

Message from
the President

Why the Megmilk Snow Brand Group Is Working on Food Sustainability

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Unless We Change Now, We Won't Keep Growing

The Megmilk Snow Brand Group has made many kinds of changes in its 100 years of history. These include our responses to the two compliance incidents in the 2000s, which became major turning points for the Group. I think a somewhat conservative corporate culture has become entrenched as the company reflected upon and responded to these incidents. Many people at the Group are meticulous and conscientious, but also over-cautious and low-key, which makes it difficult to drive change and push through structural reforms. We cannot see our next 100 years as a mere extension of the current corporate culture. If we do not change now, there will be no future growth. This gives me a very strong sense of urgency.

Start of the Group Medium-Term Management Plan 2025 and Review of the Plan's First Year

The Group Medium-Term Management Plan 2025, which we launched in April 2023, is informed by these reflections. The plan provides a period to build a foundation for the next 100 years and is based on the theme of "gain resilience."

In fiscal 2023, the business environment remained extremely uncertain, with a global economy marked by escalating geopolitical risks, skyrocketing energy and raw material prices, and a stubbornly undervalued Japanese yen. However, we gained our customers' understanding as we revised prices and responded in other ways, and we were able to turn around the declining profits we recorded in fiscal 2021 and fiscal 2022, and deliver profit growth in fiscal 2023. As a result, we are now within reach of our target of 20 billion yen operating income for the final year of the Medium-Term Management Plan.

Of the business strategies we describe in the Medium-Term Management Plan, the future growth drivers will be entering the plant-based food market, fostering function-added foods, enhancing overseas development, and expanding cheese sales. We have already made significant progress in several respects, which I will now describe.

■ Entering into the Plant-Based Food Market

We expect that market for plant-based foods to grow in coming years. Globally, this market was valued at about 1.2 trillion yen as of 2020, but it is expected to almost double to 2.1 trillion yen in 2025. Japan's plant-based food market was worth about 103.0 billion yen in 2020, but it is expected to grow to about 144.5 billion yen in 2025. Awareness of plant-based food is still low in Japan, but there is no doubt that this segment will rapidly grow worldwide. We see this as a driver of new growth for the Group. In March 2024, we launched Natulait Megumi Born from Plants, Megumi Gasseri SP Strain Yogurt, Pea Drink and Oat Drink under the Plant Label brand. We set a sales target of 2.0 billion yen for fiscal 2024, the first fiscal year for these products, but this is just the start, and we are looking forward to future growth.

Agro Snow Pte. Ltd., the joint venture between the Group and Agroc corp, decided to build a new plant in Malaysia, with operations set to start in 2025 or 2026. We are considering manufacturing the raw materials for our plant-based foods at this plant, in order to fully leverage the Group's knowledge and functions. Using our expertise to process the raw materials of plant-based foods is a major challenge. The Group's greatest strengths are our vast knowledge cultivated through milk and our ability to build on this knowledge in a variety of ways. We aim to build a new value chain, starting with procurement of raw materials for plant-based foods and reaching all the way to manufacturing of the final product.



■ Fostering Function-Added Foods

Products containing “MBP,” a protein that boosts bone density, meet the need for better bone health among customers, and have seen growth year after year.

The line of products using *Lactobacillus gasseri* SBT2055, Megmilk Snow Brand’s unique lactic acid bacteria, has seen substantial growth in Japan as function-added foods. In fall 2024, we plan to add health claims* with the aim of attracting more users.

These function-added foods not only have higher benefits for customers, but are also very profitable for the Group. They also help meet the social demand for extending healthy longevity, making this a business that is truly beneficial for everyone. Increasing the number of products in this category, including expanding into markets outside Japan, will shift the makeup of the Group’s portfolio.

* Label related to the efficacy and functionality on health.

■ Enhancing Overseas Development

The keywords for our overseas development are functional ingredients and cheese. The key to functional ingredients is our “MBP”-related product lineup. In recent years, we have received more and more inquiries from neighboring Asian countries about our products using “MBP,” as their societies begin to age. “MBP” is a rare protein that can only be extracted in small amounts from milk, so mass production of this ingredient is very difficult. However, the recent development of new manufacturing

methods and a new manufacturing base have paved the way for us to procure a plentiful supply. Now that the supply constraints that had been such a bottleneck are easing, we will address the expected simultaneous increase in the global population and its aging by expanding production of products with “MBP.” We have also started adding more products overseas that use *Lactobacillus gasseri* SBT2055. I am confident that the functional value of this lactobacillus, which reduces visceral fat, will be well received in global markets.

We decided to secure another manufacturing and sales base for processed cheese in Vietnam, and we expect operations to start in fiscal 2025. Vietnam has the third-largest population in the ASEAN region, and its middle-income group, which drives spending, is expanding as its economy grows by about 7% a year. Currently, cheese consumption is not very high, but since Vietnam’s diet is Westernizing and becoming more diverse, we are seeing annual growth of nearly 10%.

Asia, which is the Group’s strategic focus, represents a vast and promising market that is expected to continue to see economic growth. After setting up a new base in Vietnam, we will have a total of four manufacturing bases outside Japan, including our existing processed cheese plant in Indonesia and our two natural cheese plants in Australia. We have decided to utilize the unique strength of the Group’s manufacturing technology to localize products in order to meet broad-based local needs, which will allow us not only to capture existing demand but also create new demand. We are also considering expanding into the Middle East and Africa in the future.

■ Expanding Cheese Sales

In fiscal 2023, we augmented our production capacity for Sakeru Cheese and worked on new proposals for this food scene. This resulted in impressive double-digit growth in sales.

In July 2024, the Group acquired a stake in the Yoshida Corporation, which is particularly skilled at cheese processing. We have only had mass-production lines up until now, but being able to adjust with agility and speed to market needs will be an important strategy going forward. We also hope to work together on the development and manufacture of plant-based foods.

In conjunction with this new plant in Vietnam, adding new production bases in and outside Japan will play an important role in building the Group’s cheese business, going forward. We are aiming to deliver an entirely new level of growth.

■ Brand Strength Helps Support Recovery in Profitability

In Japan, we have steadily revised prices for the dairy products segment and the beverage and dessert segment, which I think has been a key in restoring our profitability.

We were able to achieve strong results despite the harsh business environment because customers recognize the value of the Group’s products. In other words, the strength of the Group’s products and brands was able to support our management goals despite the intense changes in the business environment. In the first year of our Medium-Term Management Plan, we were able to record a profit while securing a certain volume of product sales and enter the plant-based food business. These are solid first steps toward creating the seeds for new growth and building a foundation for sustainable growth.

■ Reasons We Are Addressing Food Sustainability

Most people take it for granted that they will be able to obtain food, but there is no guarantee that this will continue. We must approach food sustainability with a sense of urgency.

By the 2050s, the world’s population is expected to reach 10 billion, driving a rapid increase in demand for protein and a potential shortage in its supply. Japan’s food self-sufficiency rate is 38% on a calorie basis, which is the lowest among developed countries. There is a real risk that Japan may not have enough food if problems arise with obtaining what is needed from overseas. Japan relies on imports for about 40% of the milk and dairy products consumed by the domestic population. Globally, of the approximately 900 million tons of dairy products made,

less than 10% is exported, so there are real concerns that the supply/demand risks posed by this global structure will increase.

Strengthening and supporting domestic dairy production infrastructure is essential in ensuring that milk and dairy products can be stably supplied. At the Megmilk Snow Brand Group, we believe that we are responsible for protecting the production base for dairy farming and the dairy industry by ensuring the stable procurement of raw milk and the stable supply of milk and dairy products. As part of this responsibility, we aim to expand self-sufficient feedstuff through the Group company Snow Brand Seed Co., Ltd., while creating new demand in that field, as well.

I think that our plant-based food initiatives, which I have already explained, will be very effective in addressing the risks to the supply/demand of protein worldwide. We do not see plant-based food and food tech as being in opposition to milk and dairy products, but instead we plan to pursue the synergies. The stable supply of milk and dairy products is the Group’s very foundation and its entire premise, but we want to take on challenges in new areas and contribute to food sustainability overall.

■ Why We Are Able to Make a Unique Contribution to Food Sustainability

The Group’s business started about 100 years ago with butter production. At that time, Japan was suffering from serious malnutrition, and there were calls to improve the people’s diet. The Group’s founders helped to improve citizens’ nutrition by providing dairy products. Ever since then, we have helped to increase the value of the raw milk produced by dairy farmers by employing the Group’s vast knowledge and skills to create appealing dairy products and provide them to the public. This has allowed us to build a robust milk value chain, which is the Group’s unique strength. We believe that we can contribute to food sustainability by further improving this milk value chain and utilizing it to its very fullest.

So then, why will we be able to improve this milk value chain? We think it is because we have solid advantages in every process that supports the Group’s business development, including R&D, procurement, production, logistics, marketing and sales, and customer service. Our food sustainability initiatives are not limited to Japan; we intend to expand our efforts in Southeast Asia, as well. By building a value chain from upstream to downstream in regions around the world, we can contribute to food sustainability for people all over the world.

Unshakeable Significance and Dialogue with Stakeholders

Our founding spirit of *Kendo Kenmin* (“a healthy earth ensures human health”) means that dairy farming strengthens the soil, and the milk and dairy products produced from this rich earth are the ultimate nutritious food that can foster healthy minds and resilient bodies for human beings. This concept fits the contemporary ideas around sustainability, as well. Our desire to support dairy farmers stems in part from our origins in dairy farming, but also from the urgent sense we have that we must not allow the source of valuable and highly nutritious milk and dairy products to be lost as we face an era in which food sustainability is under threat. Many dairy farmers also have high hopes for the Group’s initiatives. Their thoughts and feelings resonate deeply with me when I visit them.

I and the other officers visit each of the Group’s offices to explain the Group’s purpose, our own management philosophy, and the thoughts behind the Medium-Term Management Plan as part of an “officer caravan.” We made 121 visits in 2023, and I felt that these efforts were really paying off as our philosophy and management plan are reaching the frontlines of our operations.

Strengthening Management Sustainability

The material issues that we are currently working on are focused on helping to achieve food sustainability, and we have set issues and KPIs that synchronize social value and economic value.

We intend to earn recognition for our economic value and use the profits generated from this to contribute to the creation of social value in the form of food sustainability. The recognition we gain from these efforts will drive further corporate growth. By creating this kind of cycle, the Group can continue to benefit the broader society.

Our Responsibilities for the Future

In April 2023, we launched the Future Vision Project as a project framework reporting directly to me, as president. We are now devising our future vision for 2050, and we plan to present it in May 2025. The goal of this project is to present a vision, both internally and externally, that will meet the expectations of our stakeholders, inspire our Group employees to work with dreams and hopes, and lead to increased engagement. The future is full of uncertainties, as expressed in the acronym VUCA (volatility,

uncertainty, complexity and ambiguity), and it is hard to predict. The Future Vision Project is based on the idea that we should not rely on predictions or leave ourselves at the mercy of a changing world, but rather take the initiative to change the world.

In April 2024, we established the Future Creation Department, which will be responsible for translating our ambitions into specific actions. We are currently searching for start-up companies in the agtech and foodtech industries with Plug&Play Inc. so that we can better deliver the value of “co-creation” that we emphasize in the Future Vision Project. Precise future developments are not known at this point, but we can expect not only possible commercialization, but also several synergies and ripple effects from this, for instance stronger R&D functions within the Group that benefit from co-creation with external parties.

We have to ensure that our Group itself is solid and resilient in order to tackle the major social issue of food sustainability. It is also extremely important that we continue to provide value to our stakeholders while meeting the expectations of our shareholders and investors.

To this end, we are making a strong commitment to further increasing the Group’s profitability and enhancing capital efficiency. Going forward, we will pursue management with a strong emphasis on improving ROE and lowering capital costs to raise our price-to-book ratio. Specifically, we will work on “improving profitability and growth potential,” “enhancing asset efficiency,” and “specifying capital measures and augmenting returns to shareholders.”

Improving Profitability and Growth Potential

We will increase the percentage of our business areas that boast high profitability, great market potential and excellent capital efficiency. Our Medium-Term Management Plan aims to achieve growth and build our earning power by expanding the functional ingredients business, entering the plant-based foods market and other alternative foods markets, achieving a quantum leap in growth in the cheese business, including through M&A, and expanding overseas development. These are all ways to create seeds for new growth.

Enhancing Asset Efficiency

By fiscal 2025, we will reduce the percentage of strategic shareholdings to less than 10% of net assets and improve asset efficiency by selling underutilized assets.

Specifying Capital Measures and Augmenting Returns to Shareholders

We will lay out a clear cash allocation plan. We will change the dividend ratio from 30% or higher to 40% or higher, excluding gains on the sale of assets.

Other measures will include strengthening dialogue with shareholders and investors as well as disclosure, pursuing sustainability management, leveraging and growing human capital, and promoting digital transformation to ensure investors’ understanding of the Group’s sustainability and growth potential. We also plan to announce our capital policy in the next management plan, currently scheduled for release in May 2025.

The dairy industry is undergoing major changes. The balance between supply and demand and globalization are bringing changes to many areas of the Group’s business. I would like to further strengthen our milk value chain, which is our strength as an orchestrator,* to ensure the resilience of the dairy industry. Moreover, in recent years, the phrase “regenerative agriculture” has been used in the US and Europe in particular. It refers to agriculture that aims to restore the natural environment not only by maintaining healthy farmland but also by restoring and improving the soil. Our dairy industry must also be regenerative. Regenerative agriculture leads to a regenerative society — in other words, a society that runs in a sustainable and virtuous cycle and is rooted in food. We hope you will look forward to the Group’s efforts to improve our corporate value as we envision the future of the dairy industry.

* An “orchestrator” is like a conductor in music, playing a specific role within an industry’s value chain and also playing a role in creating new value by taking unique initiatives and collaborating with external parties to optimize the overall value chain.

