



May 14, 2024

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Action to Implement Management that is Conscious of Cost of Capital and Stock Price

MEGMILK SNOW BRAND Co., Ltd. announced Action to Implement Management that is Conscious of Cost of Capital and Stock Price, as follows.

1. Summary of our initiatives

The P/B ratio is below 1x, and we view this as an issue. In addition to the low ROE, we believe that the reason our P/B ratio has been below 1x is that we have not been able to present to investors our specific growth strategy and capital policies.

We aim to achieve an ROE (excluding gains from asset sales) of at least 8% and a price-to-book ratio in excess of 1x through the implementation of the Megmilk Snow Brand Group Medium-term Management Plan 2025 and the execution of the next management plan, which is scheduled to be disclosed in May 2025.

Please refer to the attached document for more details.

2. About progress

We will provide updates on the progress on an annual basis going forward.



Action to Implement Management that is Conscious of Cost of Capital and Stock Price

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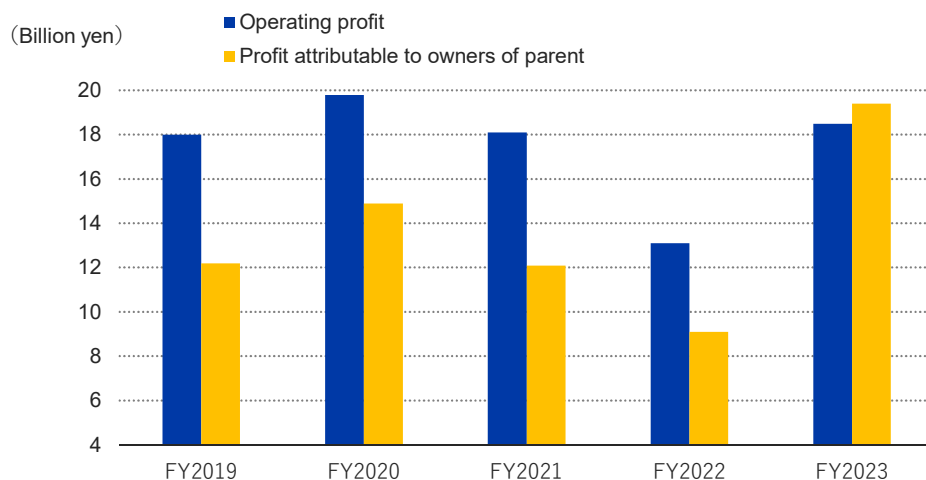
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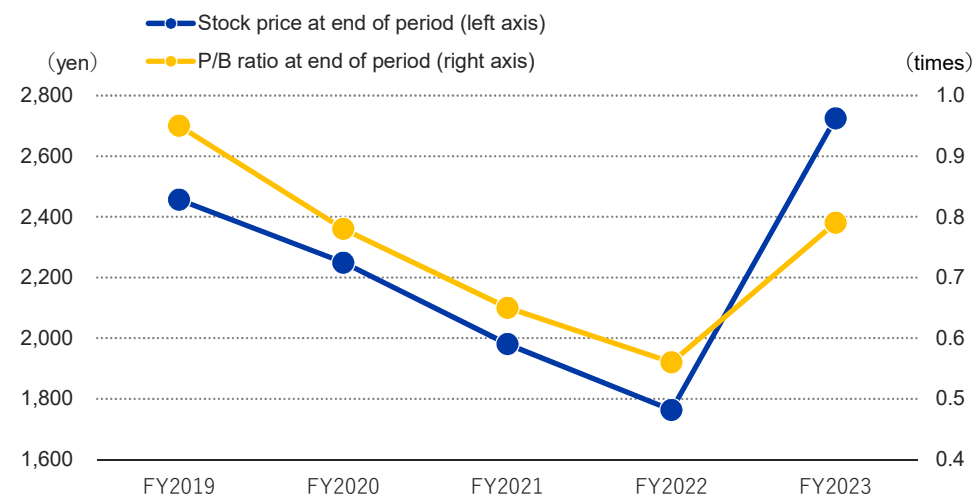
2 Initiatives to Enhance Corporate Value

Awareness of the current situation

Consolidated Results



Stock price at end of period / PBR

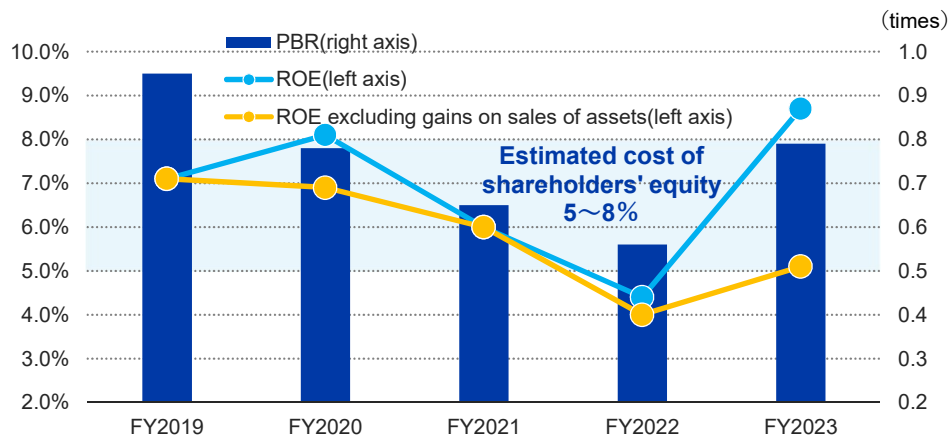


Awareness of the current situation

- Consolidated operating profit is on a recovery trend as a result of priority initiatives in FY2023
- Profit attributable to owners of parent also increased significantly due to gain on sales of investment securities
- Although the stock price is on an upward trend, the P/B ratio of 0.8x is an issue

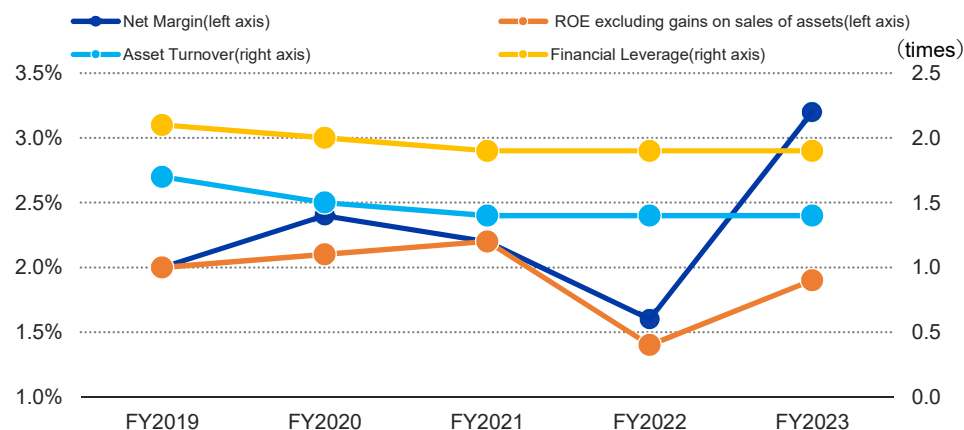
Factors causing a P/B ratio below 1x

PBR/ROE



ROE Breakdown

Food Industry Average | Net Margin: 4.97% / Asset Turnover: 0.9 / Financial Leverage: 1.9 (Source: Quick)



Estimated cost of shareholders' equity

- The cost of shareholders' equity is estimated around 5% to 8% based on CAPM and our conversations with investors.
- ROE excluding gains on sales of assets to be achieved as soon as possible is at least 8%.

Factors causing a P/B ratio below 1x

- ROE is low
- The status of specific actions and capital policies towards growth strategies have not been demonstrated

Factors contributing to low ROE

- To improve ROE, it is necessary to increase net profit, as the net profit margin, excluding gains from asset sales, is lower compared to the average in the food industry.
- Since the financial leverage is below 2x, we recognize that there is room for debt utilization.

Summary of Current Situation Analysis

Awareness of the current situation	<ul style="list-style-type: none">● The PBR is showing an upward trend, but it is still below 1, at around 0.8 times. This indicates a challenge that needs to be addressed.● The cost of shareholders' equity is estimated around 5% to 8%.● ROE excluding gains on sales of assets to be achieved as soon as possible is at least 8%.
Factors causing a P/B ratio below 1x	<ul style="list-style-type: none">● ROE is low.● The status of specific actions and capital policies towards growth strategies have not been demonstrated.
Direction of Efforts	<ul style="list-style-type: none">● Improve ROE (profitability, growth potential, capital policy)● Lower the cost of capital



**Aim to achieve a P/B ratio over 1x
as soon as possible**

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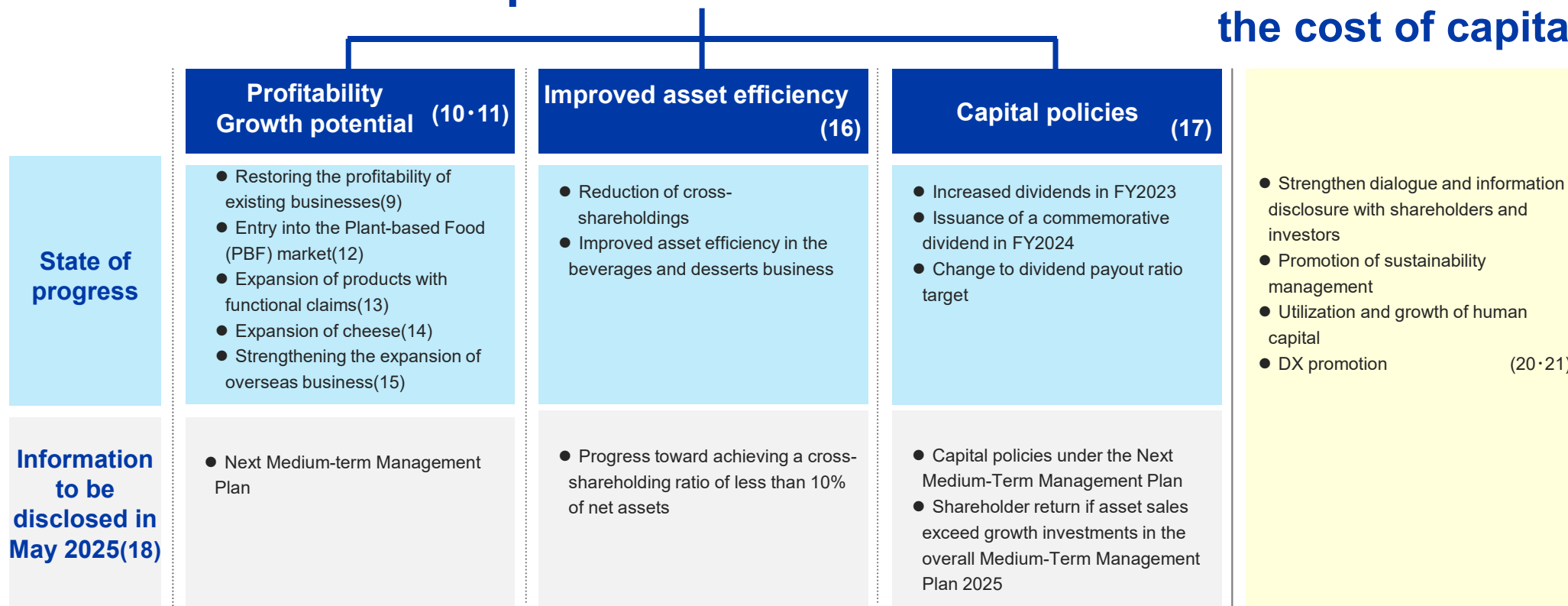
2 Initiatives to Enhance Corporate Value

Details of Initiatives to Enhance Corporate Value

We are working on improving ROE and reducing capital costs to enhance corporate value.

Improvement of ROE

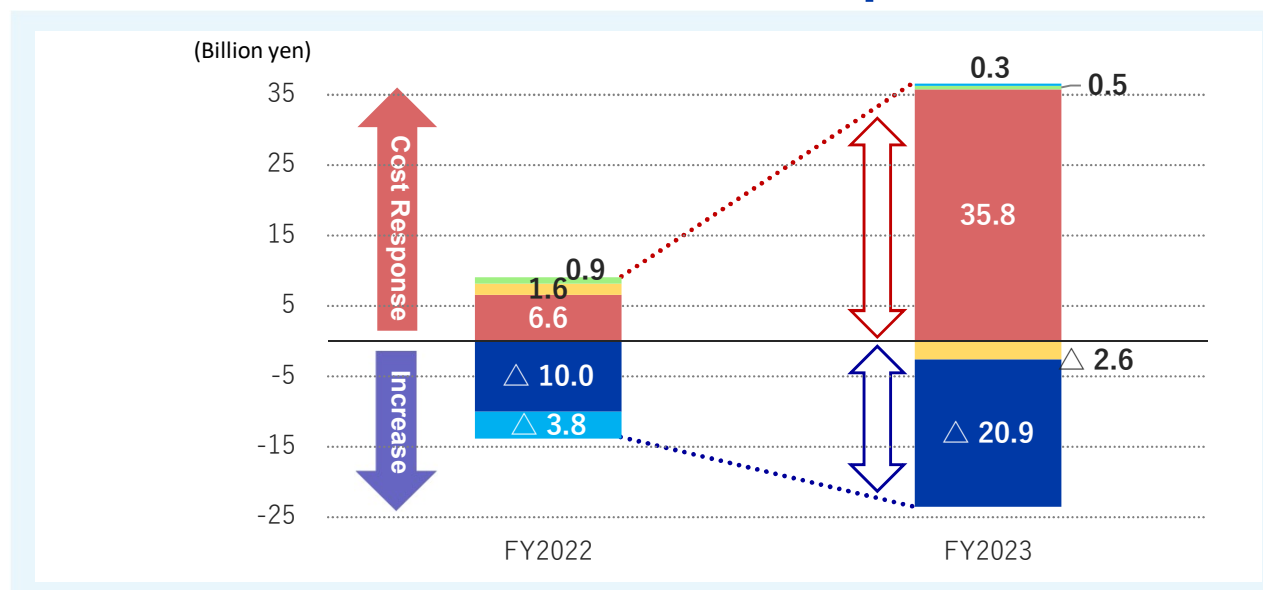
Efforts to lower the cost of capital



(Note) The details for each item can be found on the following pages: (page numbers).

Improving profitability and growth (1): Restoring the profitability of existing businesses

Cost increases vs. response



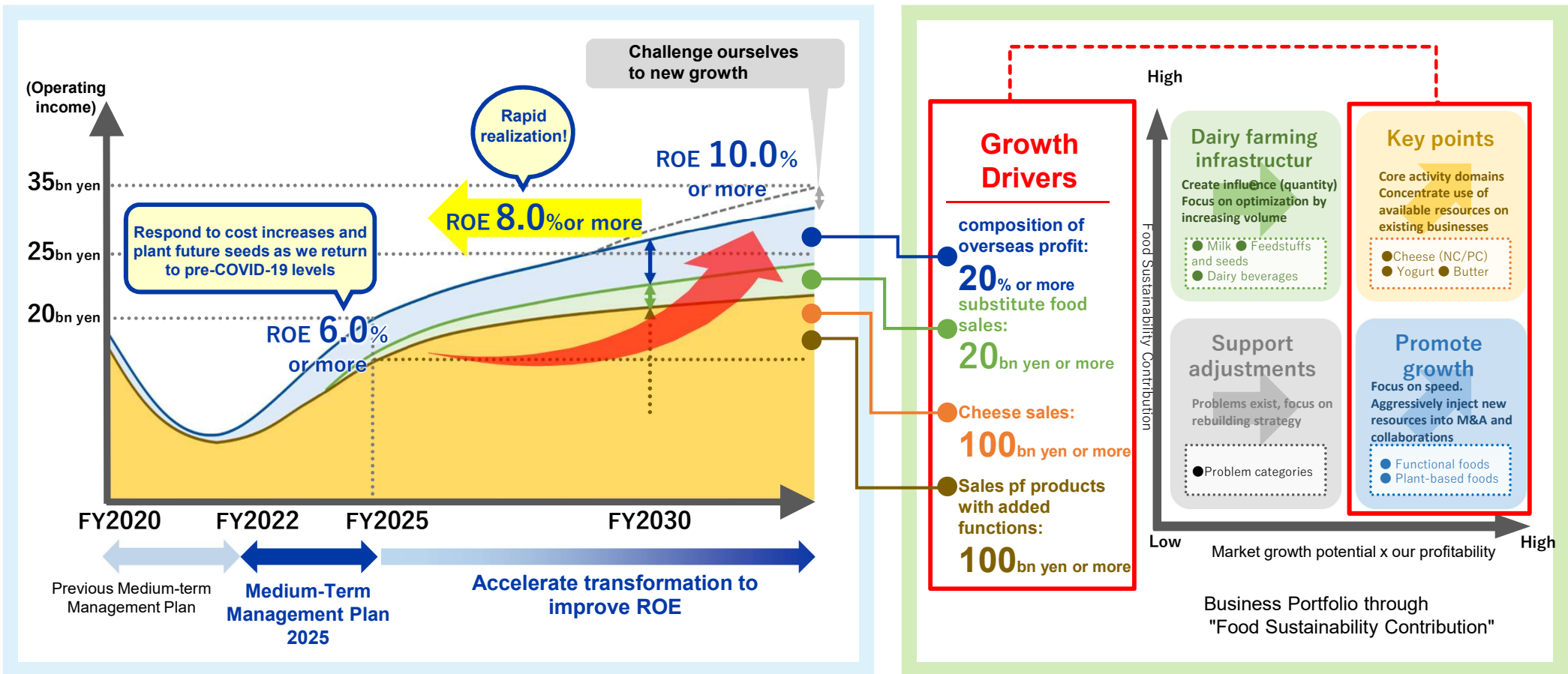
Earnings recovered in FY2023

- The cost response amount reversed cost increases
- Demonstrated unprecedented resistance to cost fluctuations
- The earning ability of existing businesses was restored

	FY2022	FY2023
Operating costs	△3.8	0.3
Raw materials costs	△10.0	△20.9
Product composition	0.9	0.5
Sales volume	1.6	△2.6
Sales unit price	6.6	35.8

Improving profitability and growth (2): Drivers through "Food Sustainability Contribution"

We are driving corporate value improvement through four growth drivers in our focus and growth promotion businesses.



Improving profitability and growth (3):Growth Drivers/ Areas of Focus

High market growth × **High** capital efficiency (profitability × asset efficiency)

We are focusing on four areas with high growth potential and capital efficiency.

	Domestic market	4 Overseas markets Growth of Overseas Business
1 PBF (alternative foods)	<ul style="list-style-type: none"> ● Plant label × Market entry with existing brands 	<ul style="list-style-type: none"> ● Launch of B-to-B business after the startup of the new Agro Snow plant
2 Function-added foods	<ul style="list-style-type: none"> ● Launch of new health claims ● Promoting a deeper recognition of functions in existing categories 	<ul style="list-style-type: none"> ● Aggressive expansion of functional ingredients
3 Cheese	<ul style="list-style-type: none"> ● Growth of domestic natural cheese ● Discontinuous growth through M&A 	<ul style="list-style-type: none"> ● Acceleration of Asian market acquisition ● Discontinuous growth through M&A

(Note)PBF : Plant Based Food (hereafter referred to as PBF)

Improving profitability and growth (4): Entry into the Plant-based Food (PBF) market

High market growth × High profitability × High asset efficiency

In addition to its high growth and profitability, PBF is asset efficient, in that it can utilize our existing production facilities.

Japan

Entry into the yogurt and beverage

ハロー、やさしい植・生活。



Target sales for
FY2024
2.0bn yen

Plans to enter markets
other than yoghurt and
beverage as well

Overseas

Progress of Agro Snow Pte Ltd

Malaysia



Acquisition of land in
February 2024



Artist's impression of the
completed plant

A new Agro Snow plant is scheduled to begin operations
in the second half of FY2025 to FY2026.

Improving profitability and growth (5): Expansion of products with functional claims



We are accelerating growth by expanding our range of function-added foods that demonstrate uniqueness and meet the health needs of both domestic and international markets.

Japan Development of MBP-integrated marketing



"Honebuto Future" Support Project



Japan Development of new health functions from R&D



未来は、ミルクの中にある。
雪印メグミルク



弘前大学



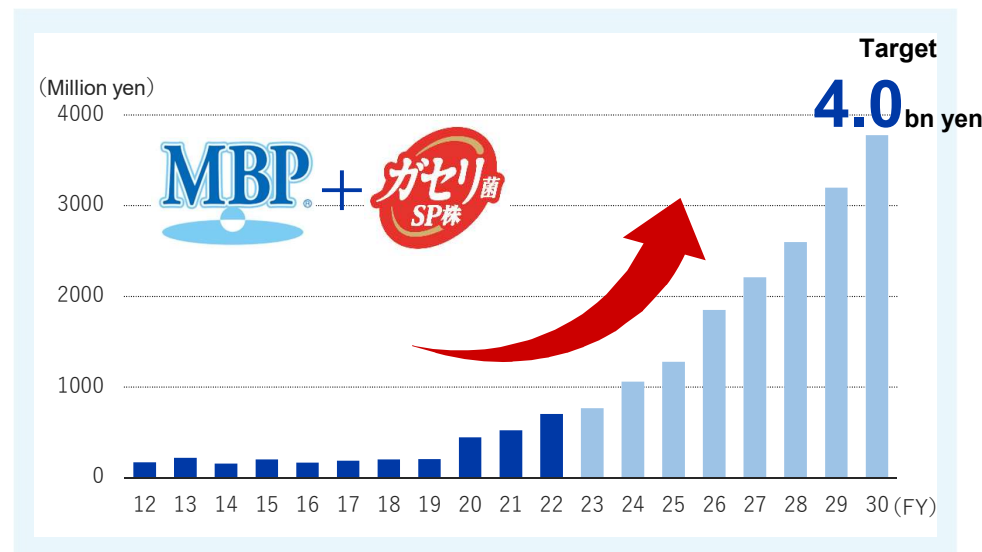
Hirosaki University
COI-NEXT
Locations



Plans to sequentially present the health value of milk and dairy products based on research results

Overseas Active expansion of functional ingredients

MBP® and other functional ingredients sales amount and target



Improving profitability and growth (6):Expansion of cheese

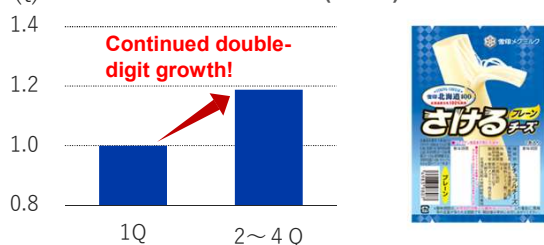
We will achieve growth by expanding the production of domestically made natural cheese and acquiring new capabilities to create value both domestically and internationally.

Japan Growth of domestic natural cheese



July 2023 New production line begins operation

(t) FY2023 Sales Results (Index)



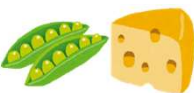
Japan Discontinuous growth through M&A



July 2024 Acquisition of shares of Yoshida Corporation (making it a subsidiary)

Expected Synergies

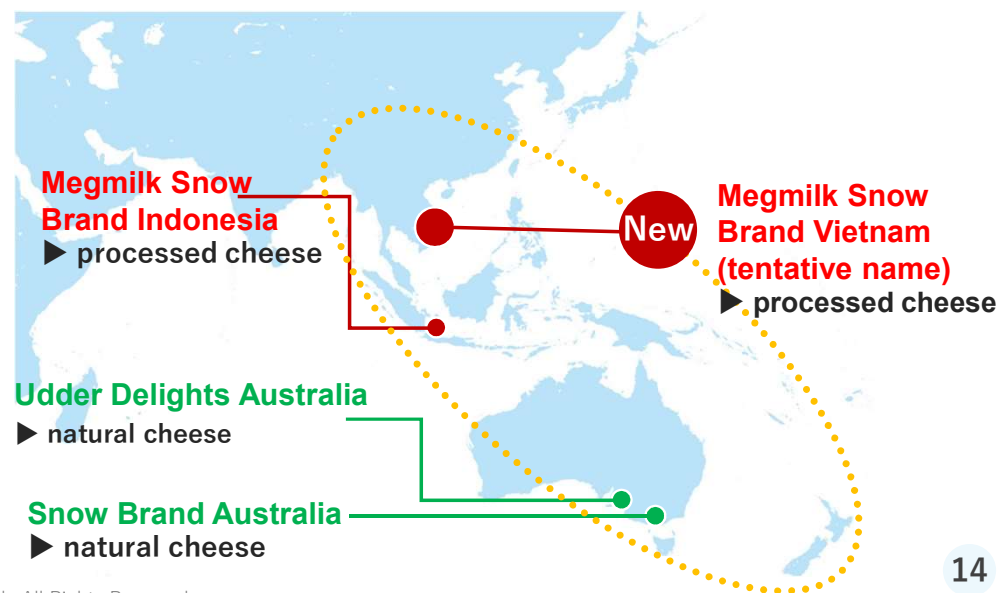
- Development of new demand-creating products such as PBF
- Improving production efficiency of the entire group
- Expanded use of domestic dairy raw ingredients



Overseas Entering new Asian markets



May 2024 Decision to establish a new processed cheese manufacturing base in Vietnam (investment amount: approx. 1.6 billion yen)

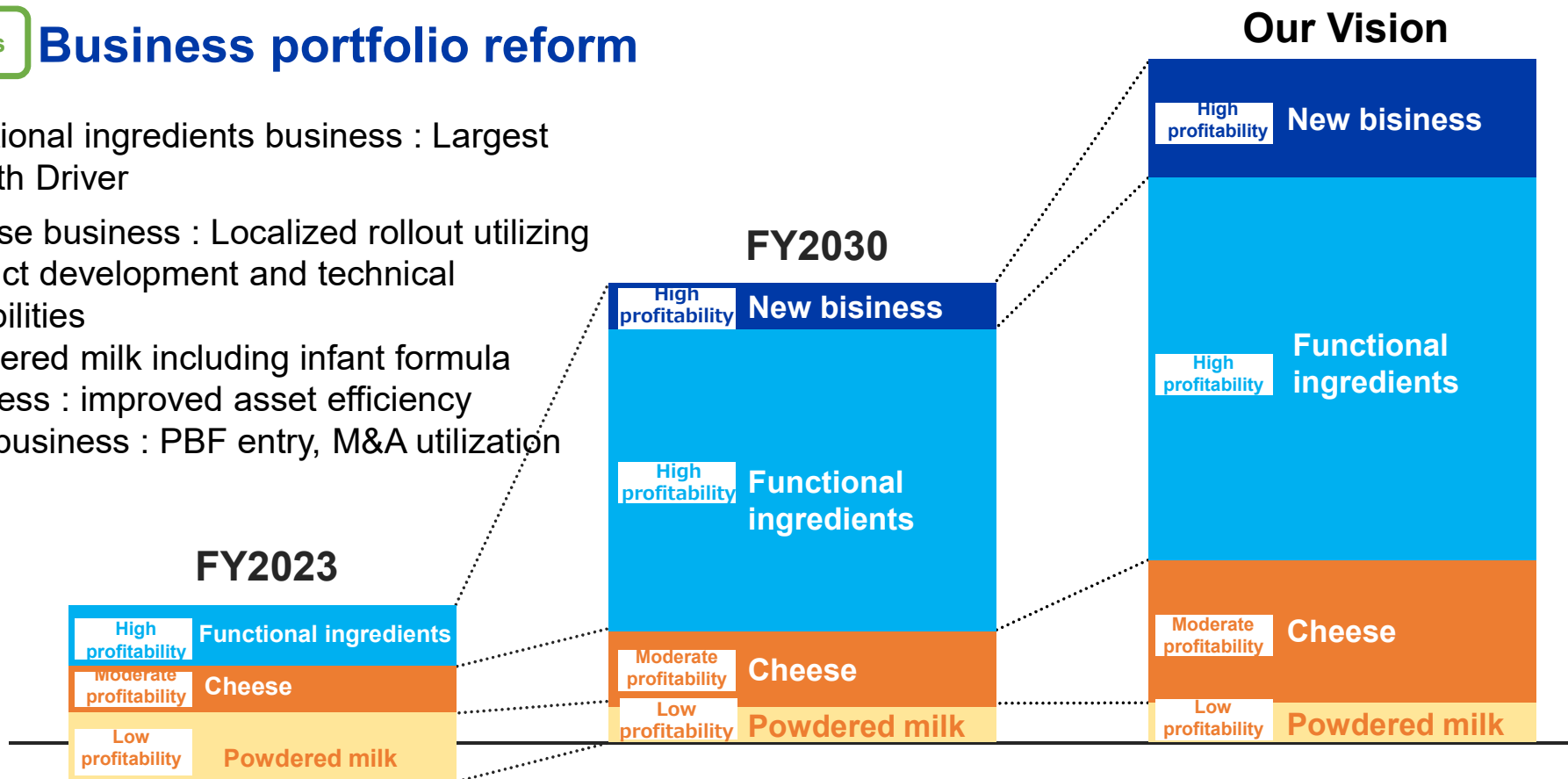


Improving profitability and growth (7): Strengthening the expansion of overseas business

We will leverage the strengths of the Group in the functional ingredients business and cheese business.

Overseas Business portfolio reform

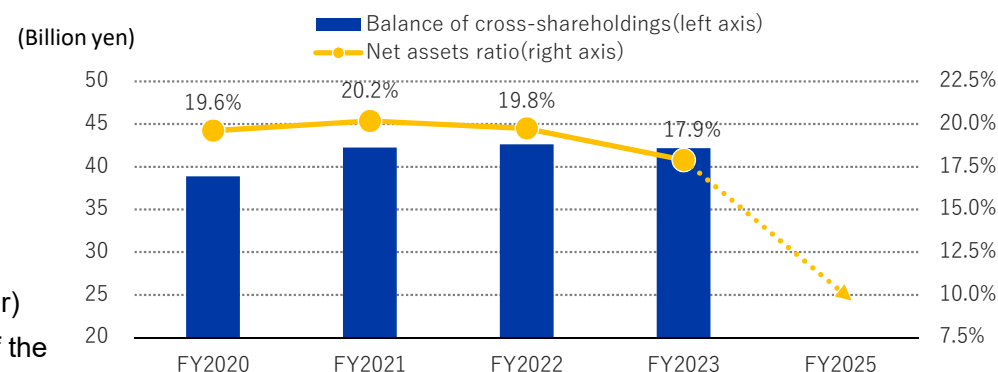
- Functional ingredients business : Largest Growth Driver
- Cheese business : Localized rollout utilizing product development and technical capabilities
- Powdered milk including infant formula business : improved asset efficiency
- New business : PBF entry, M&A utilization



Improved asset efficiency : Reduce assets for platform/growth investments

Reduction of cross-shareholdings

Listed shares (including deemed holdings)	Partial sales: 7 stocks
	Fully sales: 12 stocks
Unlisted shares	Sold: 2 stocks



FY2023

- ◇ **Net assets ratio: 17.9%** (1.9% decrease from the previous year)
- ◇ **Number of stocks: 53 stocks** (14 stocks down from the end of the previous fiscal year)

We will continue to engage in dialogue with business partners and proceed with reductions to achieve the Medium-term Management Plan 2025 target of a **net asset ratio below 10%**

Improved asset efficiency in the beverages and desserts business

- Sold the site of the former Nagoya Plant in April 2024 (profit/loss from the sale has already been included in the Forecast of Consolidated Financial Results)

Capital policies :

We are considering expanding shareholder returns while maintaining financial soundness.

FY2023 : 20 yen increase in dividend

- We have disclosed 20 yen increase in the year-end dividend for the fiscal year 2023 on March 13, 2024.

	Before change	After change	Difference
Dividend per share	60yen	80yen	20yen

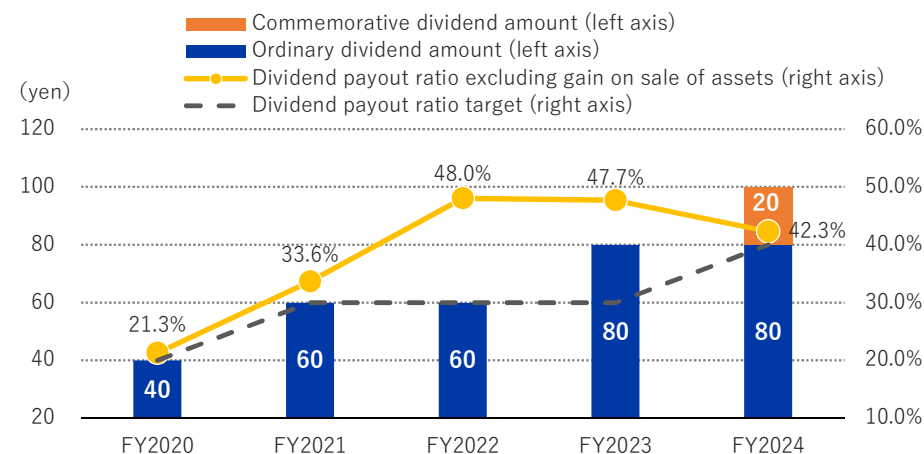
FY2024 : 100th anniversary commemorative dividend of 20 yen to be paid

- We will celebrate its 100th anniversary in May 2025.
- In gratitude for the ongoing support of our shareholders, we will implement a commemorative dividend of 20 yen per share for the year-end dividend of the fiscal year 2024.

	Ordinary dividend	Commemorative dividend	Total
Dividend forecast	80yen	20yen	100yen

Changes in shareholder return policy

- We have changed the target consolidated dividend payout ratio from more than 30% to more than 40% excluding gains on sales of assets, comprehensively taking consolidated operating results, financial positions and other factors into consideration.



Note: The forecast dividend payout ratio for FY2024 does not include the commemorative dividend.

Capital policies

Future capital policies considerations

We are progressing with the consideration of the following matters and will disclose the results of our deliberations in May 2025.

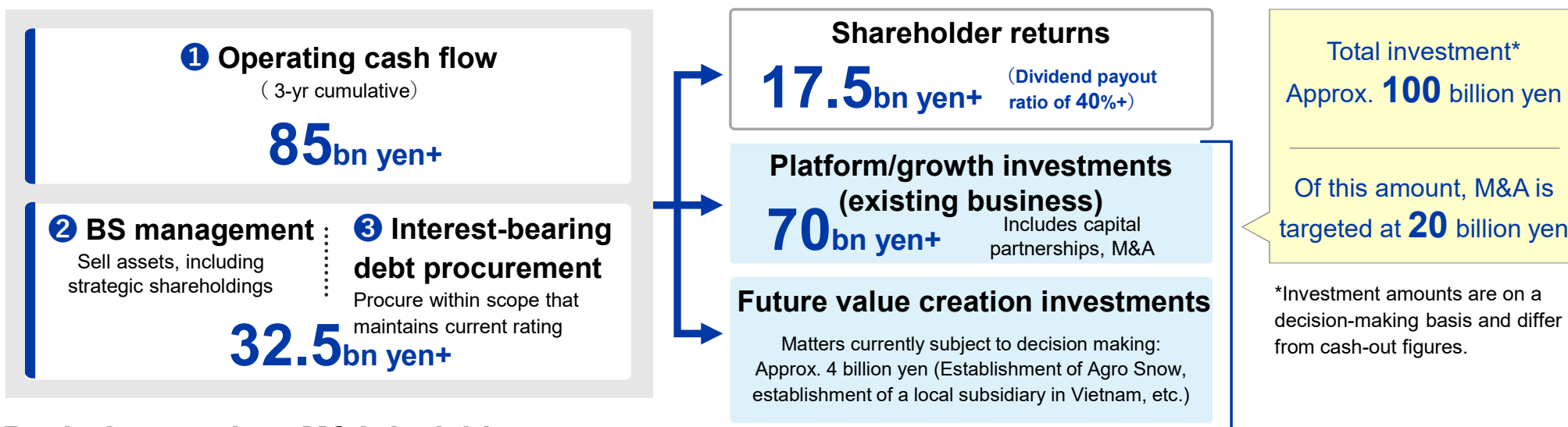
Capital policies in the next Medium-term Management Plan

- We are currently reviewing the next management plan and plan to disclose it in May 2025.
- We will proceed with discussions on the capital policy that is linked to this next medium-term management plan.

Prospects for shareholder returns on asset sales in Medium-term Management Plan 2025

- We have a policy to use cash gained from sales of assets for growth investments contributing to improvement of corporate value. If the proceeds from those sales exceed growth investments in the Medium-term Management Plan 2025 as a whole, however, we will consider shareholder returns.
- If we are considering implementing shareholder returns, we will also examine including share buybacks.

Group Medium-Term Management Plan 2025 cash Allocation Forecast



Basic Approach to M&A Activities

Basic Policy	<ul style="list-style-type: none"> Proactively utilize M&A in areas where synergies with our group and business domain expansion are expected.
Priority fields	<ul style="list-style-type: none"> Overseas business, function-added foods, plant-based food, areas linked to innovation.
Monetary scale	<ul style="list-style-type: none"> The total amount of base/growth investment (existing businesses) and future value creation investment is approximately 100 billion yen. Of this amount, M&A under Medium-term Management Plan 2025 is targeted at 20 billion yen.

Efforts to lower the cost of capital(1)

By strengthening information disclosure and dialogue with shareholders, investors, and other stakeholders, as well as actively disclosing non-financial initiatives, we aim to reduce the cost of capital.

Strengthen dialogue and information disclosure with shareholders and investors


<Key Events in FY2023>

- Disclosures on the implementation status of dialogue with shareholders and other stakeholders
- Briefings for individual shareholders
- Tours of the Innovation Center, meetings for dialogue with R&D
- Holding of overseas briefing session



Innovation Center

Promotion of sustainability management

- Participation in the TNFD Forum 
- Launch of internal carbon pricing system
Internal carbon price: 10,000 yen/t-CO₂ (Scope 1, 2)
- Methane fermentation facility at Taiki Plant begins operation
- Introduction of hydrogen energy utilization equipment at Horonobe Plant
 - ▷ Participation in Demonstration Project



May 2023 Methane fermentation facility begins operation

Efforts to lower the cost of capital(2)

By strengthening information disclosure and dialogue with shareholders, investors, and other stakeholders, as well as actively disclosing non-financial initiatives, we aim to reduce the cost of capital.

Utilization and growth of human capital

- Improving employee work engagement
- Improving labor productivity by promoting work style reforms
- Creating added value by promoting diversity and inclusion
- Securing, deploying, and training human resources to realize management strategies



DX promotion

- Interactive AI (YuMe*ChatAI) introduced
 - ▷ Creation of new value and renewal of business processes



- Establishment of a new data utilization infrastructure (data lake)
 - ▷ Utilization for management decisions, R&D, marketing, etc.
- Promotion of the digitization of business operations
 - ▷ Concur、ServiceNow

For further development in the next 100 years

Decision to relocate Tokyo headquarters (scheduled for the second half of FY2025)
We will support new workstyles and Dx promotion to increase the speed of transformation

Make the Future with Milk

A glowing white sphere is positioned above a white mountain peak. The background is a gradient of blue, transitioning from a darker blue at the top to a lighter blue at the bottom. The sphere and mountain peak are centered horizontally.

Forward-looking statements such as performance forecasts contained in this document are based on management's expectations and assumptions in light of information currently available and are not the commitment by the Company. Actual results may differ from the forecasts in this document due to change in the business environment and other factors.

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