is Conscious of Cost of Capital and Stock Price

The Company announces that it has once again analyzed and evaluated the current status of the Company and has resolved, at the meeting of its Board of Directors held on May 14, 2024, to adopt a policy for improvement with regard to Action to Implement Management That is Conscious of Cost of Capital and Stock Price.

Please refer to the attached document “Action to Implement Management That is Conscious of Cost of Capital and Stock Price” for details.

### 1. Recognition of current situation

Despite maintaining PBR above 1.0× and ROE of over 8% over recent years, shareholders’ equity has risen recently due to impact of major asset sales, etc., pushing down ROE. Although we perceive our cost of shareholder’s equity to be around 6%, based on CAPM model and interviews with shareholders and investors, we recognize importance of quickly returning to 8% or more.

### 2. Policy for improvement

In accordance with policies (Morinaga Milk Group 10-year Vision, Medium-Term Business Plan 2022–2024, and Sustainability Medium- to Long-Term Plan 2030, etc.) the Company is pursuing initiatives to improve its ROE (profitability, efficiency, and financial leverage) and PER (growth expectations and non-financial indicators). In order to meet the expectations of stakeholders and achieve sustainable growth and medium- to long-term improvement in corporate value, the Company will work on the three points “Improving profitability/efficiency,” “Updating balance sheet policy,” and “Strengthening IR/corporate governance,” and aim to further increase ROE and improve PBR.

\* Please also refer to the timely disclosure of acquisition of treasury stock and annual dividend increase in financial results as of today as measures to enhance shareholder returns based on this policy.

Disclaimer: This English translation is provided for the benefit of readers. In the case that discrepancies exist between the original Japanese version and the English translation, precedence goes to the original Japanese version.



# **Action to Implement Management That is Conscious of Cost of Capital and Stock Price**

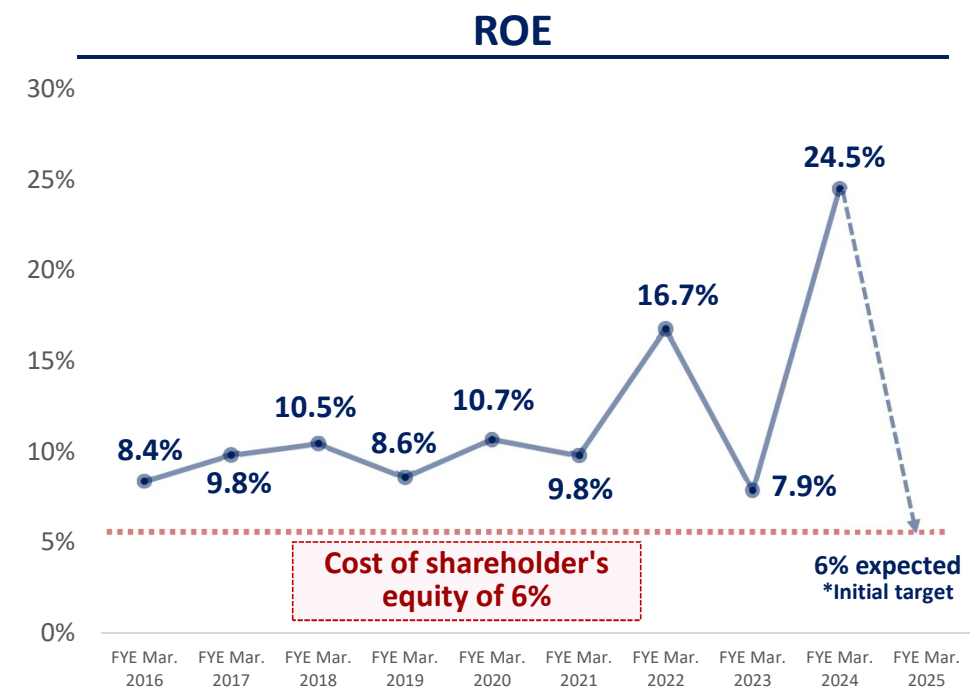
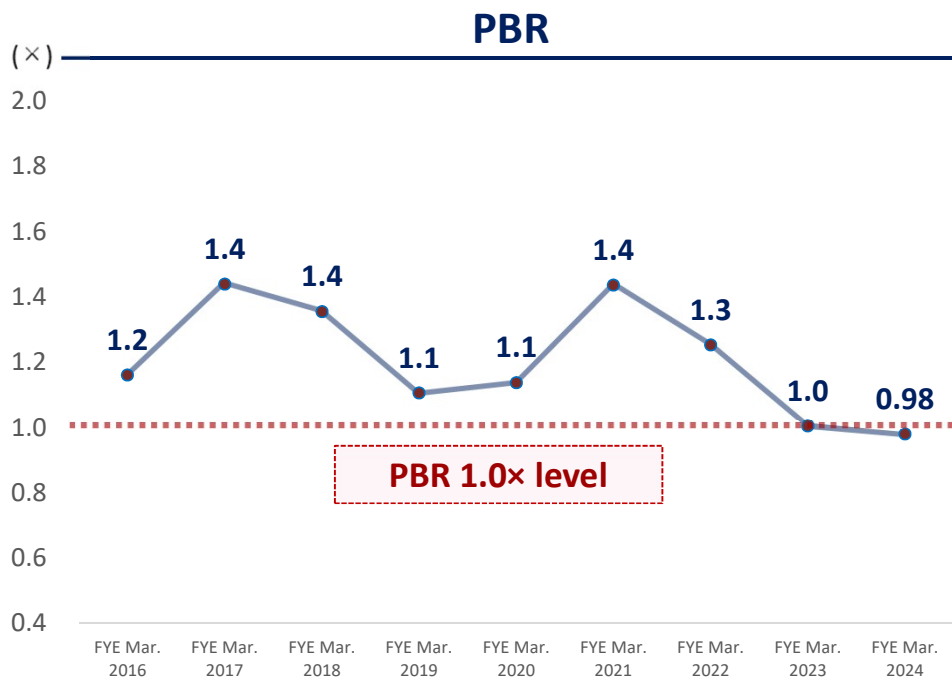
May 14, 2024

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

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# 1. PBR and ROE

Despite maintaining PBR above 1.0x and ROE of over 8%, shareholders' equity has risen recently due to impact of major asset sales, etc., pushing down ROE, but we recognize importance of quickly returning to 8% or more



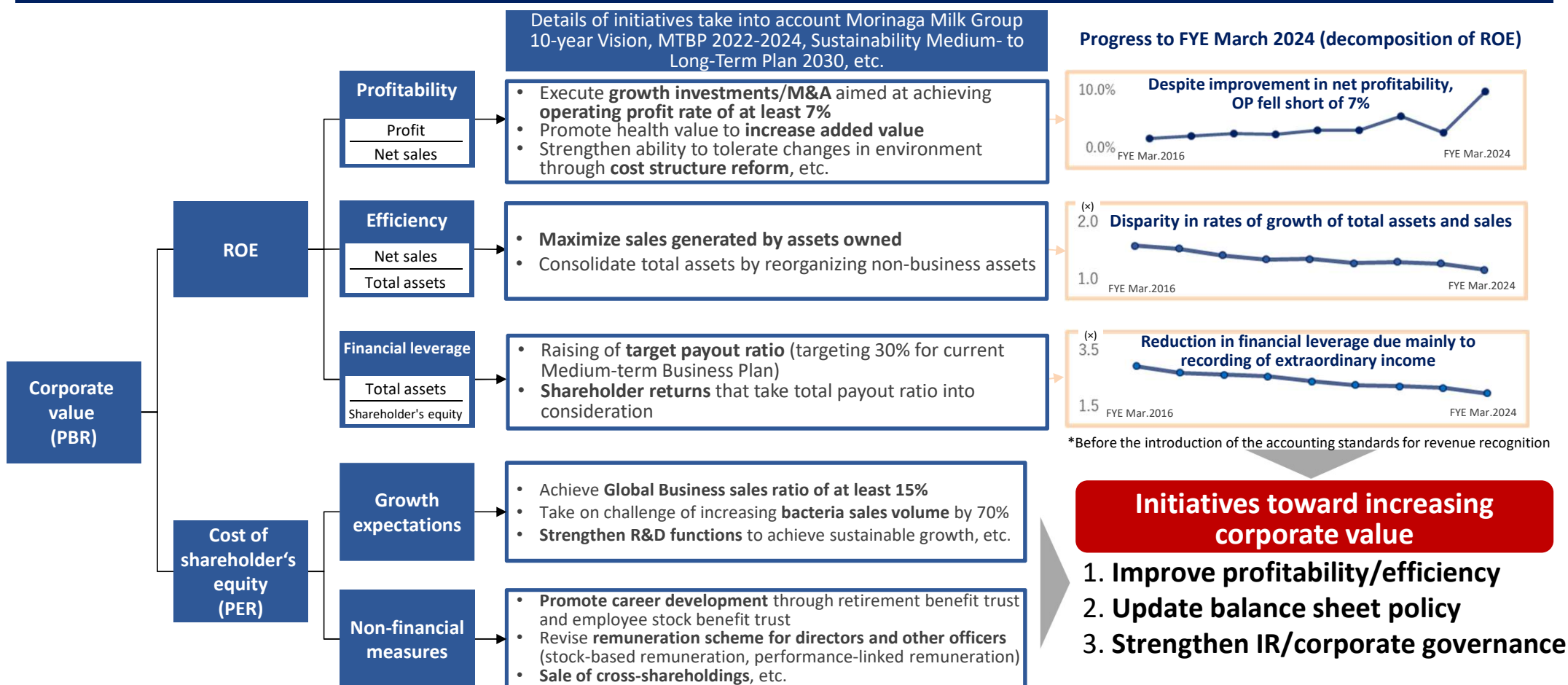
- Despite maintaining PBR above 1.0x, profit increases and major asset sales (Morinaga Plaza Building, former sites of Kinki and Tokyo plants) over past few years have pushed up shareholders' equity. Figure for FYE March 2024 is 0.98x

- We perceive our cost of shareholder's equity to be around 6%, based on CAPM model and interviews with shareholders and investors

## 2. Our Perception of Issues, and Overview of Initiatives Aimed at Increasing Corporate Value



We will work on 1. Improve profitability/efficiency, 2. Update balance sheet policy, and 3. Strengthen IR/corporate governance, to increase corporate value



### 3. Initiatives to Improve Profitability and Efficiency

In this dramatically changing environment our focus is on executing price revisions and restoring profitability. There has been no change in the positioning or direction of the current MTBP within the 10-year vision; we will steadily execute initiatives in line with policy (next MTBP scheduled to be announced in spring 2025)

#### Medium-term Business Plan 2022–2024

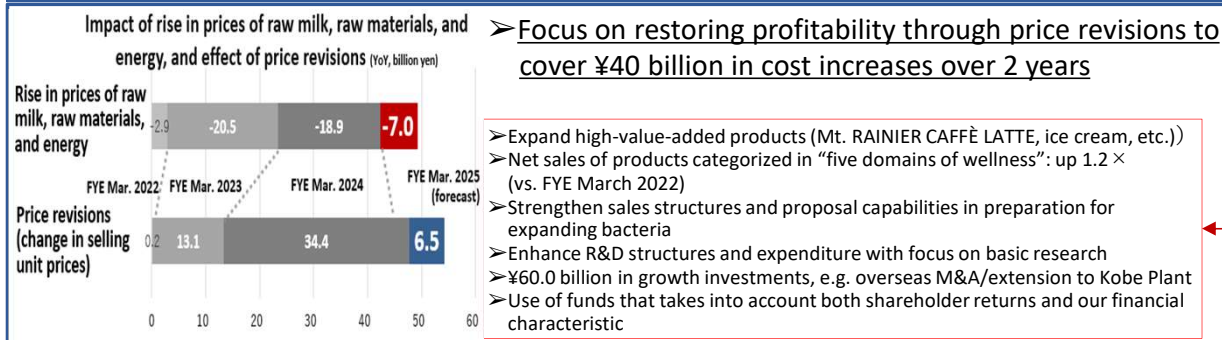
(FYE March 2023 to FYE March 2025)

**<To continue to be the company of choice> We aim to resolve societal issues and improve sales growth and profitability!**

#### Direction

Basic Policy 1: Achieving sustainable growth by increasing the added value of our business  
Basic Policy 2: Further strengthening our business base with an eye on the future  
Basic Policy 3: Financial strategies focused on efficiency

#### Execute basic policy as well as responding to dramatic changes in environment



#### Outlook for financial results in FYE March 2025

##### Initial plan

##### Figures announced in May 2024

Net sales	¥540 billion	Net sales	¥570 billion
Operating profit	¥25 billion	Operating profit	¥30 billion
Operating profit rate	4.6%	Operating profit rate	5.3%
ROE	6%	ROE	7%
Global Business sales ratio	13%	Global Business sales ratio	12%

#### Initiatives to further improve profitability and efficiency (FYE March 2026 onwards)

Considering various perspectives, such as

- Concentrating resources on high-value-added products and priority areas
- Building the structures and business foundation to enable us to continue to provide new value to the market
- Improving business efficiency through revision of production and sales structures

**Next Medium-term Business Plan will be the final phase of the 10-year vision (scheduled to be announced in spring 2025)**

## 4. Update Balance Sheet Policy (Optimal Capital Structure)

While preserving financial soundness, we will update the balance sheet policy with the aim of maximizing corporate value by pursuing the optimal capital structure and reducing the cost of capital. Going forward we aim for growth while utilizing a certain amount of debt.

### Approach to optimal capital structure

- We will control shareholders' equity to a range in which there is no problem in terms of business risk and that is consistent with maintaining "A" rating
- For the time being we will aim at a net interest-bearing liabilities / shareholder's equity of 0.4-0.5× (reviewed every fiscal year in response to internal/external environments)
- We will optimize gradually over the medium to long term, taking into account future investment plans

### Approaches

#### (1) Business risk approach

##### Minimum level of shareholders' equity required in an emergency

Amount that takes into consideration the perspective of creditors, based on general indicators, and the perspective of the Company, based on capital analysis

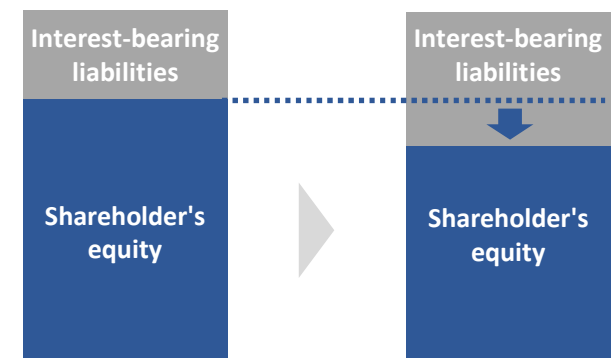
Consider both sides in pursuit of optimal capital structure

#### (2) Credit rating approach

##### Financial balance consistent with maintaining "A" rating

Net interest-bearing liabilities / shareholders' equity of no more than 0.7 ×  
Net interest-bearing liabilities / EBITDA of no more than 3.0 ×

### How it might look



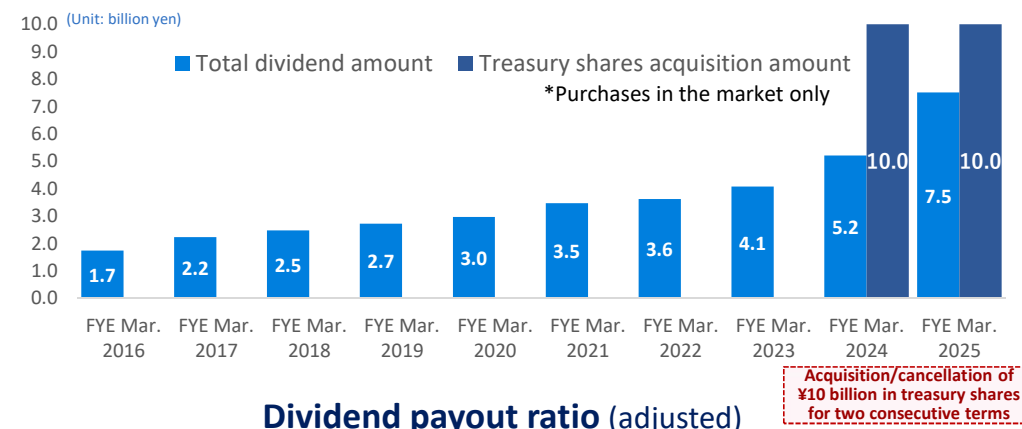
## 4. Update Balance Sheet Policy (Shareholder Return Policy)

Enhance shareholder returns based on balance sheet policy that pursues optimal capital structure  
Raise annual dividend from 60 yen in the previous fiscal year to 90 yen in FYE March 2025, with another ¥10.0 billion in treasury share acquisitions planned for FYE March 2025 in a continuation of the previous fiscal year

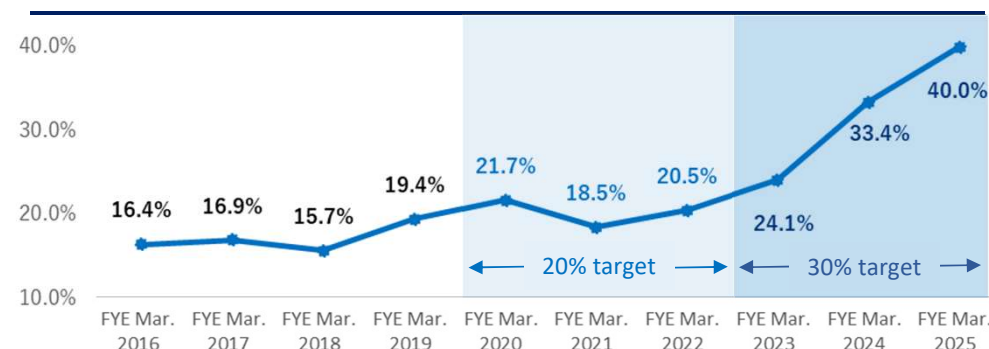
### Shareholder return policy

	Current MTBP	FYE Mar. 2024	FYE Mar. 2025 (forecast)	FYE Mar. 2026 and beyond
<b>Dividend</b>	Target dividend payout 30%	Annual dividend 60 yen Payout ratio 33.4%* *Excluding impact of asset sales	Annual dividend 90 yen Payout ratio 40.0% Introduction of interim dividend system	Dividend policy aimed at optimal capital structure
<b>Treasury shares acquisition amount</b>	Maintain awareness of total payout ratio	10.0 billion yen *Canceled	10.0 billion yen *Cancellation scheduled	Flexible acquisition of treasury shares

### Shareholder returns



### Dividend payout ratio (adjusted)



## 5. Strengthen Investor Relations and Corporate Governance

**Reduce cost of shareholder's equity through active information disclosure and dialogue with capital markets, and strengthened corporate governance**

### <Dialogue with markets / information disclosure>

#### 1. Enhance information disclosure for the Global Business

- Net sales plans and factors driving increases/decreases in operating profit for consolidated overseas subsidiaries, etc.  
FYE Mar. 2024 onwards: Disclosure of net sales results for main subsidiaries
- FYE Mar. 2025 onwards: Disclosure of net sales plans for main subsidiaries, changes in Global Business operating profit

#### 2. Create opportunities for dialogue with Outside Directors (scheduled for FY2024)

#### 3. Provide explanations / foster understanding of capital markets among Morinaga Milk Group employees

- Introduce employee stock benefit trust system (to be implemented from FYE March 2025 onward at Morinaga Milk)  
Invest in human capital, raise interest in/awareness of capital markets
- Create opportunities for dialogue with internal stakeholders and foster understanding of capital markets  
Lectures by institutional investors or securities analysts: once-yearly  
Internal IR meetings: 17 in total

### <Strengthen corporate governance >

#### 4. Review of the operating structure of the Personnel Remuneration Committee

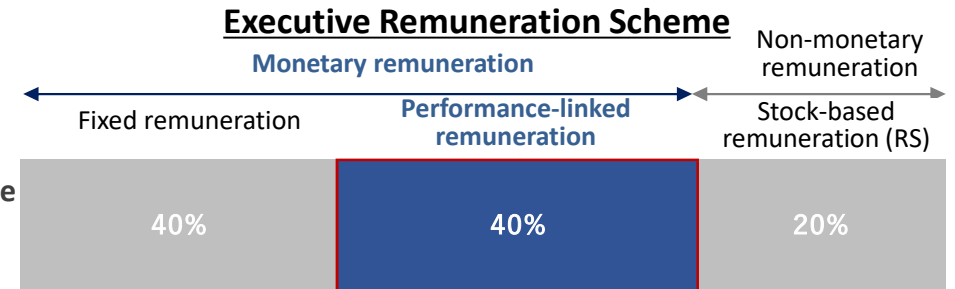
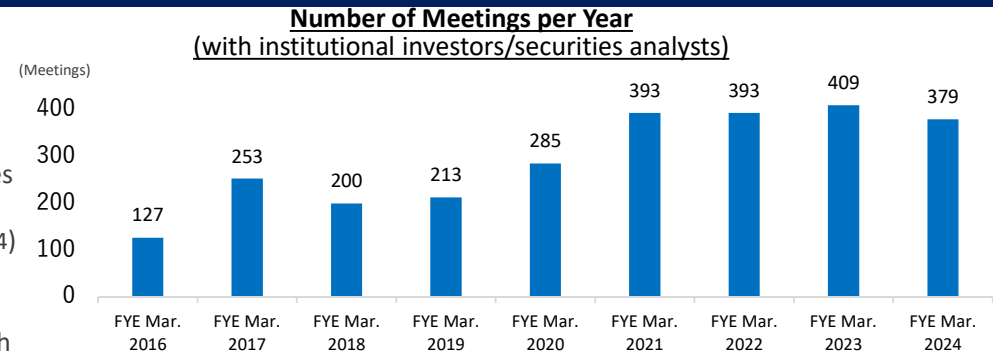
#### 5. Executive remuneration scheme revised (performance-linked remuneration design; see chart at lower right)

#### 6. Change in target for ratio of female managers, setting of employee engagement targets

- Target for ratio of female managers by FY2030: at least 10% → at least 20%  
by FY2026: at least 6% → at least 10%
- New targets set in relation to employee engagement  
Employee engagement rating for FY2030: "A"

#### 7. Reduction of cross-shareholdings

- Cash generated by sales to be used for growth investments and shareholder returns  
Targeting reduction of 50% over the five years to FYE March 2029 (vs. FYE March 2024 book value)



Before change		FYE March 2024 onwards			
Financial KPI 100%		Financial KPI 80%		Non-financial KPI 20%	
Consolidated net sales	40%	Consolidated net sales	30%	FTSE	50%
Consolidated operating profit	40%	Consolidated operating profit	40%	MSCI	50%
ROE	20%	ROE	30%		

\*KPIs and evaluation ratios are deliberated and determined by the Board of Directors every year

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## 6. Cash Allocation for the Current Medium-term Business Plan (Updated)



Invest in business expansion / organizational reinforcement, provide shareholder returns as a key challenge (dividend increases + acquisition of treasury shares)  
Invest in human capital with the aim of promoting career development and raising awareness of the capital markets (retirement benefit / employee stock benefit trust)

### Sources of funding

Cash inflow over the three-year period of the Medium-Term Business Plan (¥160.0 billion)

\*including sales of assets

\*Sale of the former Tokyo Plant site: nearly ¥60.0 billion

Cash in (1Q of FYE Mar. 2024)

\*including ¥15.0 billion of green bonds (FYE Mar. 2023: ¥5.0 billion FYE Mar. 2025: ¥10.0 billion (targeted))

### Uses of funding

Growth investments (¥60.0 billion)

Updating / ordinary investments (¥50.0 billion)

Shareholder returns  
Payout ratio target: 30%  
Acquisition and cancellation of treasury shares:  
¥10 billion already implemented  
¥10 billion to be implemented in FYE Mar. 2025

Investing in people, etc. (¥13.0 billion)

Resolve societal issues and improve sales growth and profitability

Apply to investment in human resource development, research and development, and other intangible assets

\*Allocation rates not to scale

### Invest now to create operating cash flow in the distant future

- Executed growth investments and M&As needed to achieve the 10-year Vision
- Projects announced at beginning of FYE March 2023 and now completed, including manufacturing extension to Kobe Plant: Approx. ¥20.0 billion
- Overseas M&As: approx. ¥10.0 billion
- Investment at MILEI: €38 million
- Kobe Plant line (ice cream) : Approx. ¥10.0 billion
- Tone Plant manufacturing line (yogurt, beverages) : Approx. ¥10.0 billion, etc.

### Enhance shareholder returns with an awareness of optimal capital structure (¥17 billion in dividends and ¥20 billion in acquisition of treasury shares)

- Payout ratio target: 30% (excluding temporary factors)
- FYE Mar. 2022: 20.5%\*<sup>1</sup> → FYE Mar. 2024: 33.4%\*<sup>2</sup> → FYE Mar. 2025 forecast: **40.0%**
- Response that focuses on the total payout ratio
- Cancellation of treasury shares (Aug. 2022) : 4.01% of the total
- Acquisition and cancellation of treasury shares (Implemented in FYE March 2024): 3.88% of the total/¥10.0 billion
- **Acquisition and cancellation of treasury shares (to be implemented in FYE March 2025): 3.92% of the total (upper limit) /¥10.0 billion**

### Investment in people for promotion of career development

- **Introduce retirement benefit / employee stock benefit trust systems (¥13.0 billion)**
- The Company has established a retirement benefit trust to secure the funds for lump-sum retirement benefits in the future. It will also establish an employee stock benefit trust using the investment income from the retirement benefit trust. By granting shares to employees of the Company, we seek to raise awareness of the share price and financial results

\*1 Figure after deducting the impact of transfer of the former Kinki Plant and Morinaga Milk Konan Building. The ratio would be 11.6% if impact is not deducted.

\*2 Figure after deducting the impact of transfer of the former Tokyo Plant site. The ratio would be 8.6% if impact is not deducted.



### **Cautionary Note Regarding Business Forecasts**

Figures for plans, policies, and other figures included in this report other than actual past results are forecasts of future business performance, and are calculated based on management's estimates and understanding of the information available to the Company at the time this presentation was prepared. Accordingly, these forward-looking figures contain elements of risk and uncertainty, and actual results may differ from these forecasts for a variety of reasons. These elements of potential risk and uncertainty include economic conditions in the Company's major markets, trends in demand for the Company's products, exchange rate movements, and regulatory changes and changes in accounting standards and business practices in Japan and other countries. Monetary amounts in this presentation are shown in billions of yen, with amounts of less than 0.1 billion yen rounded to the nearest 0.1 billion yen, and as a result, total figures may differ from the sum of the corresponding breakdown figures.