

Lacto Japan Co., Ltd.

3139

Tokyo Stock Exchange Prime Market

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Summary

FY11/25 results set new record highs. Earnings growth trend expected to essentially be maintained in FY11/26

1. Company profile

Lacto Japan Co., Ltd. <3139> (hereafter, also “the Company”) is an independent specialist food trading company that imports and sells functional food ingredients, meat, and processed meat products with a particular focus on dairy ingredients and cheese (hereafter, “dairy ingredients”). The Group includes one domestic consolidated subsidiary, nine overseas consolidated subsidiaries, and one overseas equity-method affiliate, and develops its businesses globally. As its corporate name indicates, the Company has its origins in dairy ingredients and has established a top-tier domestic position, with a handling share exceeding 30% in Japan’s market for imported dairy products. Although dairy ingredients as a commodity require highly demanding quality and hygiene control, the Company has earned a high level of trust from food manufacturers through its long track record. The Company’s customers are not limited to dairy manufacturers. They span a wide range that includes confectionery, bakery, processed food, and beverage manufacturers. The customer base is not concentrated in any particular field. In recent years, the Company has been expanding into the meat sector and functional food ingredients. Simultaneously, in the Asian market, it has developed a cheese manufacturing and sales business in addition to selling dairy ingredients, thereby deepening its business model as a Diversified Food Company that combines trading and manufacturing functions. With its global procurement capabilities and expertise as its foundation, the Company seeks added-value creation-oriented growth.

2. Overview of FY11/25 results

In its consolidated results for FY11/25, the Company posted both net sales and profits that greatly exceeded those of the previous fiscal year, setting new record highs. Net sales expanded steadily to ¥182,816mn (up 7.0% year on year (YoY)). In addition to unit selling prices increasing amid higher raw material market prices, sales volumes grew in growth areas that included life sciences as well as cheese manufacturing and sales in Asia. Gross profit was ¥12,288mn (up 22.0%), and the gross profit margin improved to 6.7%. Operating profit was ¥5,947mn (up 33.5%), ordinary profit was ¥5,796mn (up 34.1%), and profit attributable to owners of parent was ¥4,317mn (up 37.2%), with profit growth significantly outpacing sales growth. Although there were factors that served to increase costs, including rising personnel and logistics expenses, these were absorbed through expanded sales of high value-added products and improved profit margins, suggesting that the earnings base was further strengthened. Note that in 2Q, the Company recorded non-operating income of ¥650mn as compensation received related to quality defects in certain products. However, even excluding this one-off factor, it still posted record-high profits.

3. FY11/26 forecasts

In its consolidated results for FY11/26, the Company forecasts net sales of ¥193,000mn (up 5.6% YoY) and ordinary profit of ¥4,800mn (down 17.2%), a negative profit forecast at face value. However, in terms of ordinary profit after depreciation adjustment excluding the impact of one-off factors and growth investments, the underlying trend of profit growth has essentially been maintained. In FY11/25, ordinary profit after depreciation adjustment following the deduction of compensation received was ¥5,146mn, whereas in FY11/26, ordinary profit after depreciation adjustment excluding growth investments and one-time expenses related to the head office relocation is expected to be ¥5,350mn, representing a 4.0% increase. Even while factoring in the tough consumer environment caused by food price increases and the burden of upfront investments, the Company’s underlying earnings power is expected to strengthen steadily through a focus on areas where further growth is anticipated and the capture of cheese demand in Asia.

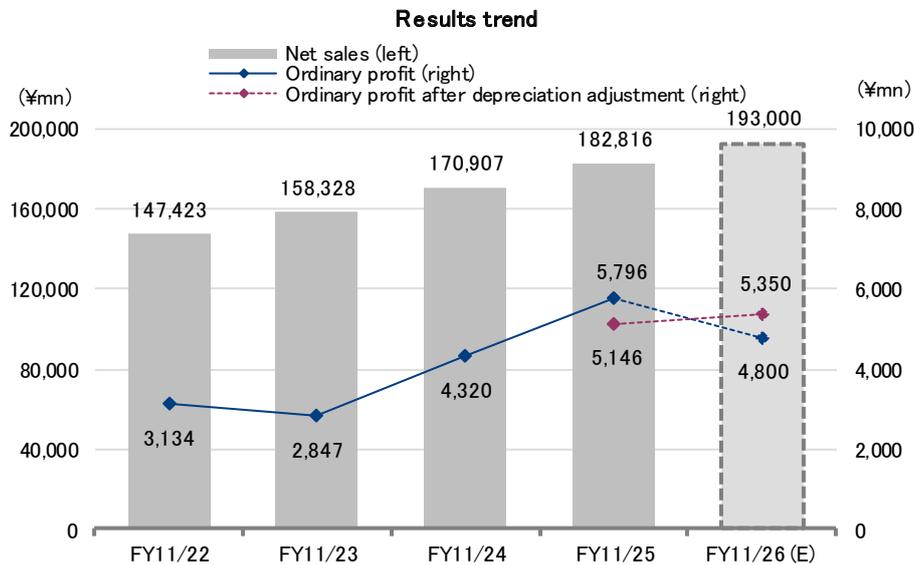
Summary

4. Medium- to long-term growth strategy

The Mid-Term Management Plan NEXT-LJ 2028 is positioned as a period to build a foundation for the Company to advance to the next stage of growth toward realizing its long-term vision. In this Mid-Term Management Plan, the following basic policies are set forth: “Focus on growth areas and enhance value creation,” “maximize return on capital,” and “strengthen global talent.” As targets for FY11/28, the Company has set net sales of ¥210.0bn, ordinary profit of ¥6.0bn, ROE of 10–12%, and a consolidated shareholders’ equity ratio of 35–40%, aiming to achieve a balance between profitability and financial soundness. The growth drivers are the Cheese Manufacturing and Sales Division in Asia and the Life Science Business Division. In particular, investment in a new factory in Singapore means that, in FY11/28, production and sales volume is expected to reach around 10,000 tons per year when combined with existing factories, and the Company will establish a structure to capture growing demand in the Asian market. Although the Company will go through a phase of front-loaded costs associated with the start-up of the new factory, it will endeavor to sustainably enhance corporate value through the steady accumulation of profits.

Key Points

- In FY11/25, the Company posted substantial increases in net sales and profit, with net sales and profit at all levels hitting record highs
- In FY11/26, net sales are forecast to increase, while profits are expected to decline due to a rebound from one-off factors in the previous fiscal year and growth investments
- The Company set targets for FY11/28 that include net sales of ¥210.0bn, ordinary profit of ¥6.0bn, and ROE of 10–12%



Note: Ordinary profit after depreciation adjustment is ordinary profit excluding depreciation and one-off expenses.
 Source: Prepared by FISCO from the Company's results briefing materials

■ Company profile

A global procurement network and leading position in Japan as a trader of imported dairy products

1. Company profile

The Company is headquartered in Chuo Ward, Tokyo. It is an independent specialist food trading company that imports and sells functional food ingredients, meat, and processed meat products with a particular focus on dairy ingredients. The Group, with the Company at its center, consists of one domestic consolidated subsidiary, nine overseas consolidated subsidiaries, and one overseas equity-method affiliate, and develops its businesses globally. The Company name Lacto is from the Latin word for “milk.” As its name suggests, the Company has grown mainly in the business of importing dairy ingredients. Its share of the transaction volume of Japan’s imported dairy products is over 30%, giving it a leading position domestically.

The Company was formed by a split off of the Dairy Division of Toshoku Ltd. (currently, Cargill Japan Limited), which was conducting an import business at the very dawn of dairy product importing as a specialist food trading company. The fact that the Company already had a certain level of trading base and know-how in Japan and overseas at the time of its foundation is what underpinned its subsequent business expansion. Since its foundation, the Company has established local subsidiaries in key dairy production areas around the world, such as North America, Europe, and Oceania, and has built direct, long-term relationships with suppliers. In doing so, it has strengthened its stable, high-quality procurement structure. Dairy raw materials as commodities require extremely stringent quality control, including the prevention of foreign matter contamination, microbiological control, and temperature control during transport, and are among the most challenging sectors to manage under Japan’s food safety and hygiene standards. In addition, because dairy products are used in foods consumed by a wide range of people, from infants to the elderly, they also entail significant social responsibility. The fact that the Company has continued to operate in this area for many years is evidence of its quality control capabilities and the strong trust it commands among its business partners.

Dairy ingredients are used not only by dairy manufacturers but also across diverse food sectors that include confectionery, bakery, processed foods, and beverages. In final products, they often play an important functional role even in small quantities. For that reason, the Company’s customer base is not skewed toward any particular sector. Rather, it extends across a broad range of food manufacturers. Such diversity in sales channels enhances resilience to fluctuations in demand as well as creates greater room to engage in the development of new raw materials and applications. Moreover, in recent years, the Company has focused on importing and selling not only dairy ingredients but also meat and processed meat products, and has promoted the diversification of its suppliers and procurement items. Furthermore, the Company is also distinguished by the fact that, amid rising health consciousness, it is expanding its lineup of functional food ingredients, starting with dairy-derived protein ingredients, and is advancing actions to address growth areas. In addition, the Company is not only engaged in import and sales for the Japanese market, but is also actively expanding into the rapidly growing Asian market. Having established local subsidiaries and affiliates, in addition to importing and selling dairy products, the Company is developing manufacturing and sales operations for processed cheese and natural cheese products. This is one of the ways it is deepening its business model as a Diversified Food Company that combines trading company and manufacturing functions.

2. History

(1) 1998–2004: Foundation and establishment phase of global procurement base

The Company was established in May 1998 in Asakusa-bashi, Taito Ward, Tokyo, and initially commenced operations as a specialist food trading company engaged in the import and sale of agricultural products and processed agricultural products. A distinctive characteristic of the Company is that from the outset, it has maintained a clear global orientation focused on securing the stable sourcing of dairy ingredients rather than business development confined to the domestic market. In the year of its foundation, the Company opened representative offices in Los Angeles, US and Singapore, and in 1999, it expanded into Melbourne, Australia as well. Furthermore, in 2000, the Company established a base in Amsterdam, the Netherlands, and established a framework to quickly cover the world's major raw milk production regions of North America, Oceania, and Europe. In 1999, it established a local subsidiary in Singapore for the wholesale of dairy ingredients, and developed the representative office into a base of operation. In 2000, the Company was appointed as an import agent for Agriculture and Livestock Industries Corporation (ALIC), giving it institutional credibility in Japan. During this phase, the Company clarified its position as a specialist food trading company with strengths in dairy ingredients, and established the framework of its global procurement network.

(2) 2005–2014: Business diversification and acceleration phase for Asian expansion

Since 2005, the Company has embarked on full-scale expansion of its business domains while maintaining imports and sales of dairy ingredients as its core business. In 2005, it began procuring and selling processed meat products, and simultaneously accelerated its expansion into the Asian market. In 2008, the Company conducted an integration of its local subsidiaries centered on the Singapore-based cheese manufacturing and sales company that it established in 2003. In 2009, it incorporated its representative offices in Australia and the US, enhancing the autonomy and agility of its procurement sites. In the 2010s, the Company expanded into Malaysia, Indonesia, Thailand, and China, developing its cheese manufacturing and sales business in particular across Asia. This is a strategy to engineer a transition to a value-added business less prone to price competition by combining trading functions with manufacturing functions. It can be said that the prototype of the Company's current hybrid business model took shape at this time. This phase constitutes the process through which the Company evolved from a trading company importing dairy ingredients to a Diversified Food Company combining trading and manufacturing functions.

(3) 2015–present: Advancement as a listed company and sustainable growth phase

Its listing on the Second Section of the Tokyo Stock Exchange (hereafter, "TSE") in August 2015 marked a major turning point for the Company. Through its listing, the Company's dialogue with capital markets began in earnest. Now, there is stronger emphasis on clarifying governance, internal control systems, and growth strategy. The Company was listed on the TSE First Section in 2017 and transitioned to the Prime Market in 2022, demonstrating the market's gradual recognition of its efforts to enhance corporate value. During this phase, the Company incorporated a European base, and continued to make investments centered on the growth market of Asia that included the establishment of sales bases in the Philippines and Indonesia. In 2021, it transitioned to a Company with an Audit and Supervisory Committee, and it has also been pursuing the advancement of its group management and governance framework through means such as establishing a domestic consolidated subsidiary. In February 2026, a new plant with a floor area of 6,500 m² is scheduled for completion in Singapore. The Company is positioning the plant as a driver of future growth. This is a natural extension of the Company's strategy to establish in Asia a locally oriented, value-added business model that does not rely on sales of imported products. This marked the point in time when the Company, while maintaining the discipline expected of a listed company, entered a phase oriented toward sustainable growth as a Diversified Food Company that combines global procurement capabilities with manufacturing functions.

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Company profile

Company history

Date	History
May 1998	Lacto Japan Co., Ltd. established in Asakusa-bashi, Taito Ward, Tokyo. Started importing and selling agricultural products and processed agricultural products
October 1998	Opened a representative office in Los Angeles, US
November 1998	Opened a representative office in Singapore
June 1999	Opened a representative office in Melbourne, Australia Established Lacto Japan (Asia) Pte. Ltd. in Singapore as a local subsidiary for wholesale of dairy ingredients (closed representative office)
February 2000	Opened a representative office in Amsterdam, the Netherlands
April 2000	Appointed import agent for Agriculture and Livestock Industries Corporation (ALIC)
December 2003	Established Foodtech Products Pte. Ltd. in Singapore as a local subsidiary for cheese manufacturing and sales
June 2004	Head office moved to Nihonbashi-honcho, Chuo Ward, Tokyo
March 2005	Began sourcing and selling processed meat products
July 2008	Merged two local subsidiaries in Singapore to establish Lacto Asia Pte. Ltd.
November 2008	Invested in Kawaguchi Trading & Consulting Inc., a local US corporation, and made it a subsidiary
September 2009	Established Lacto Oceania Pty. Ltd. as a local subsidiary in Melbourne, Australia (closed representative office)
October 2009	Renamed Kawaguchi Trading & Consulting Inc. to Lacto USA Inc. (closed Los Angeles representative office)
September 2010	Established Lacto Asia (M) Sdn. Bhd. as a local subsidiary in Malaysia
February 2012	Established PT. Pacific Lacto JAYA as a joint venture with local capital in Jakarta, Indonesia for cheese manufacturing and sales
August 2013	Established Foodtech Products (Thailand) Co., Ltd. as a local subsidiary in Ayutthaya, Thailand for cheese manufacturing and sales
November 2013	Established Lacto Shanghai Co., Ltd. as a local subsidiary in Shanghai, China for sales of processed foods and other products
August 2015	Listed on the Second Section of the Tokyo Stock Exchange (TSE)
December 2015	Established Lacto Europe B.V. as a local subsidiary in Amsterdam, the Netherlands (closed representative office)
September 2017	Listed on the TSE First Section
May 2018	Head office moved to Nihonbashi, Chuo Ward, Tokyo
January 2019	Opened a representative office in Bangkok, Thailand
September 2019	Established Lacto Philippines Inc. as a local subsidiary in Manila, Philippines for procurement and sales of dairy ingredients, etc.
February 2021	Transitioned to a Company with an Audit and Supervisory Committee
March 2021	Established LJ Foods Co., Ltd. as a consolidated subsidiary in Japan
November 2021	Established PT. Lacto Trading Indonesia as a local subsidiary in Indonesia for sales of dairy ingredients, etc.
April 2022	Transitioned to the TSE Prime Market
February 2026	Completed new plant in Singapore with a floor area of 6,500 m ²

Source: Prepared by FISCO from the Company's annual securities report

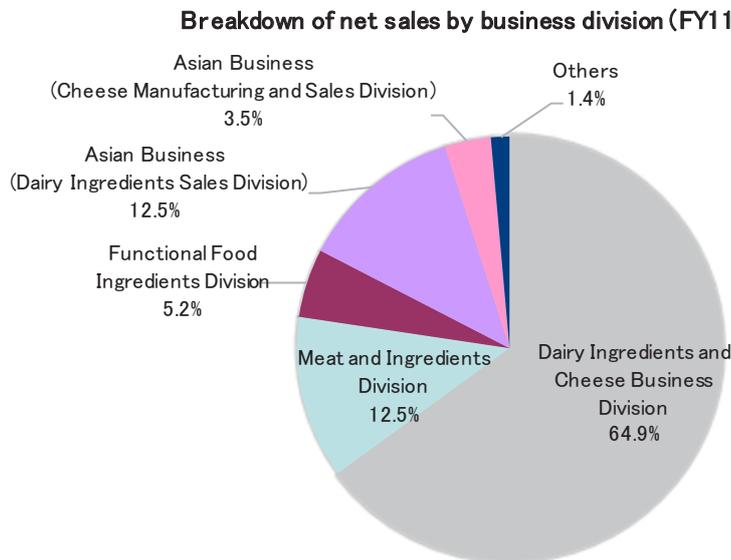
Business overview

Built a diversified business model underpinned by high barriers to imitation

1. Business overview

The Company is an independent specialist food trading company that imports food ingredients such as dairy ingredients, functional food ingredients, meat, and processed meat products. It has expanded its business domains based on the import and sales operations of dairy ingredients and has continued to grow steadily. The Company has only one reportable segment, comprising the following business divisions: Dairy Ingredients and Cheese Business Division, Meat and Ingredients Division, Functional Food Ingredients Division*, Asian Business (Dairy Ingredients Sales Division), Asian Business (Cheese Manufacturing and Sales Division), and Others. In the breakdown of FY11/25 consolidated net sales, the Dairy Ingredients and Cheese Business Division contributed 64.9%, the Meat and Ingredients Division 12.5%, the Functional Food Ingredients Division 5.2%, the Asian Business (Dairy Ingredients Sales Division) 12.5%, the Asian Business (Cheese Manufacturing and Sales Division) 3.5%, and Others 1.4%.

* From FY11/26, the division has been renamed the Life Science Business Division. References to FY11/25 use the former name.



Source: Prepared by FISCO from the Company's results briefing materials

The Company positions itself not only as an importer and seller of ingredients, but as a provider of comprehensive solutions to address customer challenges. It proposes the following solutions:

- Procurement:** Ability to stably procure safe, high-quality raw materials from major production regions worldwide
- Import:** Advanced import procedures for handling dairy products, meat, and other sensitive commodities
- Supply:** Establishment of a stable supply system that anticipates supply and demand volatility and climate change risk
- Proposals:** Suggestion and customization of ingredients, products, and solutions tailored to customer needs

Business overview

These are not mere sales functions, but are rather solutions intended to create value through planning and proposals for food manufacturers, wholesalers, retailers, and other clients.

2. Overview by business division

(1) Dairy Ingredients and Cheese Business Division

This division is one of the Company's core businesses and the division responsible for importing and selling dairy ingredients and cheese in Japan. It imports dairy ingredients and cheese from overseas and supplies them to dairy and food manufacturers. The division handles a broad range of items that include whole milk powder, skim milk powder, milk fat ingredients, butter, whey powder, and casein products. For cheese, it imports and sells natural cheese, processed cheese, and shredded cheese for use as ingredients. In addition, it accommodates customized supply tailored to customer-specific specifications, and also makes proposals on the functional properties of dairy ingredients. These supply capabilities are underpinned by a procurement network spanning the world's major production regions and long-cultivated quality control expertise.

(2) Meat and Ingredients Division

In addition to dairy ingredients and cheese, the Company imports and sells meat and processed meat products. This division's main products include pork (chilled and frozen), prosciutto, salami, and bacon. In recent years, it has also been expanding its lineup to include chicken and processed chicken products. The division provides highly specialized procurement, quality control, and logistics services for high-quality meat and processed meat sourced from Europe and the US, ensuring a stable supply to food manufacturers, wholesalers, and retailers in Japan. In addition, by enhancing its lineup to include related ingredients, examples of which are the spices and spice extracts that it began handling in FY11/25, the division is establishing a framework to comprehensively meet customers' processed food and commercial needs.

(3) Life Science Business Division (formerly, Functional Food Ingredients Division)

Against the backdrop of growing health consciousness, this division is strengthening its handling of and proposals for functional food ingredients and high value-added ingredients in addition to the import and sale of ingredients that it has engaged in thus far. It handles high-functional materials such as dairy proteins, plant-based proteins, gelatin, and collagen as well as protein ingredients and other materials to accommodate the health food, sports nutrition, and nursing care food markets. In addition to importing raw materials, the division provides solutions from the product planning and development phases, including support for joint development with client companies, assistance with selecting OEM companies, and recipe suggestions.

(4) Asian Business (Dairy Ingredients Sales Division)

The Company engages in the sale of dairy ingredients not only in Japan but also in the Asian market. Through local subsidiaries in Singapore, Malaysia, Thailand, Indonesia, the Philippines, China, and other countries, it procures and sells dairy ingredients, and has a framework in place to meet local food manufacturers' needs. Each of these locations endeavors to optimize pricing and quality in accordance with the characteristics of the relevant regional market, and also supplies ingredients not only to local companies but also to multinational food manufacturers and Japanese companies. A key strength of the Company is that it executes procurement strategies that include identifying and addressing supply and demand fluctuations and climate change risk, thereby maintaining the ability to ensure a stable supply.

Business overview

(5) Asian Business (Cheese Manufacturing and Sales Division)

This division is a cheese manufacturing and sales business in Asia. A major defining characteristic of it is that it possesses manufacturing functions to complement the Company's trading functions. The Company has established its own factories in Singapore, Thailand, Indonesia, and elsewhere, where it manufactures and supplies processed cheese for commercial use, processed natural cheese products, and other products. Key strengths of this division are its capability to design and propose products that reflect local food culture and market needs and the fact that it provides products tailored to the usages of food manufacturers and restaurant chains in Asia, among other customers. Additionally, it creates added value through processing imported raw materials as it seeks to deepen its business model in ways that are difficult to realize through the import and sale of raw materials alone.

(6) Others

This includes food ingredients exporting business conducted by local subsidiaries overseas outside of Asia.

3. Evaluation of management strategy**(1) External environment analysis****1) Market environment**

The imported dairy products market in which the Company primarily competes supports basic foodstuffs essential to people's daily lives. It is characterized by how it is less susceptible to economic fluctuations compared with other markets. Within that environment, the Company has secured a leading share in Japan's market for imported dairy products, with a solid volume base already in place. At the same time, opportunities for growth lie in peripheral areas. More specifically, these areas are the health foods market, backed by rising health consciousness, and the Asian market, where the population is increasing and diets are becoming Westernized. The Company positions its Life Science Business Division, which primarily handles dairy-derived high-protein ingredients, and its cheese manufacturing and sales business in Asia as growth drivers. It has built a portfolio combining markets that have a stable earnings base with markets that will drive future growth.

2) Competitive environment

The market for imported dairy products has high barriers to entry with respect to quality control, regulatory compliance, and procurement capability. In addition, the major general trading companies serving as the Company's principal competitors have, following strategic shifts in recent years, been concentrating management resources on fields with higher profitability. Their degree of focus on the dairy products field has diminished in relative terms. As a result, rather than being in an environment where competition is intensifying, the Company is in a position where it has strengthened its relative advantage amid weakening strategic engagement by competitors. This can be regarded as the result of the Company's consistent strategy of continuing to concentrate its management resources on highly specialized fields.

(2) Internal resource analysis**1) Procurement capabilities and customer base substantiated by historical background**

The Company's greatest internal resource is its historical background of being carried forward in an unbroken line since its foundation. Having been involved in the market since the early days of dairy product imports, the Company has built long-term relationships with key suppliers as well as a strong customer base among domestic food manufacturers. For dairy products, its suppliers are limited to those in Europe, Oceania, and North America. Moreover, markets in each of these regions are becoming increasingly oligopolistic. The Company has built long-standing business relationships with these leading suppliers and is recognized by them as a "partner," including supply-demand coordination and quality handling. This creates a competitive advantage over peers.

Business overview

2) Highly specialized personnel who enable a value co-creation business

Dairy products are an extremely challenging commodity to handle, due to issues that include foreign material contamination and the need for strict microbial and temperature control. The Company has secured highly specialized personnel who are well-versed in these fields, enabling it to make in-depth proposals on customers' product designs and usages. In particular, the Company's manufacturing operations are characterized by a focus on B2B and customized development tailored to each customer's differing functional requirements. Prioritizing value creation for each customer even at the expense of efficiency may appear inefficient in the short term, but ultimately deepens relationships with customers and succeeds in moving away from price wars.

3) High barriers to imitation

The Company's key strengths lie in the organic integration of three elements: longstanding relationship capital, highly specialized personnel, and a business structure that combines trading and manufacturing functions. Even if it is possible to imitate these individually, reproducing all of them simultaneously is extremely difficult. In particular, the strategic decision on the part of the Company to refrain from manufacturing in Japan so as not to compete with customers as a trading company, and to limit the deployment of its manufacturing functions to Asia, is a choice unique to the Company given that places a premium on long-term trust-based relationships. As such, it is unlikely to be readily emulated by latecomers.

■ Results trends

FY11/25 results set new record highs. Progress made in strengthening of structural earnings power

1. Overview of FY11/25 results

In its consolidated results for FY11/25, the Company posted both net sales and profits that greatly exceeded those of the previous fiscal year, setting new record highs. Net sales were ¥182,816mn, up 7.0% YoY, on the back of stable demand. Gross profit grew significantly to ¥12,288mn, up 22.0%, and the gross profit margin improved from 5.9% to 6.7%. Operating profit increased 33.5% to ¥5,947mn, and ordinary profit increased 34.2% to ¥5,796mn, with profit growth significantly outpacing net sales growth. Profit attributable to owners of parent increased 37.2% to ¥4,317mn, and the net profit margin rose from 1.8% to 2.4%.

The main factors behind results growth are higher unit selling prices, increased sales volume, and an improved product mix. Selling prices remained at an elevated unit price level overall amid high raw material market prices, particularly those for dairy ingredients, while sales volumes increased, particularly in the Meat and Ingredients Division, the Functional Food Ingredients Division, and the Asian Business (Cheese Manufacturing and Sales Division), underpinning net sales growth. Additionally, expanded sales of high value-added products and improved profitability for functional food ingredients and the Asian Business (Cheese Manufacturing and Sales Division) contributed to company-wide profit growth. Meanwhile, despite factors pushing up costs in the form of higher personnel and logistics expenses, the effects of net sales growth and improvement in profit margins offset them. Even excluding the compensation related to quality defects for some products that was recorded in the previous fiscal year as non-operating income, the Company's profit level reached a new record high, indicating that structural earnings power not dependent on one-off factors has been strengthened.

Results trends

Consolidated results for FY11/25

	FY11/24		FY11/25		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	170,907	100.0%	182,816	100.0%	7.0%
Gross profit	10,071	5.9%	12,288	6.7%	22.0%
Operating profit	4,455	2.6%	5,947	3.3%	33.5%
Ordinary profit	4,320	2.5%	5,796	3.2%	34.1%
(Foreign exchange impact on ordinary profit)	(-71)		(-76)		
Ordinary profit after adjusting for foreign exchange effects	4,392	2.6%	5,872	3.2%	33.7%
Profit attributable to owners of parent	3,146	1.8%	4,317	2.4%	37.2%
Foreign exchange rate (USD/JPY)	150.77		149.53		
Foreign exchange rate (EUR/JPY)	163.63		167.21		

Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Trends by business division

(1) Dairy Ingredients and Cheese Business Division

Net sales in the Dairy Ingredients and Cheese Business Division were ¥118,679mn, up 3.9% YoY, and sales volume was 165,501 tons, down 6.2%. While international market prices for major dairy product ingredients remained at elevated levels from the beginning of the fiscal year, overall demand for food products fell short of expectations due to rising prices, and the sales volume of dairy ingredients decreased YoY. In cheese sales, demand remained sluggish, particularly in retail channels, due to the impact of product price increases. However, as unit selling prices remained above the previous fiscal year's level, net sales ended positive YoY. Also, raw materials related to ice cream and those for high-protein products, both of which are seeing market expansion, remain solid.

While volume growth appears sluggish in this division, the nature of the product mix is changing. Historically, general-purpose products such as milk preparations made by mixing sugar and other ingredients with skim milk powder were the mainstay. They drove volume, but had relatively low profit margins. However, in recent years, profit margins have been trending towards improvement, reflecting expanded sales of highly profitable products such as fat-based raw materials for ice cream. Additionally, while the Company already has many commodities with high import shares, it positions certain items for which its share is relatively low as priority fields for future expansion.

(2) Meat and Ingredients Division

In the Meat and Ingredients Division, net sales were ¥22,770mn, up 4.5% YoY, and sales volume was 32,794 tons, up 3.0%. Both net sales and volume remained solid. International market prices for imported pork remained at elevated levels throughout the year, while sales of chicken-related products to existing customers remained stable. In addition, the handling of new commodities, including spices, spice extracts, and rock salt, also expanded steadily. By commodity category, sales of frozen pork (raw materials for ham and sausages) significantly exceeded those of the previous fiscal year. Historically, the Company's meat business has depended heavily on specific overseas suppliers. In recent years, however, it has developed multiple sourcing regions, Europe included, and its efforts to build a price-competitive procurement framework have proven effective. Additionally, an expansion in business dealings with major customers also contributed to the increase in sales volume. In fields where direct importing by customers had traditionally been the norm, the Company's procurement and proposal capabilities have been recognized, and its business dealings appear to have expanded.

Results trends

(3) Functional Food Ingredients Division (currently, Life Science Business Division)

The Functional Food Ingredients Division posted the strongest growth across the Company, with net sales up 86.6% YoY to ¥9,594mn and sales volume up 68.4% to 7,073 tons. Amid rising global demand for high-protein ingredients, international prices remained elevated throughout the year. This and other factors created a challenging procurement environment. However, the Company's support for building supply chains tailored to customer needs was highly recognized, resulting in a significant expansion of business dealings with both existing and new customers. The chief driver of growth is high-protein ingredients, starting with whey.

Beyond its business in high-protein ingredients, the Company provides wide-ranging, end-to-end support that extends beyond importing and selling raw materials to include product proposals, recipe design, raw material procurement, the selection of contract manufacturers, and even sales support. Its customers span a wide range of industries that include food, sports nutrition, and beauty and health. This division is expected to drive the Company's medium- to long-term growth.

(4) Asian Business (Dairy Ingredients Sales Division)

In the Asian Business (Dairy Ingredients Sales Division), net sales were ¥22,819mn, up 5.7% YoY, while sales volume was 38,078 tons, down 4.2%. Sales of ingredients for local markets in the Southeast Asian region, mainly to Japanese food manufacturers, remained firm. Meanwhile, in Japan, despite raw milk production quantities trending favorably, demand failed to keep pace, resulting in a buildup of skim milk powder inventories. Consequently, the recovery of the powdered milk mixtures business for the Japanese market was slower than expected, which caused sales volume to decrease YoY. However, reflecting higher international market prices, unit selling prices increased, and net sales exceeded those of the previous fiscal year. As with the domestic business, unit prices rather than volumes are underpinning results.

(5) Asian Business (Cheese Manufacturing and Sales Division)

In the Asian Business (Cheese Manufacturing and Sales Division), net sales were ¥6,391mn, up 14.2% YoY, and sales volume was 5,640 tons, up 4.0%. Demand, primarily from local food service operators, bakeries, and processed food manufacturers, remained firm, and a quality-first stance and after-sales support paid off, resulting in steady sales expansion. The reason the Company is well regarded locally is its ability to provide a stable supply of cheese that meets Japanese specifications for quality and safety in local Asian markets. In addition to demand from Japanese companies, demand from local companies is also growing. In Asian markets, cheese-based food products and food service menu items are gaining in popularity. Further growth in consumption is expected going forward.

Meanwhile, Asian markets are highly price sensitive, with competitors that offer low-priced products also present. In light of the competitive environment, the Company has also introduced low-margin products in certain markets.

Results by business division

	Net sales (¥mn)			Sales volume (t)		
	FY11/24	FY11/25	YoY	FY11/24	FY11/25	YoY
Dairy Ingredients and Cheese Business Division	114,182	118,679	3.9%	176,402	165,501	-6.2%
Meat and Ingredients Division	21,788	22,770	4.5%	31,831	32,794	3.0%
Functional Food Ingredients Division	5,141	9,594	86.6%	4,199	7,073	68.4%
Asian Business (Dairy Ingredients Sales Division)	21,584	22,819	5.7%	39,728	38,078	-4.2%
Asian Business (Cheese Manufacturing and Sales Division)	5,594	6,391	14.2%	5,422	5,640	4.0%
Others	2,616	2,561	-2.1%	-	-	-

Source: Prepared by FISCO from the Company's results briefing materials

3. Financial position

(1) Balance sheet trends and changes in financial structure

At the end of FY11/25, total assets were ¥90,209mn, up ¥8,774mn from the end of the previous fiscal year. Current assets amounted to ¥83,151mn, up ¥7,324mn. Among current assets, inventories increased ¥4,040mn from ¥42,119mn to ¥46,160mn, making it the largest contributor to the increase. This was primarily due to higher product unit prices coupled with a temporary, front-loaded increase in inventory quantities following the closure of a supplier factory. Notes and accounts receivable stood at ¥23,951mn, remaining nearly flat compared with the end of the previous fiscal year. Collections management is stable even as net sales increase. Meanwhile, cash and deposits came to ¥10,157mn, up ¥1,080mn. Non-current assets increased ¥1,449mn from ¥5,608mn to ¥7,058mn. Property, plant and equipment increased ¥1,047mn to ¥3,550mn. This was mainly due to capital expenditures associated with the construction of the new plant in Singapore. Additionally, intangible fixed assets increased ¥433mn from ¥321mn to ¥754mn. This was reflection of progress in investments to strengthen the business foundation, an example being core system development.

Total liabilities were ¥57,761mn, up ¥3,907mn from the end of the previous fiscal year. The Company's interest-bearing liabilities rose from ¥33,435mn to ¥37,156mn, up ¥3,721mn, reflecting increased working capital needs amid a phase of sales growth. The Company's trading business tends to have procurement precede sales. In particular, for imports from overseas, goods are recognized as inventory at the time of shipment for accounting purposes. Structurally, this results in inventory being tied up while in transit. Transport from Europe and North America typically takes 1–1.5 months. At present, routes have lengthened due to the international situation, causing cases to arise in which goods remain in inventory for around two months.

(2) Evaluation of working capital structure and capital efficiency

As the Company's business model centers on trading company functions, procurement is front-loaded during phases of sales growth, leaving it structurally prone to increases in working capital. In addition, given the characteristics of the industry, terms of payment to suppliers are relatively short in many cases. The Company manages its cash flow flexibly while utilizing borrowings. However, most of the inventory it holds is under contract, and buyers have largely been secured, including those for inventory on board vessels. This is different in nature from speculative inventory, which is built up at one's own discretion and sold while watching price trends. Because manufacturer inventory is also basically made to order, inventory valuation risk could be called extremely limited. Meanwhile, net assets increased ¥4,867mn from the end of the previous fiscal year to ¥32,448mn, and the consolidated shareholders' equity ratio rose 2.1 percentage points (pp) from 33.8% to 35.9%. Despite also bringing with it increases in inventories and capital expenditures, the accumulation of profits is bolstering the Company's shareholders' equity. ROE improved from 12.1% to 14.4%, reflecting enhanced capital efficiency attributable to a higher level of profitability rather than to excessive financial leverage. Although the Company's businesses inherently tend to entail a rising working capital burden, through financial management premised on that structure, the Company is in a phase where it is simultaneously achieving growth, financial soundness, and improved capital efficiency.

Results trends

Consolidated balance sheets and key management indicators

	(¥mn)		
	End of FY11/24	End of FY11/25	Change
Current assets	75,826	83,151	7,324
Cash and deposits	9,076	10,157	1,080
Notes and accounts receivable	24,028	23,951	-77
Inventories	42,119	46,160	4,040
Non-current assets	5,608	7,058	1,449
Property, plant and equipment	2,502	3,550	1,047
Intangible fixed assets	321	754	433
Investments and other assets	2,785	2,753	-31
Total assets	81,435	90,209	8,774
Current liabilities	44,455	48,800	4,345
Accounts payable	17,212	17,179	-32
Commercial paper	3,000	2,000	-1,000
Short-term borrowings	17,133	22,199	5,066
Non-current liabilities	9,398	8,960	-438
Long-term borrowings	8,293	7,659	-634
Total liabilities	53,853	57,761	3,907
Net assets	27,581	32,448	4,867
Total liabilities and net assets	81,435	90,209	8,774
Consolidated shareholders' equity ratio	33.8%	35.9%	2.1pp
ROE	12.1%	14.4%	2.3pp

Source: Prepared by FISCO from the Company's financial results and results briefing materials

■ Outlook

Net sales and real ordinary profit will both reach record highs in FY11/26

1. FY11/26 forecasts

In its consolidated results for FY11/26, the Company forecasts record high net sales and profits, with net sales of ¥193,000mn, up 5.6% YoY, ordinary profit of ¥4,800mn, down 17.2%, and profit attributable to owners of parent of ¥3,450mn, down 20.1%. At first glance, it appears to be a forecast of lower profits. The key point, however, is that in terms of ordinary profit after depreciation adjustment, it actually represents an underlying increase in profits. When the one-off income of ¥650mn in compensation received is deducted from ordinary profit of ¥5,796mn for FY11/25, ordinary profit after depreciation adjustment comes to ¥5,146mn. Excluding ¥450mn in depreciation related to growth investments and ¥100mn in one-time expenses associated with the head office relocation from the FY11/26 ordinary profit forecast of ¥4,800mn, ordinary profit after depreciation adjustment would be ¥5,350mn. On an ordinary profit after depreciation adjustment basis, this represents an increase of ¥204mn, or 4.0%.

Outlook

Results forecasts assume that, due to food price increases, end-consumer purchasing appetite will remain subdued, and the challenging operating environment will persist. Also, while expenses will increase due to upfront investments for the future, the Company will strengthen its initiatives in growth areas and aim to expand its business. To be more specific, the Company intends to engineer business growth through strengthening initiatives aimed at the food sector, where growth is expected, and through developing new products, and aims to expand its operations with its main focus on capturing robust cheese demand in Asia.

Forecasts for consolidated results for FY11/26

	FY11/25 Results	FY11/26 Forecast	YoY	
			Change	Change rate
Net sales	182,816	193,000	10,183	5.6%
Ordinary profit	5,796	4,800	-996	-17.2%
Ordinary profit margin	3.2%	2.5%	-	-
Ordinary profit after depreciation adjustment*	5,146	5,350	204	4.0%
Profit attributable to owners of parent	4,317	3,450	-867	-20.1%
Net profit margin	2.4%	1.8%	-	-

* In FY11/25, ordinary profit excludes ¥650mn in compensation received. In FY11/26, ordinary profit excludes ¥450mn in depreciation and ¥100mn in one-off expenses associated with the head office relocation.
 Source: Prepared by FISCO from the Company's results briefing materials

2. Results forecast by business division

(1) Dairy Ingredients and Cheese Business Division

In the Dairy Ingredients and Cheese Business Division, net sales are forecast at ¥121,000mn, up 2.0% YoY, and sales volume at 172,500 tons, up 4.2%. This indicates a shift toward a recovery trend, with a moderate increase in net sales also expected. In the previous fiscal year, demand was restrained by the effects of inflation. However, demand for raw materials for ice cream and ingredients related to high-protein products remained firm. The Company will aim for steady growth in both volume and net sales by continuing to improve its product mix.

(2) Meat and Ingredients Division

In the Meat and Ingredients Division, steady growth is expected to continue, with net sales of ¥24,300mn, up 6.7% YoY, and sales volume of 33,600 tons, up 2.5%. In addition to the strengthening of competitiveness through diversification of suppliers, the expansion of business dealings with existing customers is expected to contribute, with a certain level of upside anticipated not only in volume but also on the unit pricing side.

(3) Life Science Business Division (formerly, Functional Food Ingredients Division)

The Life Science Business Division is expected to continue performing strongly, with net sales of ¥12,600mn, up 31.3% YoY, and sales volume of 8,400 tons, up 18.8%. Demand for high-protein ingredients, principally whey protein, remains strong. Even with raw material prices at elevated levels, the Company intends to ensure that no customer needs go unaddressed by leveraging its broad lineup of raw materials, including plant-based proteins. In addition, the Company is looking beyond the Japanese market, with an eye to expanding exports to the Asian market. In Asia, where health consciousness is rising and fitness demand is expanding, the Company plans on capturing new demand through the rollout of value-added products such as Made in Japan protein powder and supplements.

Outlook

(4) Asian Business (Dairy Ingredients Sales Division)

In the Asian Business (Dairy Ingredients Sales Division), steady growth in line with a recovery in volumes is expected, with net sales of ¥24,000mn, up 5.2% YoY, and sales volume of 41,000 tons, up 7.7%. The growth scenario centers on volume growth assumed to be buoyed by resilient demand mainly from Japanese food manufacturers plus growth in sales to local markets.

(5) Asian Business (Cheese Manufacturing and Sales Division)

In the Asian Business (Cheese Manufacturing and Sales Division), strong growth is anticipated, with net sales of ¥7,600mn, up 18.9% YoY, and sales volume of 6,800 tons, up 20.5%. As demand from the food service industry and that for processed foods continues to grow, the increase in supply capacity from the new plant coming online will also provide a tailwind. The Company will continue endeavoring to improve profitability while ushering in volume growth.

Results forecast by business division

	Net sales (¥mn)			Sales volume (t)		
	FY11/25 Results	FY11/26		FY11/25 Results	FY11/26	
		Forecast	Change rate		Forecast	Change rate
Dairy Ingredients and Cheese Business Division	118,679	121,000	2.0%	165,501	172,500	4.2%
Meat and Ingredients Division	22,770	24,300	6.7%	32,794	33,600	2.5%
Life Science Business Division	9,594	12,600	31.3%	7,073	8,400	18.8%
Asian Business (Dairy Ingredients Sales Division)	22,819	24,000	5.2%	38,078	41,000	7.7%
Asian Business (Cheese Manufacturing and Sales Division)	6,391	7,600	18.9%	5,640	6,800	20.5%
Others	2,561	3,500	36.6%	-	-	-

Source: Prepared by FISCO from the Company's results briefing materials

■ Medium- to long-term growth strategies and shareholder returns

Aiming to realize sustainable growth through qualitative shift in core businesses and expanded scale of growth businesses

1. Positioning of NEXT-LJ 2028

“NEXT-LJ 2028,” the Company’s Mid-Term Management Plan, is positioned as a period for laying the foundation for the Company to advance to the next stage of growth toward realizing its long-term vision. The Company, whose core lies in its trading functions, has traditionally tended to be viewed as a middleman that simply moves goods from one side to the other. In its current Mid-Term Management Plan, however, it clearly signals a break from that perception and, together with its basic policy, sets out three “tsu-na-gu” (connecting) promises as an approach it values. Under the first promise, “Connecting Food & Health,” the Company will strengthen the provision of health value through food amid rising health consciousness, as evidenced by the popularity of high protein. Under the second promise, “Connecting Value,” the Company will link customers and suppliers and create value-added not through simple distribution but through added functionality, development support, and quality assurance. The third promise, “Connecting Aspirations,” is a message focused on the human resource-based and organizational aspect of carrying forward to the next generation the expertise cultivated since the Company’s foundation and its stance of engaging with customers on a deep level. The Company aims to evolve into a value-creation-oriented food company through this Mid-Term Management Plan.

2. Framework of NEXT-LJ 2028

(1) Overall design of quantitative targets and growth story

Under NEXT-LJ 2028, the Company has set the following consolidated numerical targets for FY11/28: net sales of ¥210.0bn, ordinary profit of ¥6.0bn, profit attributable to owners of parent of ¥4.35bn, ROE of 10–12%, a consolidated shareholders’ equity ratio of 35–40%, and a payout ratio of 35%. These targets indicate a focus on enhancing corporate value by balancing profitability and financial soundness rather than simply pursuing scale expansion. Positioning its cheese manufacturing and sales business in Asia and life sciences business as two growth drivers, the Company will engineer profit growth by building on its core trading functions and combining high value-added areas such as manufacturing functions and development proposal capabilities. In the cheese manufacturing business in Asia, amid strong demand, the Company will expand sales volume as a new plant comes online, quickly absorb depreciation charges, and begin contributing to profits. Additionally, in the Life Science Business, the Company will deepen its co-creation-based business with customers through functional raw materials centered on dairy-derived proteins, proposals for plant-based proteins and materials tailored to customer needs, and development support from the product planning stage. By pushing forward with expansion into areas with high unit prices and profit margins, the Company will realize stable profit growth that is less susceptible to volume fluctuations as it endeavors to sophisticate its company-wide earnings structure.

In this manner, NEXT-LJ 2028 espouses the twin pillars of quantitative expansion and qualitative growth, and clearly lays out a transition to the Company’s next growth stage accompanied by profit growth while placing trading functions at the core.

(2) Approach to profit planning and profit growth scenarios

Regarding its profit plan, the Company intends to absorb cost increases through higher gross profit and maintain a profit growth trend even during periods when investments aimed at future growth are front-loaded. In FY11/25, the Company had emphasized an adjusted basis that excluded one-off compensation received and similar items, and had planned growth from FY11/26 onward based on its actual performance level. In FY11/26, while gross profit is expected to increase, the Company's outlook also factors in an increase in non-operating factors such as depreciation accompanying a new plant and investments in core systems and general and administrative expenses. The Company positions such increases in expenses, including upfront investments, as its starting point for growth. Heading into FY11/28, it will work to build up gross profit, aiming to achieve ordinary profit of ¥6.0bn through profit growth that outpaces the rising costs.

(3) Direction of strategies by business division

In its core Dairy Ingredients and Cheese Business Division, the Company will strengthen its business foundation by concentrating on strategic categories such as value-added products and products to defend market share. Additionally, the Company will proceed to strengthen the resilience and enhance the flexibility of its supply sources by deepening relationships with existing suppliers, cultivating new ones, and devising ideas for procurement methods while simultaneously endeavoring to create new demand through entry into untapped business domains and joint development efforts with customers.

In the Meat and Ingredients Division, the Company will strengthen proposal capabilities through combinations of products it handles and aim to generate sales through linkage with new commodities such as spices. In addition to establishing a stable supply framework by diversifying sourcing countries, based on collaboration with its sites overseas, the Company will strengthen value-creation initiatives, including expansion into semi-finished product areas with higher levels of processing.

The Company positions the Life Science Business Division as a division for which it aspires to expand into broader areas beyond functional food ingredients, as symbolized by the division's name change. The Company will advance enhancements to protein functionality, the cultivation of new usages and new industries, and the expansion of markets by developing new protein sources. Simultaneously, it will accelerate the rollout of Made in Japan protein products, supplements, matcha green tea, and other commodities that enjoy strong demand overseas. Through an extensive network and a proprietary contract manufacturing scheme, the Company will enhance problem-solving capabilities for customers and endeavor to strengthen relationships based on co-creation.

In the Asian Business (Dairy Ingredients Sales Division), the Company will expand its areas of proposals through initiatives that include opening new local subsidiaries to cultivate growth markets, diversifying sales approaches, strengthening its capability to accommodate high-protein and functional raw materials, and enhancing its ability to respond to country-specific regulations. In the Asian Business (Cheese Manufacturing and Sales Division), the Company will push forward with product development tailored to each country's food culture and the creation of new demand with a focus on strengthening its production system and technological development.

(4) Strategic positioning of co-creation model and new plant in Singapore

A defining element of the Company's strategy is its "co-creation" mechanisms. Its model of collaborating directly with customers' R&D departments and negotiating with suppliers to develop and supply raw materials that meet the required functionality is viable precisely because of the Company's high level of expertise. The Company's competitive advantage lies in creating value-added not through mere distribution but through added functionality, development, and quality assurance. Additionally, the new plant in Singapore constitutes a key investment for ensuring the Company's growth strategy. With a floor area of approximately 6,500 m² and an investment amount in the range of approximately ¥3.5bn, the plant is scheduled to come online in March 2026, after which it will produce processed cheese and shredded cheese. The Company's plan is to achieve a relatively smooth start-up through the transfer of personnel from existing plants. Including existing plants, the Company will aim to reach 10,000 tons per year in combined production and sales volume in three years. In the third year of its Mid-Term Management Plan, it will absorb the depreciation charge and envisions that new Singapore plant will turn profitable on a standalone basis. For its full-fledged growth curve, with acceleration under the next Mid-Term Management Plan also in view, the Company plans to engineer an expansion in volumes and an improvement in productivity, principally in the Asian food service market, by riding the tailwind provided by the favorable environment in which Japan-spec quality, response, and safety are highly recognized.

3. Financial strategy and shareholder return policy

(1) Basic approach to financial strategy

The Company's financial strategy is based on maintaining a balance among the following three elements: growth investment, shareholder returns, and financial soundness. The Company's business model, which combines manufacturing functions and development proposal capabilities with trading functions serving as the core, tends to see working capital and capital expenditure burdens front-loaded during growth phases. For that reason, rather than optimizing short-term financial metrics, the strategy emphasizes securing medium- to long-term earnings capacity and a stable financial structure.

As a benchmark for financial structure, the Company views a consolidated shareholders' equity ratio above 35% as a stable level, while also potentially considering a ratio of 40% for the future. Given that a higher relative weight of the manufacturing business leads to increases in non-current assets and changes in the nature of business risk, it is recognized that ensuring an adequate equity capital base is indispensable for sustainable growth over the medium to long term. In terms of capital efficiency, the Company targets an ROE of 10–12%. To achieve this, its policy is to refrain from using excessive financial leverage and raise its profit level through sophisticating its business portfolio and expanding value-added business, thereby enhancing capital efficiency. Another distinguishing characteristic of the Company is that it has adopted ROIC as an internal management metric, and manages its business with an emphasis on profitability at the business-unit level. Furthermore, the Company is advancing efforts to incorporate ROIC into personnel evaluations, with the aim of promoting capital-efficient decision-making at the operational level.

Medium- to long-term growth strategies and shareholder returns

(2) Cash flow allocation

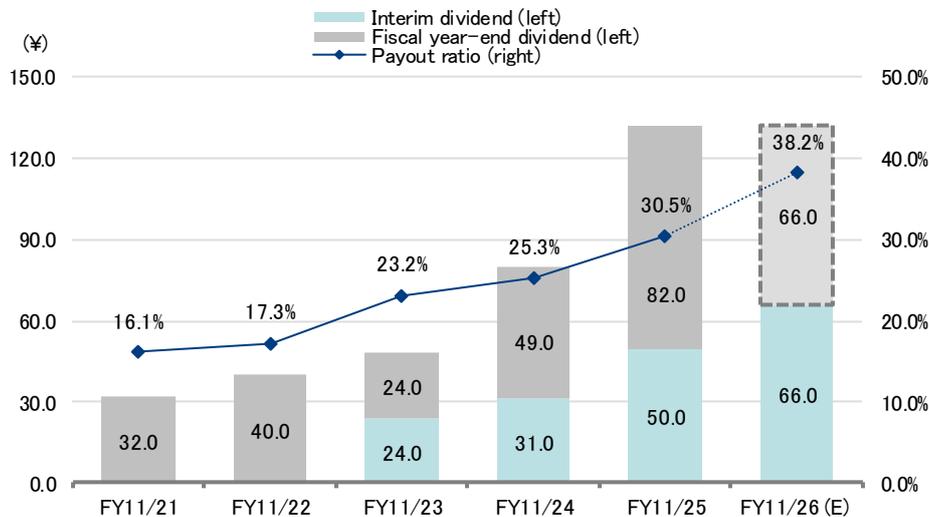
With regard to cash flow allocation, the Company has adopted a policy of clearly allocating core operating cash flow to fund investments for future growth and shareholder returns. For core operating cash flow during the Mid-Term Management Plan period (a cumulative three-year total of ¥12.0bn–¥13.0bn), the Company intends to allocate approximately 60% to improving future growth potential and 40% to shareholder returns. Investments to improve future growth potential include investment in human resources, digital transformation (DX) and other forms of IT investment, M&A and capital alliances, capital expenditures in existing businesses, and the reinforcement of overseas sales networks. In terms of human resources in particular, the Company emphasizes developing and securing talent with global response capability and advanced expertise, and views its business strategy and people and talent strategy as a unified whole.

Note that these figures exclude the approximately ¥3.5bn investment in the new plant in Singapore, and that the cash flow allocation policy presented here represents a framework focused on subsequent phases of investment. For additional investments going forward, the policy of the Company is to use operating cash flow before changes in working capital as the primary source of funds. It does not envision expanding investment in a manner that would materially compromise its financial structure. While investments in growth will be continued, strong emphasis is being placed on maintaining financial stability.

(3) Shareholder return policy

The Company has clearly articulated a shareholder return policy that emphasizes a balance between stability and growth. The Company positions dividends as the core of shareholder returns, and has adopted a basic policy of providing continuous and stable dividends with a target payout ratio of 35% or higher. Additionally, starting with its current Mid-Term Management Plan, the Company has adopted a progressive dividend policy based on maintaining or increasing the annual dividend, and aims for a shareholder return approach that is less susceptible to short-term fluctuations in results. The Company emphasizes a cycle that begins with the expansion of profits driven by growth investment and leads to the outcomes of that profit growth being steadily returned to shareholders in the form of dividends. Going forward, the Company intends to further deepen dialogue with investors through meticulous disclosure of the shareholder return policy described above together with numerical results.

Trends in dividend per share and payout ratio



Source: Prepared by FISCO from the Company's financial results



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