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October 15, 2024

Consolidated Financial Results for the Nine Months Ended August 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: October 15, 2024
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results briefing: None

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

1. Consolidated financial results for the nine months ended August 31, 2024 (from December 1, 2023 to August 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	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
August 31, 2024	**128,178**	**9.2**	**3,462**	**44.0**	**3,479**	**68.9**	**2,544**	**77.3**
August 31, 2023	117,330	9.2	2,403	(13.1)	2,059	(24.4)	1,434	(27.2)

Note: Comprehensive income For the nine months ended August 31, 2024: ¥ 2,006 million [(13.7)%]
For the nine months ended August 31, 2023: ¥ 2,323 million [(32.4)%]

	Earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
August 31, 2024	**255.38**	**254.29**
August 31, 2023	144.73	143.25

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
August 31, 2024	**83,944**	**26,069**	**31.0**
November 30, 2023	72,038	24,724	34.2

Reference: Equity
As of August 31, 2024: ¥ 26,036 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: None

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
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending 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: None

*** Notes**

(1) Significant changes in the scope of consolidation during the term: 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 August 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 August 31, 2024	63,257 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)

Nine months ended August 31, 2024	9,963,732 shares
Nine months ended August 31, 2023	9,914,332 shares

* Review of the quarterly consolidated financial statements by a certified public accountant or auditing firm : No

* 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 third quarter consolidated accounting and cumulative period. For ease of comparison, figures for the previous consolidated fiscal year and cumulative third quarter have also been changed to units of millions of yen.

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1. Qualitative Information on Quarterly Financial Results

(1) Operating Results

During the current third quarter consolidated cumulative period (the “third quarter”), Japan's economy experienced moderate recovery. Although personal consumption was sluggish due to the impact of rising prices, corporate performance and the employment and income environment improved. On the other hand, the global economy remained uncertain due to prolonged conflicts in Eastern Europe and the Middle East, the stagnation of China's economy, the materialization of economic downturn risks in Europe and the U.S., and significant fluctuations in exchange rates driven by these factors.

In the domestic food industry, while price increases for various food products led to a stronger consumer focus on saving, demand for commercial-use food remained robust, supported by the recovery of economic activity, increased movement of people, and booming inbound tourism consumption.

Under these circumstances, the Lacto Japan Group worked to implement various measures aimed at achieving the goals of its Corporate Business Plan titled, NEXT-LJ 2025. In our domestic business, driven by the recovery in demand for food ingredients, particularly for commercial use, sales volume across all divisions increased compared to the same period of the previous year. Performance was further supported by high sales prices due to rising prices of dairy product ingredients and meat products, as well as the weaker yen, leading to favorable business progress. In the Asian business, both processed cheese and processed natural cheese products saw increased sales volumes in the Cheese Manufacturing and Sales Division compared to the same period of the previous year, resulting in steady performance.

As a result, net sales for the third quarter were 128,178 million yen (up 9.2% year on year). Operating income was 3,462 million yen (up 44.0% year on year), ordinary income was 3,479 million yen (up 68.9% year on year), and net income attributable to owners of parent was 2,544 million yen (up 77.3% year on year).

Performance by division is as follows:

(Dairy Ingredients and Cheese Business Division)

In the sale of dairy ingredients, demand for imported dairy ingredients showed a recovery trend due to both the decline in domestic raw milk production, which led to a decrease in the production and stock levels of domestically produced skim milk powder and butter, and the strong performance of the food service and leisure industries. The hot summer led to strong demand for ice cream ingredients, and demand also increased for other milk preparations used in a wide range of food products, such as confectionery, as well as lactose, which is used as an ingredient in chocolate. Consequently, sales volumes of these ingredients increased compared to the same period of the previous year. Furthermore, demand for imported dairy ingredients used in feed also recovered, leading to strong sales of related products such as whey powder.

In the cheese sales segment, demand remained strong, particularly for commercial use in sectors such as food service. This led to an increase in new inquiries for our products, as well as an expansion of existing transactions, resulting in higher sales volumes compared to the same period of the previous year.

As a result, third quarter sales volume for the Dairy Ingredients and Cheese Business Division was 134,143 tons (up 7.5% year on year) with net sales of 87,510 million yen (up 5.2% year on year).

(Meat and Ingredients Division)

In the Meat and Ingredients Division, strong inquiries for U.S. pork, which has a price advantage over European pork, created a favorable business environment for the Company, which has the U.S. as a primary supply source. Additionally, we made progress in developing new sales channels, leading to an increase in pork sales. Sales of frozen pork and seasoned pork, which are used as ingredients for processed meat products, were particularly strong.

Moreover, sales of chicken and processed chicken products, which saw the start of full-scale transactions in the latter half of the previous year, also remained stable, resulting in significant growth in sales volume for this division compared to the previous year.

As a result, third quarter sales volume for the Meat and Ingredients Division was 24,145 tons (up 15.9% year on year) with net sales of 16,340 million yen (up 21.8% 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 in the third quarter. In addition to developing new clients through marketing activities such as participation in trade shows, we deepened relationships with existing customers, leading to an increase in sales volume. Although sales of functional food ingredients other than milk protein fell short of our plan, as we focused primarily on the strong demand for milk protein this quarter, we will continue to work on expanding the business by enhancing our product lineup and strengthening our combined proposals that integrate various functional ingredients.

As a result, third quarter sales volume for the Functional Food Ingredients Division was 2,438 tons (up 30.5% year on year) with net sales of 3,017 million yen (up 10.5% year on year).

(Asian Business, Others)

In the Asian Dairy Ingredients Sales Division (trading company), signs of recovery in sales of powdered milk mixtures, which had been impacted by Japan's skim milk powder inventory adjustment initiatives, began to emerge in the third quarter. Additionally, sales of dairy ingredients to Japanese food manufacturers operating in Asia continued to perform well into the third quarter, following strong results in the second quarter. Furthermore, the trading business at our sales base in Indonesia has started to gain traction, resulting in steady sales volume in this division.

As a result, third quarter sales volume was 28,871 tons (up 5.1% year on year) with net sales of 15,459 million yen (up 9.7% year on year).

In the Asian Cheese Manufacturing and Sales Division (manufacturer), although sales to China remained sluggish due to ongoing economic stagnation, sales to the food service and bakery sectors in Singapore and Malaysia continued to perform well, resulting in an increase in sales volume compared to the same period of the previous year. In Thailand, while the economy remains weak, there are signs of recovery in sales to hotels, restaurants, and cafés.

As a result, third quarter sales volume was 3,889 tons (up 9.8% year on year) with net sales of 4,139 million yen (up 19.2% year on year).

As a result, sales in the Asian Business, Others Business for the third quarter amounted to 21,310 million yen (up 18.2% year on year).

(2) Financial Position

Total assets at the end of the third quarter increased by 11,906 million yen from the end of the previous consolidated fiscal year to 83,944 million yen.

(Current assets)

The balance of current assets at the end of the third quarter was 78,548 million yen, an increase of 11,480 million yen compared to the end of the previous consolidated fiscal year. This was due to increases of 7,279 million yen in notes and accounts receivable, 2,129 million yen in merchandise and finished goods, and 1,976 million yen in cash and deposits.

(Non-current assets)

The balance of non-current assets at the end of the third quarter was 5,396 million yen, an increase of 426 million yen compared to the end of the previous consolidated fiscal year. This was due to an increase of 235 million yen in intangible assets and an increase of 122 million yen in property, plant and equipment.

(Current liabilities)

The balance of current liabilities at the end of the third quarter was 47,288 million yen, an increase of 10,255 million yen compared to the end of the previous consolidated fiscal year. This was due to an increase in short-term borrowings of 7,637 million yen due to an increase in working capital, and an increase in accounts payable of 807 million yen.

(Non-current liabilities)

The balance of non-current liabilities at the end of the third quarter was 10,586 million yen, an increase of 305 million yen compared to the end of the previous consolidated fiscal year. The was due to an increase of 355 million yen in long-term borrowings.

(Net assets)

The balance of net assets at the end of the third quarter was 26,069 million yen, an increase of 1,345 million yen compared to the end of the previous consolidated fiscal year. This was due to an increase of 1,996 million yen in retained earnings and 104 million yen in the valuation difference on available-for-sale securities, while deferred gains or losses on hedges decreased by 538 million yen and foreign currency translation adjustments decreased by 104 million yen.

(3) Consolidated Earnings and Other Forecasts

The consolidated earnings forecast for the fiscal year ending November 30, 2024 remains unchanged from the announcement made on July 12, 2024.

Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2023 As of November 30, 2023	3rd Quarter of FY2024 As of August 31, 2024
Assets		
Current assets		
Cash and deposits	7,779	9,755
Notes and accounts receivable	18,700	25,980
Merchandise and finished goods	38,798	40,927
Raw materials and supplies	1,008	1,268
Other	783	627
Allowance for doubtful accounts	(1)	(10)
Total current assets	67,068	78,548
Non-current assets		
Property, plant and equipment	2,185	2,307
Intangible assets	73	309
Investments and other assets		
Other	2,731	2,799
Allowance for doubtful accounts	(21)	(21)
Total investments and other assets	2,710	2,778
Total non-current assets	4,969	5,396
Total assets	72,038	83,944

Consolidated Balance Sheet

(Millions of yen)

	FY2023 As of November 30, 2023	3rd Quarter of FY2024 As of August 31, 2024
Liabilities		
Current liabilities		
Accounts payable	14,033	14,841
Short-term borrowings	14,380	22,017
Commercial papers	3,000	3,000
Current portion of long-term borrowings	4,402	4,742
Income taxes payable	252	569
Other	964	2,117
Total current liabilities	37,033	47,288
Non-current liabilities		
Long-term borrowings	9,125	9,481
Retirement benefit liability	432	467
Asset retirement obligations	55	67
Other	667	571
Total non-current liabilities	10,281	10,586
Total liabilities	47,314	57,874
Net assets		
Shareholders' equity		
Share capital	1,178	1,209
Capital surplus	1,179	1,209
Retained earnings	20,066	22,063
Treasury shares	(14)	(152)
Total shareholders' equity	22,409	24,329
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	276	381
Deferred gains or losses on hedges	(56)	(594)
Foreign currency translation adjustment	2,025	1,920
Total accumulated other comprehensive income	2,245	1,707
Share acquisition rights	68	33
Total net assets	24,724	26,069
Total liabilities and net assets	72,038	83,944

(2) Quarterly Consolidated Income Statements

Consolidated Statement of Income

Third Quarter Consolidated Cumulative Period

(Millions of yen)

	Nine months ended August 31, 2023	Nine months ended August 31, 2024
Net sales	117,330	128,178
Cost of sales	111,416	120,671
Gross profit	5,914	7,506
Selling, general and administrative expenses	3,510	4,044
Operating income	2,403	3,462
Non-operating income		
Interest income	17	62
Dividend income	14	21
Share of profit of entities accounted for using equity method	16	21
Foreign exchange gains	－	321
Insurance return	8	5
Miscellaneous income	30	23
Total non-operating income	88	456
Non-operating expenses		
Interest expenses	170	218
Commission expenses	159	167
Foreign exchange losses	75	－
Miscellaneous losses	26	54
Total non-operating expenses	432	439
Ordinary income	2,059	3,479
Income before income taxes	2,059	3,479
Income taxes	624	935
Net income	1,434	2,544
Net income attributable to owners of parent	1,434	2,544

Consolidated Statement of Comprehensive Income

Third Quarter Consolidated Cumulative Period

(Millions of yen)

	Nine months ended August 31, 2023	Nine months ended August 31, 2024
Net income	1,434	2,544
Other comprehensive income		
Valuation difference on available-for-sale securities	18	104
Deferred gains or losses on hedges	325	(538)
Foreign currency translation adjustment	531	(99)
Share of other comprehensive income of entities accounted for using equity method	12	(4)
Total other comprehensive income	888	(538)
Comprehensive income	2,323	2,006
(Breakdown)		
Comprehensive income attributable to owners of parent	2,323	2,006
Comprehensive income attributable to non-controlling interests	—	—

(3) 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 third quarter under review) and by multiplying quarterly net income before taxes by the estimated effective tax rate.

(Segment Information)

This information is omitted because the Group operates in a single segment, the food business.

(Consolidated Statements of Cash-Flow)

Quarterly Consolidated Statements of Cash-Flow has not been prepared for the Nine months ended August 31, 2024. Depreciation (including amortization related to intangible fixed assets other than goodwill) for the third quarter consolidated cumulative period are as follows.

	Nine months ended August 31, 2023	Nine months ended August 31, 2024
	Millions of yen	Millions of yen
Depreciation	267	320