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Q&A on the Company's Share Repurchase through a Facility Share Repurchase (Accelerated Share Repurchase)

In order to repurchase its own shares, aiming at enhancing shareholder returns and improving capital efficiency, Morinaga & Co., Ltd. (the "Company") has decided to adopt a share repurchase through the facility share repurchase (Accelerated Share Repurchase) (the "ASR transaction") for 2,508,200 shares worth approximately 6.5 billion yen, based on the proposal by SMBC Nikko Securities Inc. ("SMBC Nikko"). The ASR transaction is already prevalent in the United States, broadly used as a method of share repurchase.

The ASR is characterized by its speed with which to complete the repurchase of an intended substantial amount of shares in a day. On the other hand, from the perspective of the impact on the supply and demand balance in the market and the economic effects, this method is expected to have similar effects as those of regular share repurchase in the market for a certain period after the actual share repurchase through the Off-Auction Own Share Repurchase Trading System (ToSTNeT-3).

We believe that the "ability to repurchase the intended substantial amount of shares in a day" will most appropriately lead to achieving our policy of "enhancing shareholder returns through prompt approaches to share buybacks with an eye toward the total shareholder return ratio," and we therefore have adopted the ASR transaction.

Please refer to the following Q&As together with "Notice regarding Repurchase of Treasury Stock through the Off-Auction Own Share Repurchase Trading (ToSTNeT-3) System (Repurchase of Treasury Stock through a Facility Share Repurchase (Accelerated Share Repurchase))" separately announced today.

Q1: Why have you set the amount of ASR at approximately 6.5 billion yen of the total share repurchase of approximately 10 billion yen through ToSTNeT-3?

A1: The Company has been informed by certain strategic shareholders of their intention to sell our shares during ongoing dialogues. Therefore, considering the impact on our stock price if such shares were sold in the market, we have set the amount of the share repurchase through ToSTNeT-3 (approximately 10 billion yen) and the ASR transaction (up to approximately 6.5 billion yen) to be able to repurchase from those shareholders who have an intention to sell.

It should be noted that, because ToSTNeT-3 prioritizes sell orders of general shareholders including the above shareholders over those of SMBC Nikko, which is a financial instruments business operator and will place sell orders on its own account, the amount of the ASR transaction may decrease from approximately 6.5 billion yen depending on sell orders from general shareholders.

Q2: Why did you decide to execute and announce the share repurchase at this timing?

A2: As previously disclosed, under our policy of “considering prompt approaches to share buybacks as needed,” we have decided after a comprehensive consideration of our current financial condition (leverage levels, cash on hand, etc.) and the performance trends for the fiscal year ending March 2025.

Q3: How do you plan to use the shares repurchased?

A3: So far, we haven’t decided how to use them specifically. As mentioned in the answer to question 14 if the stock price rises during the adjustment period after the repurchase, a portion of the shares repurchased will be delivered to SMBC Nikko, which means that the final number of shares repurchased will decrease from 3,858,700.

Q4: Why did you decide to execute the ASR transaction this time? Do you plan to use the ASR transaction in the future as well?

A4: The intention behind this ASR transaction is to clearly demonstrate our will to “execute an immediate purchase of the entire shares under authorized plans for share repurchase” and to convey our message of commitment to the capital markets. For this reason, we will assess the reactions in the capital markets based on this ASR transaction, and in accordance with our disclosed capital policy and shareholder return policy, we will continue to explore growth investment, such as capital expenditures and M&A, while maintaining a strong financial foundation. By doing so, we will continue to consider whether to use the ASR transaction in the future as well.

Q5: Is the ASR a common transaction?

A5: SMBC Nikko has explained to us that in the United States, the ASR is a common practice as a means of repurchasing own shares and it may become common in Japan as well. According to SMBC Nikko, as of the end of October 2024, 11 companies adopted the ASR transaction in Japan.

Q6: Why do you issue share options in conjunction with this ASR transaction? Is it for raising funds?

A6: We issue share options so that the Company’s actual per-share purchase price will be equal to the simple arithmetic average VWAP (the volume-weighted average price) of the Company’s stock over a set period after the share repurchase through ToSTNeT-3 multiplied by 99.75% (the “Average VWAP”). For details of this subsequent adjustment transaction, please refer to the separate press release. Please also note that in the issuance of the two types of share options, there will be no financing or dilution of shares through a series of ASR transactions on the basis of the Company’s initial share repurchase through ToSTNeT-3.

Q7: What is the difference between a regular share repurchase (market purchase) and an ASR?

A7: Basically, the economic effects obtained from share repurchase through market purchase over a certain period and through ASR are considered to be similar. However, a significant difference is that the ASR will make it possible to complete the share repurchase at the size anticipated in a day through ToSTNeT-3, backed by subscription from SMBC Nikko, which allows us to clearly demonstrate our intention to return profits to shareholders through share repurchase.

Q8: Please briefly explain the structure of the ASR transaction as it is so complicated.

A8: ASR will be conducted in the following three steps:

- (1) With reference to the considerable number of shares to be repurchased by the Company, SMBC Nikko will borrow 2,508,200 shares and apply for the Company’s share repurchase through ToSTNeT-3 dated on November 19, 2024 (i.e., sell to us) based on the borrowed shares.
- (2) Secondly, SMBC Nikko will purchase the Company’s shares from stock market over a certain period in order to return the number of shares it has borrowed and actually sold through ToSTNeT-3 in the above (1).
- (3) Finally, by exercising either of the two types of share options issued by the Company, SMBC Nikko will conduct a subsequent adjustment transaction so that the Company’s actual per-share purchase price will be equal to the Average VWAP of the Company’s stock over a set period after the share repurchase (ToSTNeT-3).

Q9: Why is the share repurchase completed in a day?

A9: As mentioned in the previous answer, in the ASR transaction, SMBC Nikko will borrow 2,508,200 shares relative to the considerable number of shares to be repurchased by the Company, and will apply for the repurchase of treasury stock through ToSTNeT-3 dated on November 19, 2024 (i.e., sell to us) based on the borrowed shares. As a result, the share repurchase will be completed in a day, regardless of the application status of other shareholders. The Company has been informed by certain strategic shareholders of their intention to sell our shares during ongoing dialogues. Therefore, considering the impact on our stock price if such shares are sold in the market, we have set the maximum number of shares to be repurchased at a level exceeding 2,508,200 to ensure that the share repurchase will be completed in a day.

Q10: From whom will SMBC Nikko borrow the shares, and how will it return them to the lenders?

A10: SMBC Nikko has explained to us that it will not borrow the Company's shares from specific shareholders but will borrow shares in the stock loan market. Our understanding is that SMBC Nikko intends to purchase the Company's shares in the market. Furthermore, according to SMBC Nikko, through such purchase, it will ultimately return the borrowed shares to the lenders at a later date.

Q11: How long will SMBC Nikko purchase shares in the market?

A11: SMBC Nikko has explained to us that after applying for the share repurchase (ToSTNeT-3), SMBC Nikko will purchase the number of the Company's shares in the market equivalent to those that could be purchased through ToSTNeT-3 during the period from November 20, 2024 up to March 24, 2025 at the latest.

Q12: Will SMBC Nikko sell the borrowed shares in the market or lend them to third parties?

A12: SMBC Nikko has explained to us that it plans to apply for the Company's share repurchase with the borrowed shares (i.e., sell them to us) and will not sell the borrowed shares in the market or lend them to third parties.

Q13: Does the ASR have the same impact on the supply and demand balance in the market as those of regular share repurchase through market purchases?

We believe that the impact on the supply and demand in the market expected of the ASR transaction will be the same as those of regular share repurchase through market purchases when the entire authorized quantity is purchased.

Furthermore, in the ASR transaction, SMBC Nikko is obliged to return the borrowed shares. So compared to the issuing company's regular share repurchase through market purchases, SMBC Nikko is much more likely to purchase the Company's shares in the market to return the borrowed shares.

Q14: If the stock price rises after the share repurchase (if SMBC Nikko exercises Share Options With a Fixed Amount of Investment), will the economic effects be the same as those of regular share repurchase?

A14: Similar economic effects can be expected. If a share repurchase of the same size as this ASR transaction is conducted through regular market purchases and the stock price rises, the number of shares that can be bought for the same amount will decrease compared to the number of shares that we initially repurchase through the ASR transaction.

Upon exercise of the Share Options With a Fixed Amount of Investment in the ASR transaction, the difference will be delivered to SMBC Nikko from the shares already purchased by the Company, reducing the ultimate number of shares that the Company repurchases.

As a result, the economic effects will be similar to those when conducting the share repurchase at the stock price level (Average VWAP) over a certain period after the share repurchase.

Q15: If the stock price falls after the share repurchase (if SMBC Nikko exercises Share Options with a Fixed Number of Shares), will the economic effects be the same as those of regular share repurchase?

A15: Similar economic effects can be expected. If a share repurchase of the same size as this ASR transaction is conducted through regular market purchases and the stock price falls, the funds required to purchase the same number of shares will decrease compared to the funds required for the share repurchase we initially conduct in the ASR transaction.

Upon exercise of the Share Options With a Fixed Number of Shares in the ASR, the difference will be received by the Company from SMBC Nikko as the exercise price, reducing the ultimate amount of cash that the Company spends.

As a result, the economic effects will be similar to those when conducting the share repurchase at the stock price level (Average VWAP) over a certain period after the share repurchase.