



Delicious, Fun, and Healthy



Action to Implement Management That Is Conscious of Cost of Capital and Stock Price

October, 2024
MORINAGA & CO., LTD.

About forward-looking statements

This material includes forward-looking statements, such as forecasts, plans, and targets for the Company and its consolidated subsidiaries. These statements are based on judgments and assumptions on the basis of information that the Company has obtained and may be different from actual results and developments in the future.

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

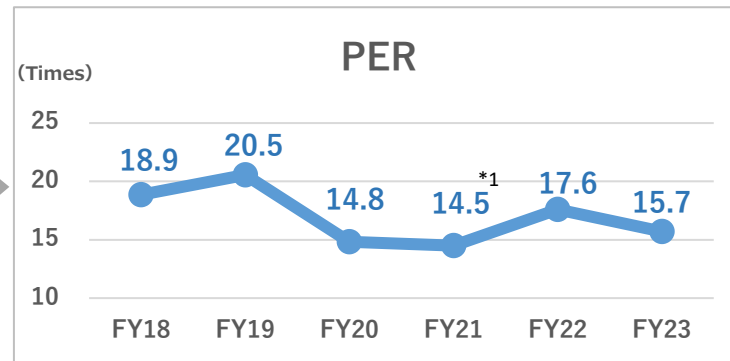
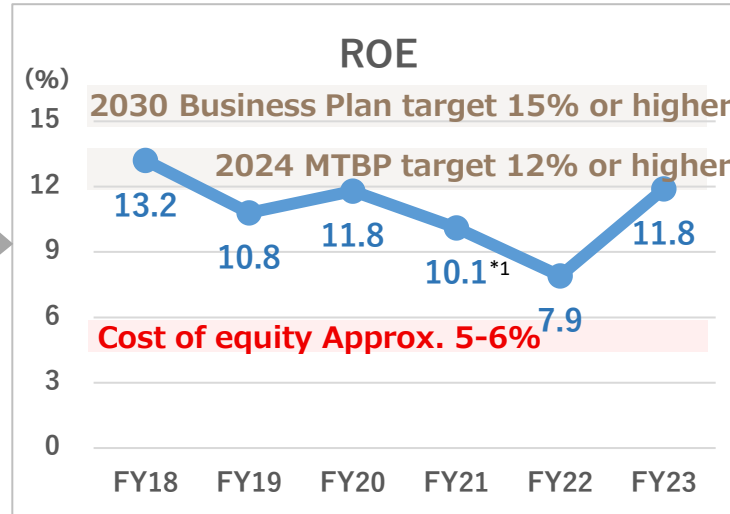
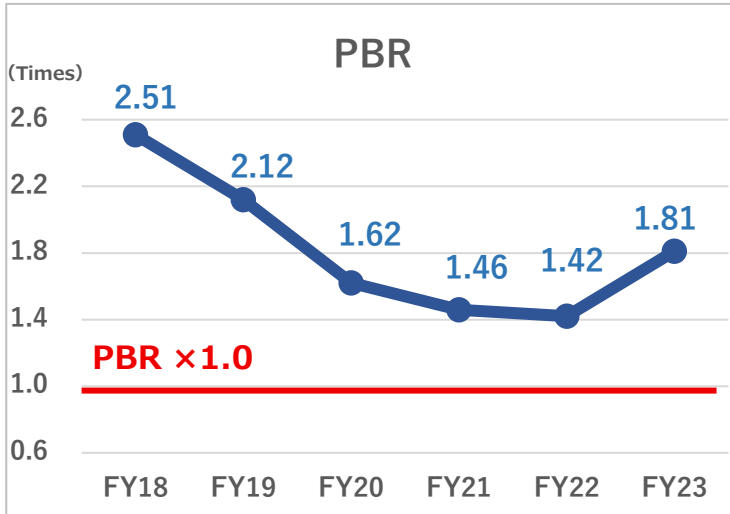
Status of Morinaga Response



	Details of TSE's request	Status of response by Morinaga Group
Analysis of Current Situation	Gain a proper understanding of the company's cost of capital and profitability	<ul style="list-style-type: none"> • Calculation of cost of equity based on CAPM and PER levels • Management of business-specific ROIC
	Analyze and evaluate the current situation around these and the market valuation at board of directors meetings	<ul style="list-style-type: none"> • Discussion at Board of Directors meetings for improvement of ROIC
Planning & Disclosure	Have board of directors discuss and develop policies, targets, planning periods, and specific initiatives for improvement	<ul style="list-style-type: none"> • Formulated three strategies in the Medium-and Long-Term Financial Strategy to “implement management that is aware of capital cost and stock price” • Set business-specific ROIC targets in the 2024 Medium-Term Business Plan
	Disclose clear information on these, along with assessment of the current situation, to investors	<ul style="list-style-type: none"> • Disclosed the policies in IR presentations and the Integrated Report and on the Morinaga website
Implementation of Initiatives	Push forward with management that is conscious of cost of capital and stock price, based on the disclosed plans	<ul style="list-style-type: none"> • Inspection of budget level based on the ROIC tree • Educational activities on capital cost management for all employees
	Engage in proactive dialogue with investors based on this disclosure	<ul style="list-style-type: none"> • Conducted dialogue with analysts and investors through results briefings and small meetings

Analysis of Current Situation

PBR turned upward in FY2023 in response to a rising stock price and recovery in capital efficiency
Morinaga recognizes that the correlation between PBR and ROE is particularly strong and that improving ROE is effective in enhancing corporate value (shareholder value)



Changes in ROE

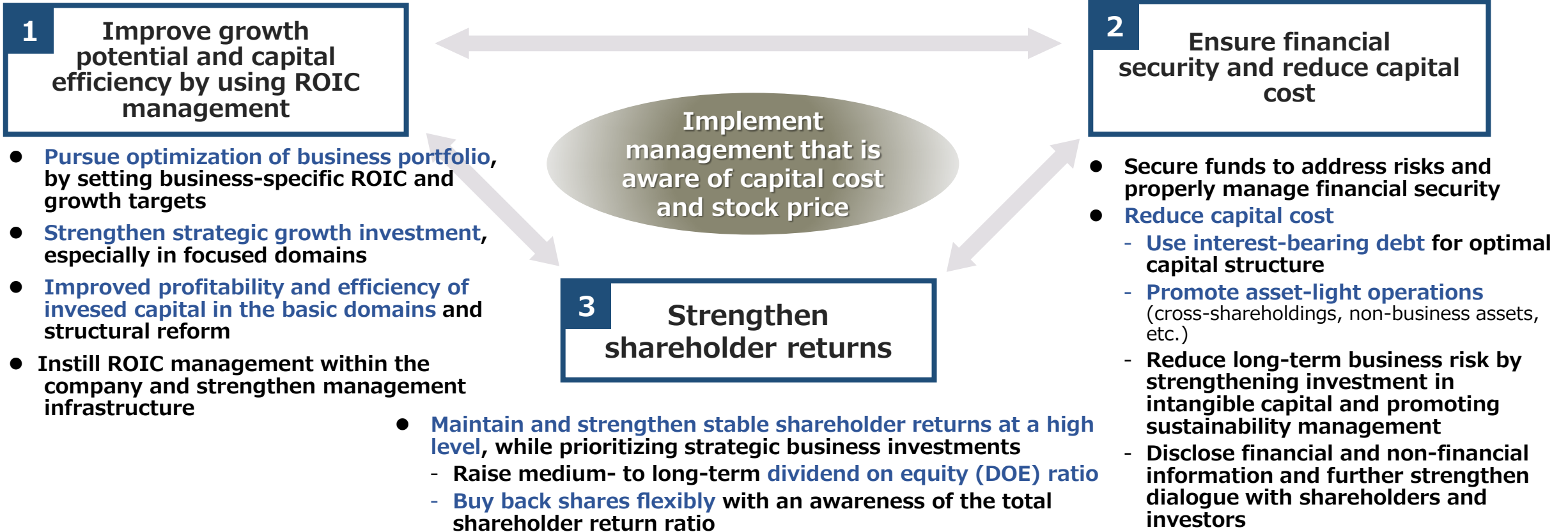
- **Cost of equity: Estimated at 5–6%** (Estimated using CAPM theoretical value and PER level)
- **ROE to exceed cost of equity over the medium to long term, due to growth in the relatively profitable “in-” Business and Frozen Desserts Business**

Changes in PER

- **Will remain mostly unchanged over the medium to long term**
- **Regarding initiatives for business growth and profitability improvement, etc., information needs to be disclosed and dialogue with shareholders and investors needs to be further strengthened**

Outline of Financial Strategies

Implement management that is aware of capital cost and stock price toward sustainable enhancement of corporate value



Build foundation that supports accounting and finance strategies

Strengthening of management infrastructure through DX

Strengthening of finance organization structure

Strengthening of accounting and financial governance

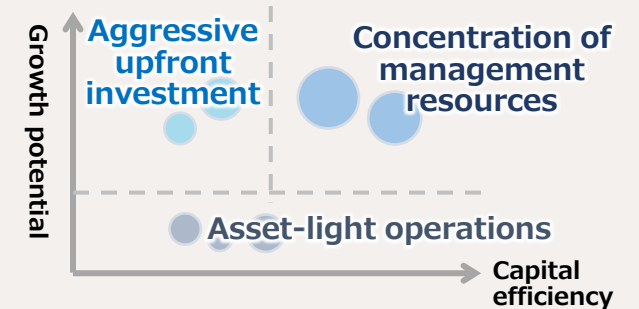
Development of human resources

Key measures: ① Implement ROIC management

Through the implementation of ROIC management, generate a virtuous cycle of growth potential and capital efficiency aimed at establishing growth trajectory

Optimization of business portfolio

- Determine medium- to long-term strategies and measures for each business based on an analysis of its growth potential and capital efficiency
Identify businesses that will accelerate growth or improve capital efficiency, and optimally allocate management resources to these businesses after also considering the investment target and investment scale



Strengthening of strategic growth investment, especially in focused domains

- "in-" Business: Establishment of "in-" brand
- Frozen Desserts: Developmental evolution of existing products, creation of new seeds
- Direct Marketing: Nurturing of subscription customers, expansion of business domain
- Global commercialization of *HI-CHEW*
- Acceleration of initiatives for next-generation businesses

Improved profitability and efficiency of invested capital in the basic domains

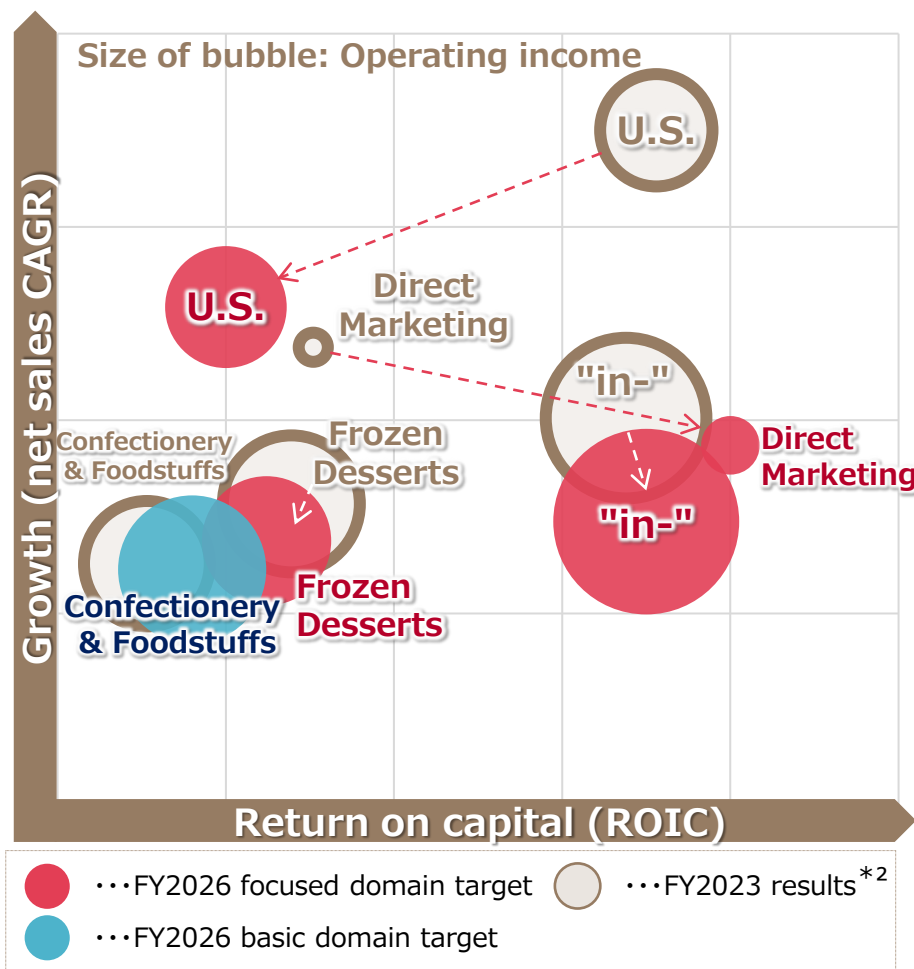
- Promote gradual asset-light management by selecting domains and concentrating maintenance and renewal investments on these domains, while aiming to expand net sales by leveraging portfolio assets
- Promote improved earnings, through cost reductions, more efficient selling expenses, flexible price revisions, etc.

Key measures: ① Implement ROIC management

- Optimize the business portfolio by setting a medium-term ROIC target for each business segment



Work on optimization by clarifying the mission and the target levels of each business that they should aim for



	Net sales CAGR	ROIC		Approach in the 2024 MTBP
	FY2026 Compared to FY2023	FY2023 results	FY2026 target	
"in-" Business	105%	33.8%	35% or higher	<ul style="list-style-type: none"> Expand sales by strengthening the "in-" brand Improve profit margin through the product mix
Frozen Desserts	104%	13.9%	12% or higher	<ul style="list-style-type: none"> Nurture growth drivers to follow <i>Jumbo Group</i> Take on challenge of creating new markets
Direct Marketing	109%	15.2%	40% or higher	<ul style="list-style-type: none"> Achieve continuous growth through aggressive investments in advertising Improve profit margin by pursuing greater efficiency in customer acquisition
U.S. Business*1	116%	35.6%	10% or higher	<ul style="list-style-type: none"> Achieve sustainable growth through aggressive advertising in marketing Establish a global production system to support growth
Confectionery & Foodstuffs	102%	5.3%	8% or higher	<ul style="list-style-type: none"> Improve profitability by changing the category portfolio Promote gradual asset-light management through the selection and concentration of maintenance and renewal investments
Consolidated	105%	9.6%	10% or higher	Cost of equity: 5-6%, WACC: 5%

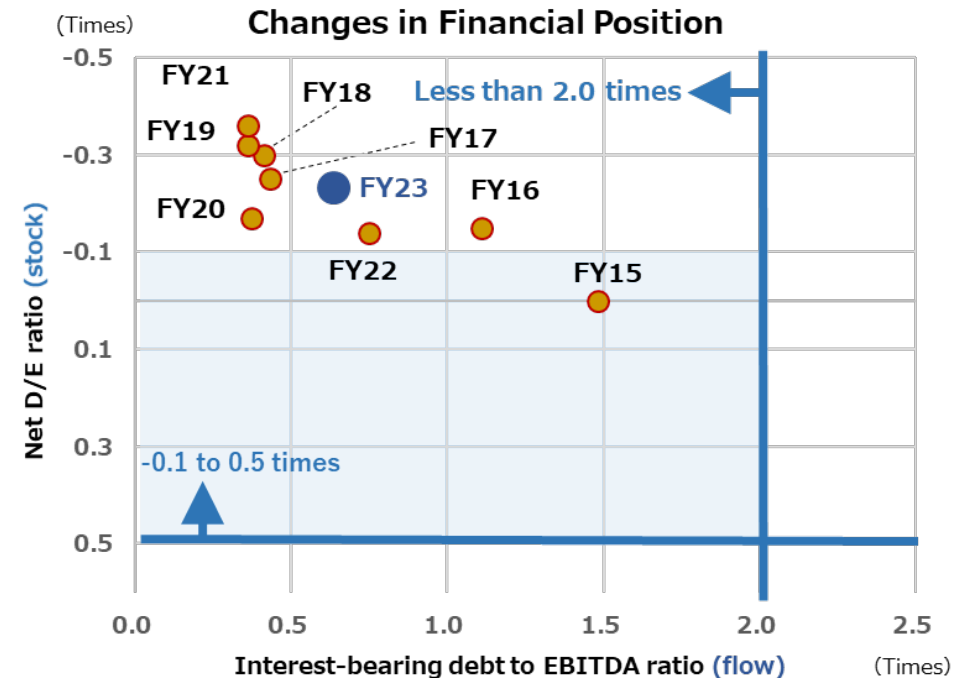
Key measures: ②-1 Ensure financial security

Ensure financial security in preparation for sudden changes in the external management environment and strategic large-scale investments (large-scale M&A, etc.)

- **Secure funds to address risks**
 - Secure at least two months of liquidity on hand, in principle
 - Diversify fund procurement methods

- **Properly manage financial security indicators**
 - Maintain a JCR long-term corporate rating of at least "A", in principle
 - Control the balance sheet based on financial guidance

Financial Indicators	Guidance
Japan Credit Rating Agency, Ltd. (JCR), rating • Cash on hand • Net D/E ratio • Interest-bearing debt to EBITDA ratio	Maintain at "A" or above • 2 or more months' sales • Between -0.1 and 0.5 times • Less than 2.0 times



Key measures: ②-2 Efforts to reduce capital cost

Reduce long-term business risk by utilizing financial leverage and establishing the business portfolio that is resilient to environmental changes

■ Efforts to reduce capital cost

Lower WACC

■ Utilization of interest-bearing debt to achieve optimal capital structure

- Increase the weight of interest-bearing debt relative to net cash from the current level while also taking into consideration financial security and demand for investment funds, and reduce WACC through use of financial leverage

Lower cost of equity

■ Promotion of asset-light operations (reduction of non-business assets)

- Further reduce cross-shareholdings and promote the sale and disposal of non-business real estate, etc., thereby reducing invested capital and securing funds for growth investment while reducing the risk of asset value fluctuations

■ Promotion of sustainable management

- Work mainly on 18 items of high importance for five materialities to enhance sustainability
- Strengthen intangible investments (advertisement investment, R&D investment, DX investment, human resource investment, etc.) to enhance sustainability

■ Further strengthening of IR and SR activities

- Increase understanding of Morinaga's initiatives for medium- to long-term business growth, responses to business risk, etc. by strengthening disclosure of financial and non-financial information and dialogue with shareholders and investors, and reduce stock price volatility through appropriate stock price formation

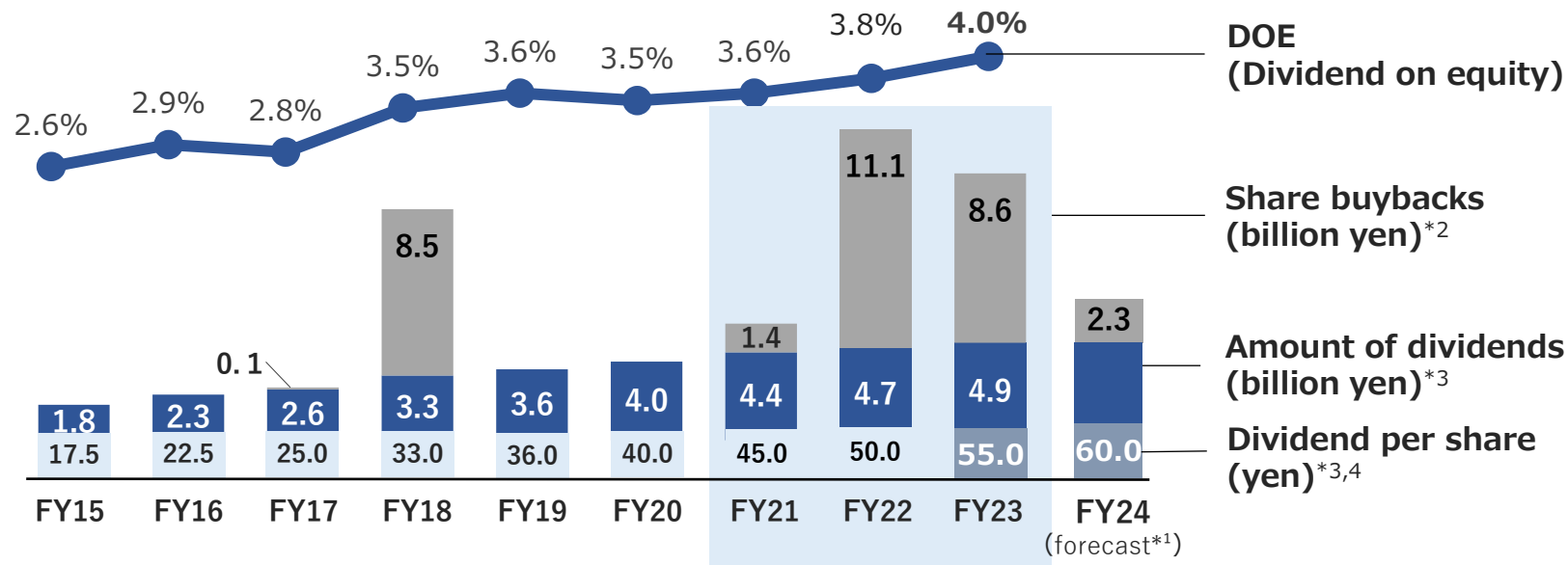
Key measures: ③ Strengthen shareholder returns



Maintain and strengthen stable shareholder returns at a high level

Strengthen shareholder returns

- While prioritizing strategic and important business investments in principle, maintain and strengthen stable shareholder returns at a high level
 - Raise medium-to long-term dividend on equity (DOE) ratio (aim for DOE of at least 4.5% as of 2030)
 - Buy back shares flexibly with an awareness of the total shareholder return ratio



✓ Maintain and strength shareholder returns while making investment for business growth and the strengthening of the management foundation, mainly in Focused Domains

Total amount of returns in 2024 MTBP period

¥36.0 billion or higher*5

*1 Results forecasts for the fiscal year ending Mar 31, 2025, as of May 14, 2024
 *2 The amount bought back during the fiscal year (for FY2024, the amount purchased up until May 14, 2024)
 *3 Amount of appropriated surplus for the relevant accounting periods
 *4 Two-for-one stock split of common shares was conducted effective Jan 1, 2024. Figures for FY2022 and earlier have been retroactively adjusted for the stock split.
 *5 Dividends from surplus and share buybacks are both on a cash outflow basis

Business Targets (2024 MTBP, 2030 Business Plan)



	FY2023 actual	FY2026 planned	FY2030 planned
Net sales	213.3 billion yen	246.0 billion yen	300.0 billion yen or higher
Operating income	20.2 billion yen	24.6 billion yen	-
<KPIs>			
Operating income margin	9.5%	10.0%	12% or higher
Focused domain net sales ratio	50.6%	53% or higher	60% or higher
Overseas sales ratio	12.7%	16% or higher	25% or higher
ROE	11.8%	12% or higher	15% or higher
ROIC ^{*1}	9.6%	10% or higher	12% or higher
DOE	4.0%	4.3%	4.5% or higher
<Non-financial targets>			
Provide the value of health to more than 70% of Japan's population through new initiatives aimed at becoming a wellness company ^{*2}			70%
Health of mind: Ratio of positive responses that Morinaga "makes me happy," according to a corporate image survey ^{*3}			90%
Ratio of employees who find their job meaningful and who are in good mental and physical health at work ^{*4}			80%
Procurement ratio of sustainable raw materials (cacao beans, palm oil and paper) ^{*5}			100%
CO ₂ emissions ^{*6}			30% reduction

^{*1} Calculated using credit approach. Formula: NOPAT / Investment capital (Interest-bearing debt + Shareholder equity)

^{*2} Targets: Products that Morinaga has defined as "Deepening health of mind," "Accelerating health of body," and "Evolving health of body from health of mind."

The population percentage is calculated from INTAGE Inc.'s SCI annual purchase rate (Target: Consumers aged 15 to 79 nationwide).

We will study setting what we want to be globally at a future date. ^{*3} Based on Morinaga data. ^{*4} Percentage of affirmative answers on the employee awareness survey.

^{*5} Group consolidated. Paper covers product packaging. ^{*6} Scope 1 + 2 (Group companies in Japan consolidated, compared to FY2018).



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