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# FY2015 2nd Quarter Financial Highlights

Challenge

Next Stage

August 28, 2015

## DyDo DRINCO, Incorporated

(First Section of the Tokyo Stock Exchange: 2590)

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# 1. Trends in the Beverages Industry

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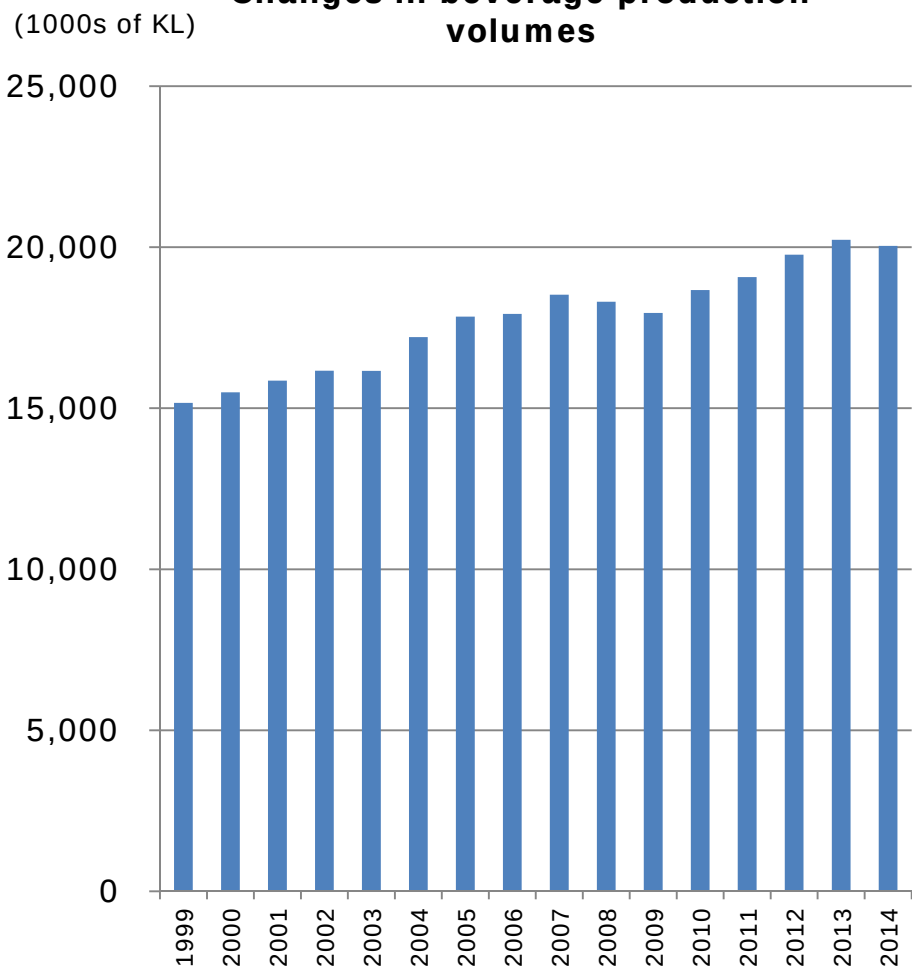
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# Trends in the Beverages Industry

Next Stage

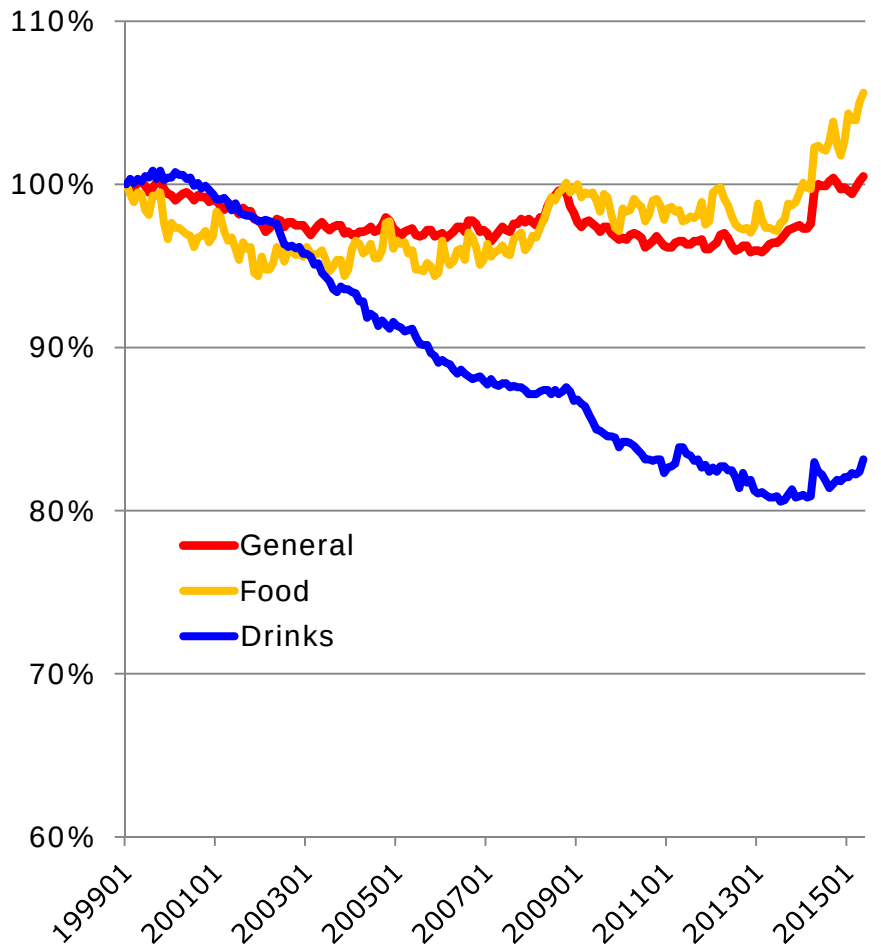
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## Changes in beverage production volumes




Source: created by DyDo from Soft Drink Statistics of the Japan Soft Drinks Association

## Changes in the consumer price index




Source: created by DyDo from Consumer Price Index from statistical data of the Statistics Bureau

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# 2. The Business Model of DyDo Group and its Mid-term Business Plan

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# (1) The Business Model of DyDo Group

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## ◆ DyDo Group Three Main Divisions
## —Forming an independent business model—

The DyDo Group's slogan is "Offering delicious products for the sound mind and body," under which it seeks to bring deliciousness and healthiness only DyDo can provide to customers, together with wonder and high quality.

Beverage Sales Division



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Offering delicious products for the sound mind and body

DAIDO PHARMACEUTICAL CORPORATION

OEM* Beverage Production Division





Tarami



Food Production and Sales Division



* Original Equipment Manufacturer

**Forming a strong financial footing based on steady cash flow**

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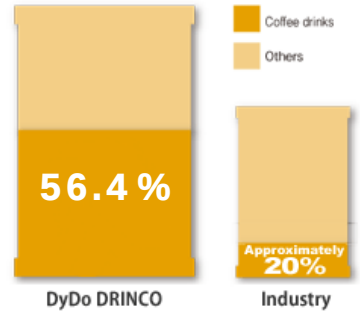
# (2) Key features / strengths of DyDo DRINCO

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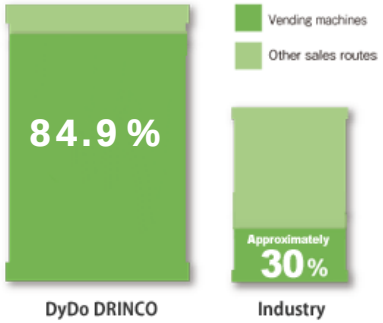
## ◆ Securing steady profit with coffee × vending machines

Canned Coffee sales account for more than 50% of DyDo Drink company sales.




Out from the coffee and beverage market in Japan, coffee is 20%

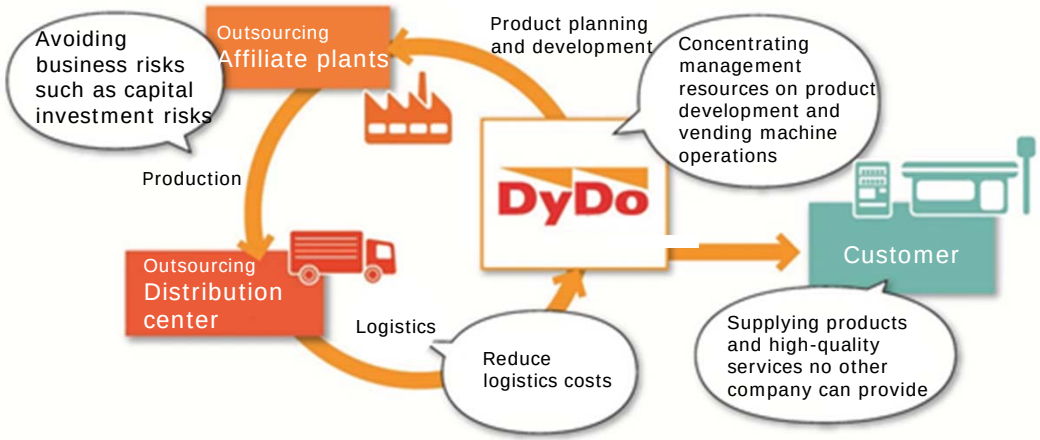
Vending Machine Sales account for 85% of Sales

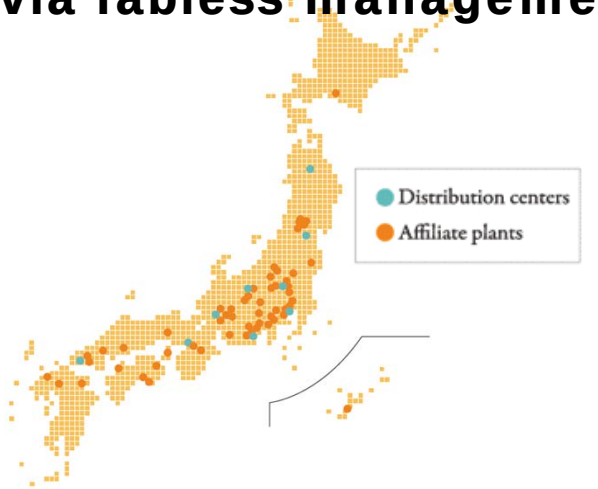



The Vending machine business market in Japan is 30%

* Our track record:
Percentage at 2nd quarter, FY2015

## ◆ Effective use of management resources via fabless management




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# (3) To new growth based on the stable financial foundation



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## ◆ Status of the consolidated balance sheet (as of July 20, 2015)

| | | | |
|---|---|---|---|
| Financial assets | JPY71.2B | Liabilities with interest | JPY28.5B |
| | | Trade payables | JPY20.6B |
| | | Accounts payable | JPY14.1B |
| | | Other liabilities | JPY7.3B |
| Trade receivables | JPY18.8B | Net assets | JPY85.4B |
| Inventory assets | JPY8.4B | | |
| Other assets | JPY57.5B | | |

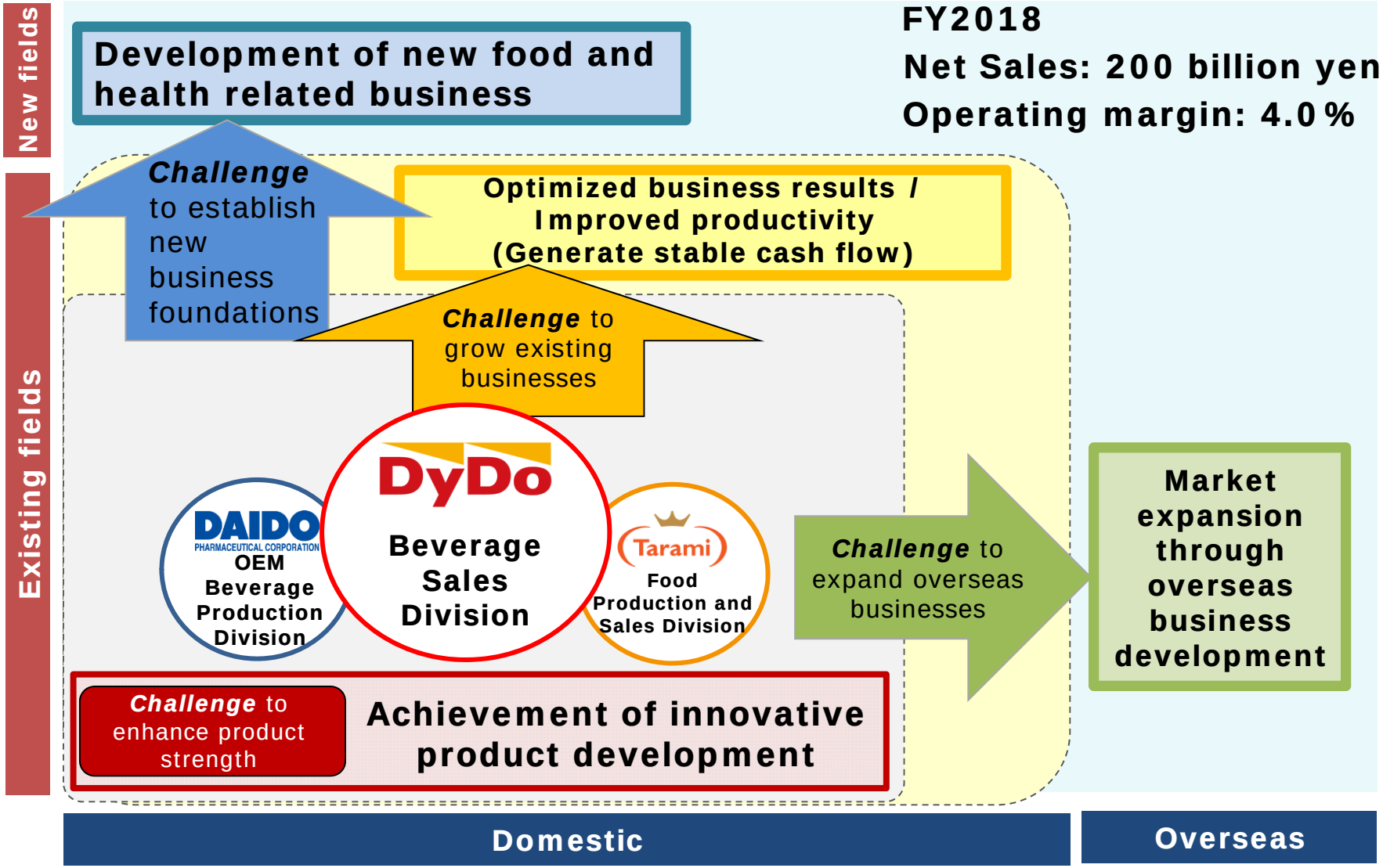
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# (4) Mid-term Business Plan: “Challenge the Next Stage”

## - Four Challenges to the Next Stage -

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# (5) Mid-term Management Objectives

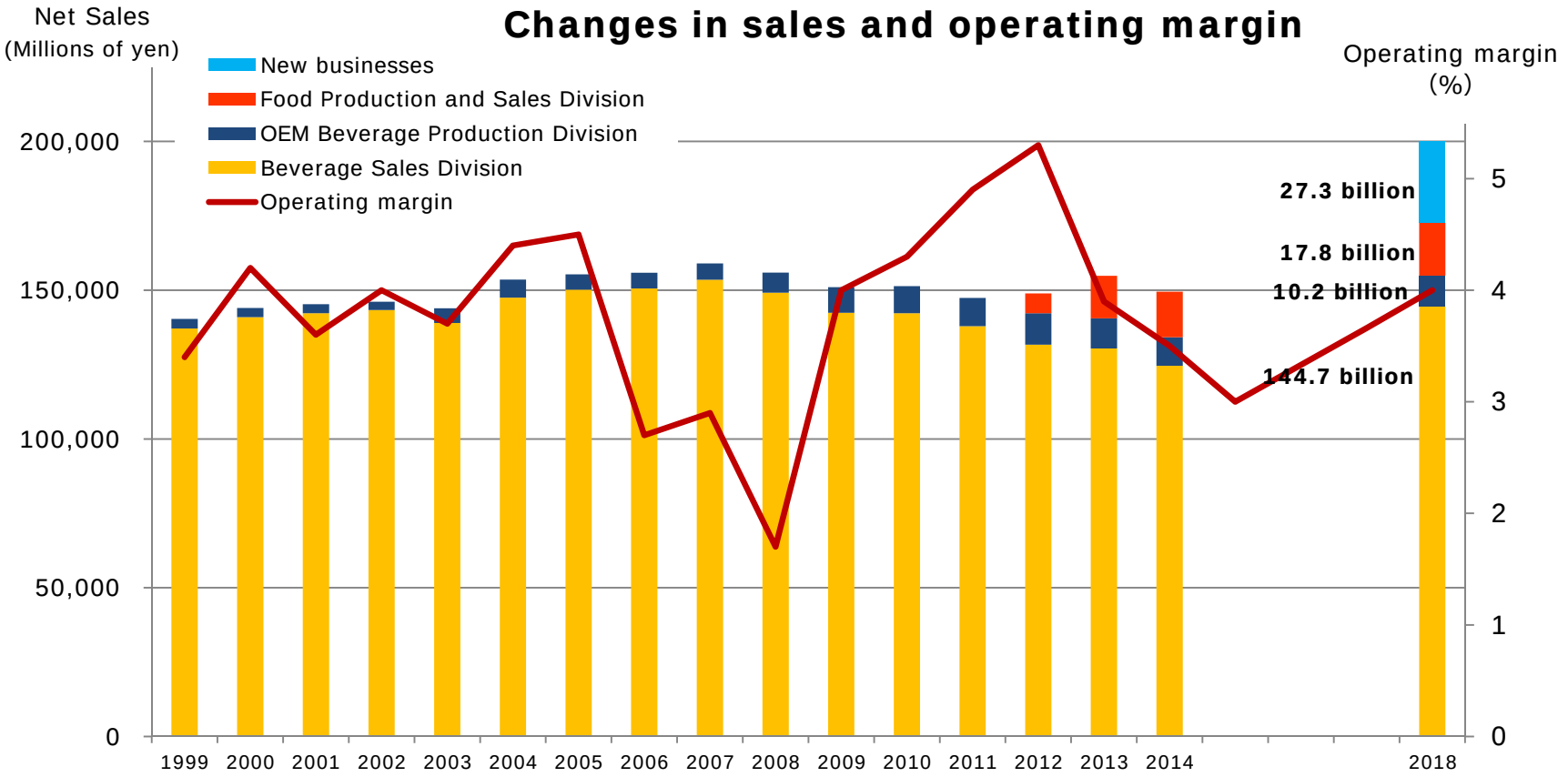
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## FY2018 Mid-term Management Objectives

**Net Sales** 200 billion yen **Operating margin** 4.0%

### Changes in sales and operating margin

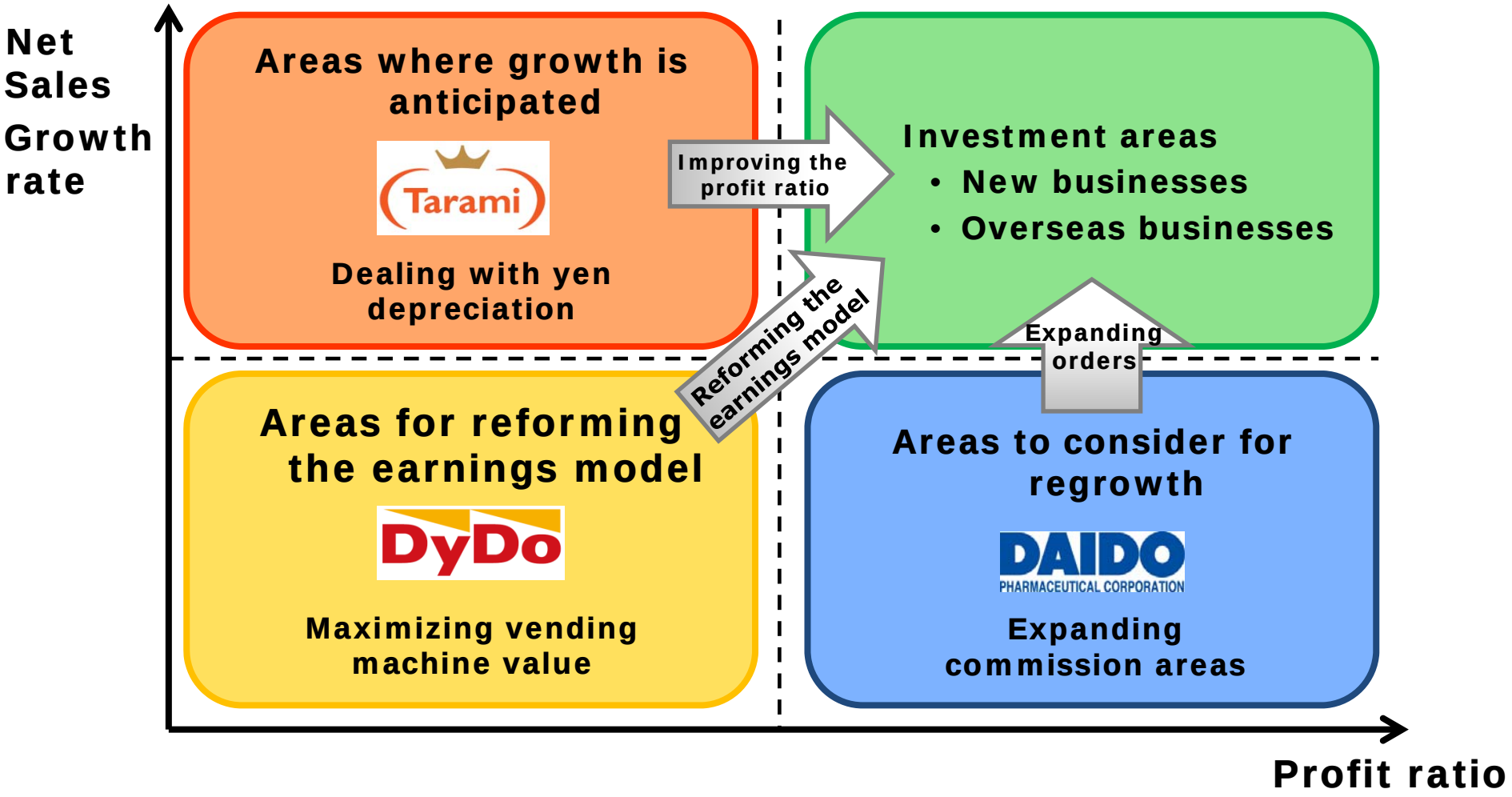



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# (6) Portfolio Management

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# (7) Towards Establishing New Business Foundations

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## March 21: Establishment of new Business Development and Strategic Investment Department

**Aiming to rapidly expand business strategies to achieve our vision and mid-term business plan.**




**<u>Speeding up</u> specific moves to establish "the challenge to expand overseas businesses" and "the challenge to establish new business platforms" using strategic investments like M&As.**

↓

**From March 21, 2015**

**Establishment of new Business Development and Strategic Investment Department**




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# (8) New Challenge toward Overseas Deployment

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**Capital participation in the beverages business division of the Malaysian food giant Mamee, making a joint venture company**

**Mamee-Double Decker(M) Sdn. Bhd.**

MAMEE

**Business Overview:**
**Manufacture and sale of snacks and confectionery, instant noodles, beverages, and chilled drinks**



**Pacific Food Products Sdn. Bhd.**

**Manufacturing company MDD Beverage Sdn. Bhd. (MDD Bev)**

**Sales companies Milk Specialities Distribution Sdn. Bhd.(MSD)**

**49% equity**

**51% equity**

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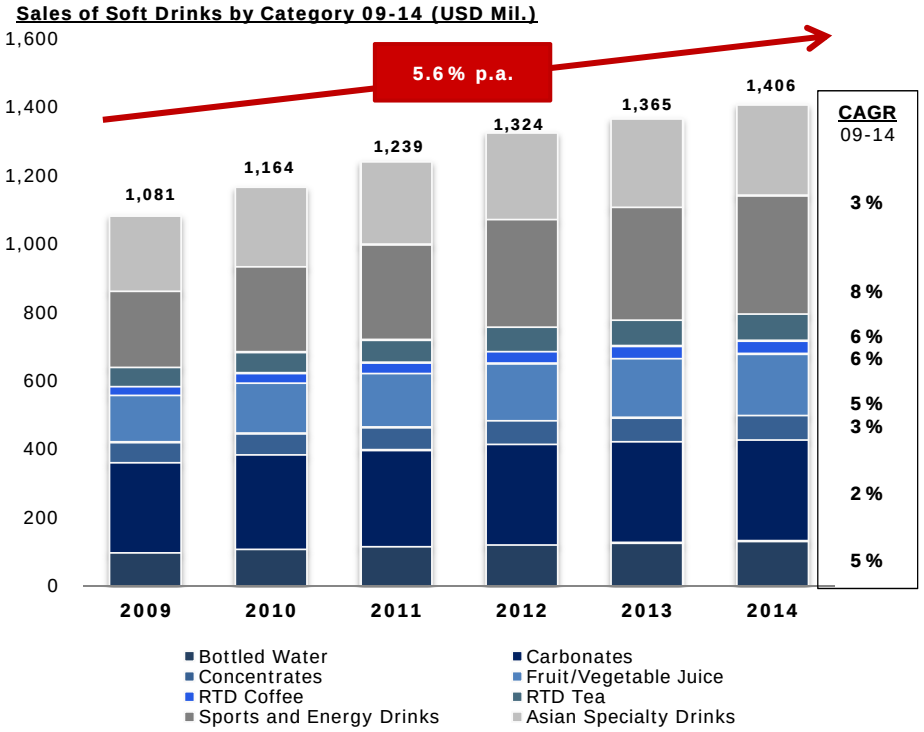
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# (8) New Challenge toward Overseas Deployment

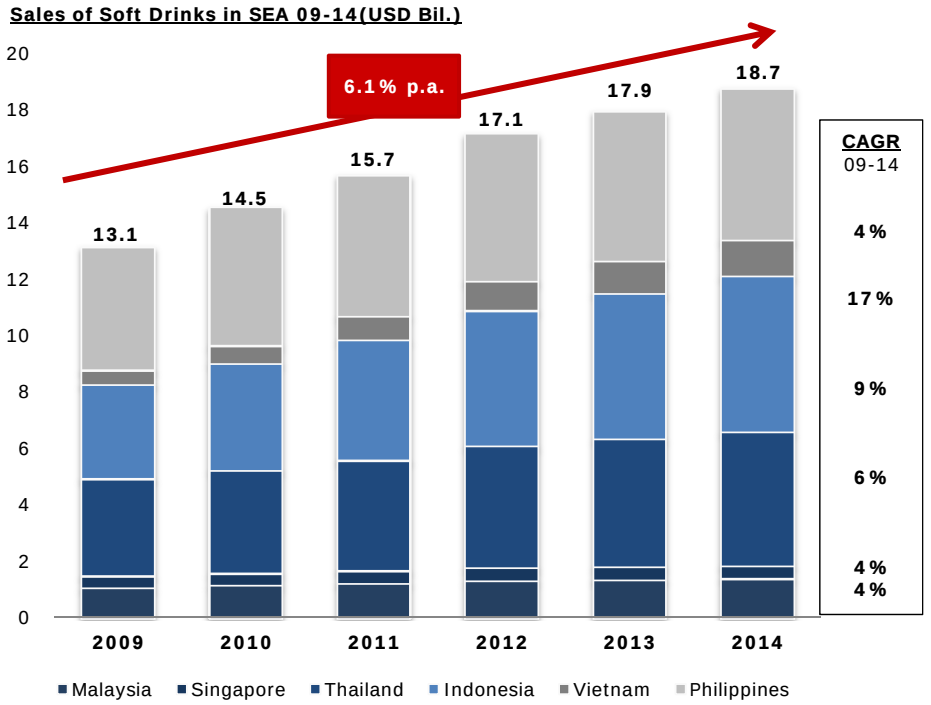
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## Scale of the beverages market in Malaysia




## Scale of the beverages market in Southeast Asia




Source: created by DyDo from Euromonitor data

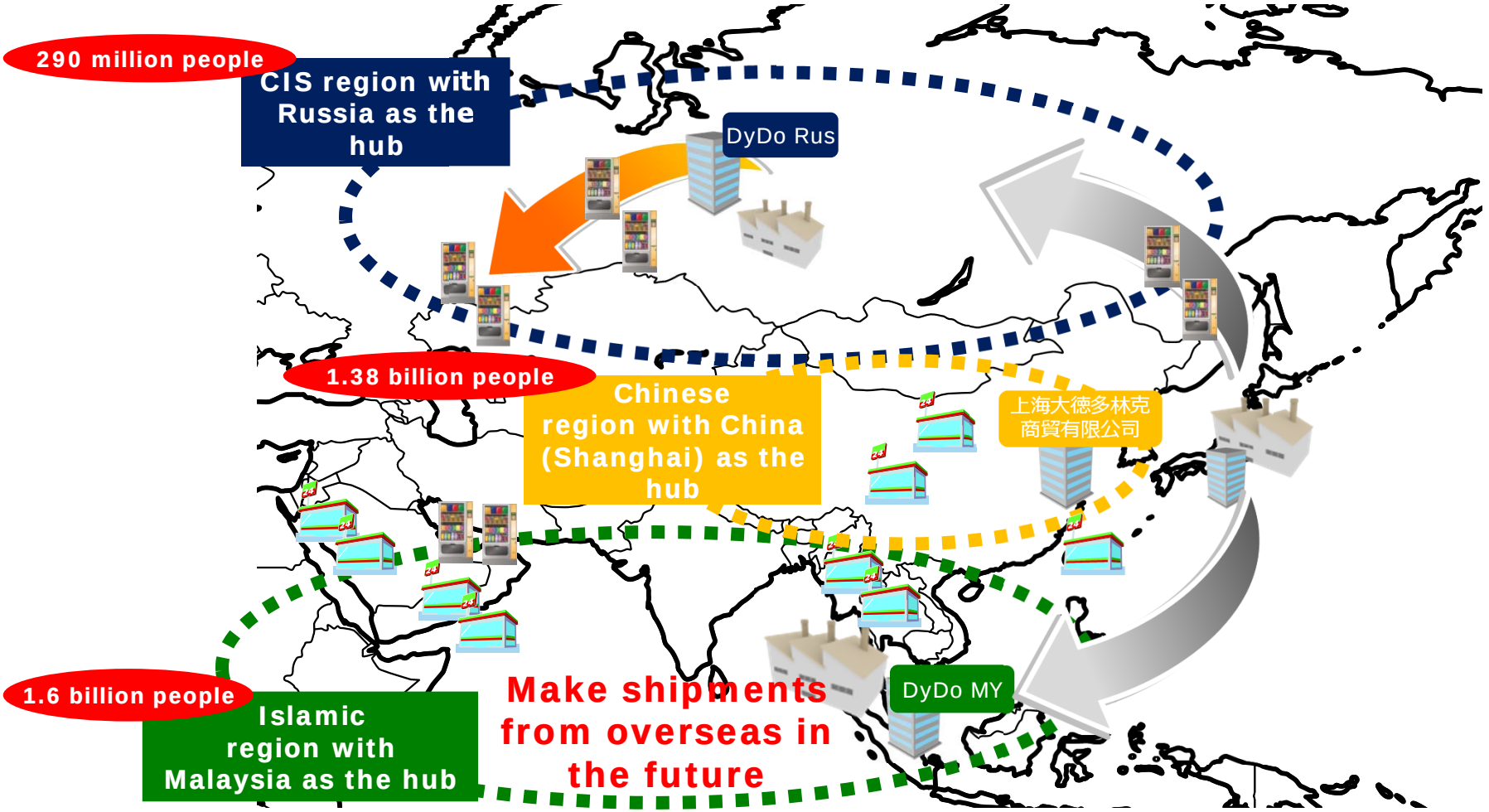
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# (9) Future Image of Overseas Deployment

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Expand into **the CIS region with Russia as the hub; the Islamic region with Malaysia as the hub; the Chinese region with Shanghai as the hub.**




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# 3. FY2015 2nd Quarter Financial Highlights

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# (1) Overview of consolidated financial information for 2nd quarter FY2015

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- Sales suffered a rebound from the boost in demand prior to the consumption tax hike last year
- Profits were affected by rising raw material prices
- Engaging with cost controls, securing profits some level above the initial plan

(Millions of yen)

| | 2nd quarter (Jan 21 - Jul 20) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY2014 results | | Initial forecast for FY2015 | | FY2015 results | | | | | |
| | | Component ratio | | Component ratio | | Component ratio | Quarter-on-quarter | | Vs. initial forecast | |
| | | | | | | | Difference (%) | Difference (amount) | Difference (%) | Difference (amount) |
| Net sales | 75,759 | 100.0% | 75,700 | 100.0% | 74,375 | 100.0% | (1.8%) | (1,383) | (1.7%) | (1,324) |
| Operating income | 2,471 | 3.3% | 1,450 | 1.9% | 1,715 | 2.3% | (30.6%) | (756) | 18.3% | 265 |
| Ordinary income | 2,383 | 3.1% | 1,350 | 1.8% | 1,545 | 2.1% | (35.1%) | (837) | 14.5% | 195 |
| Quarterly net income | 1,174 | 1.6% | 700 | 0.9% | 779 | 1.0% | (33.6%) | (394) | 11.4% | 79 |
| EPS | 70.89 yen | | 42.25 yen | | 47.08 yen | | (33.6%) | (23.81 yen) | 11.4% | 4.83 yen |
| Dividend per share | 30 yen | | 30 yen | | 30 yen | | 0.0% | - | 0.0% | - |

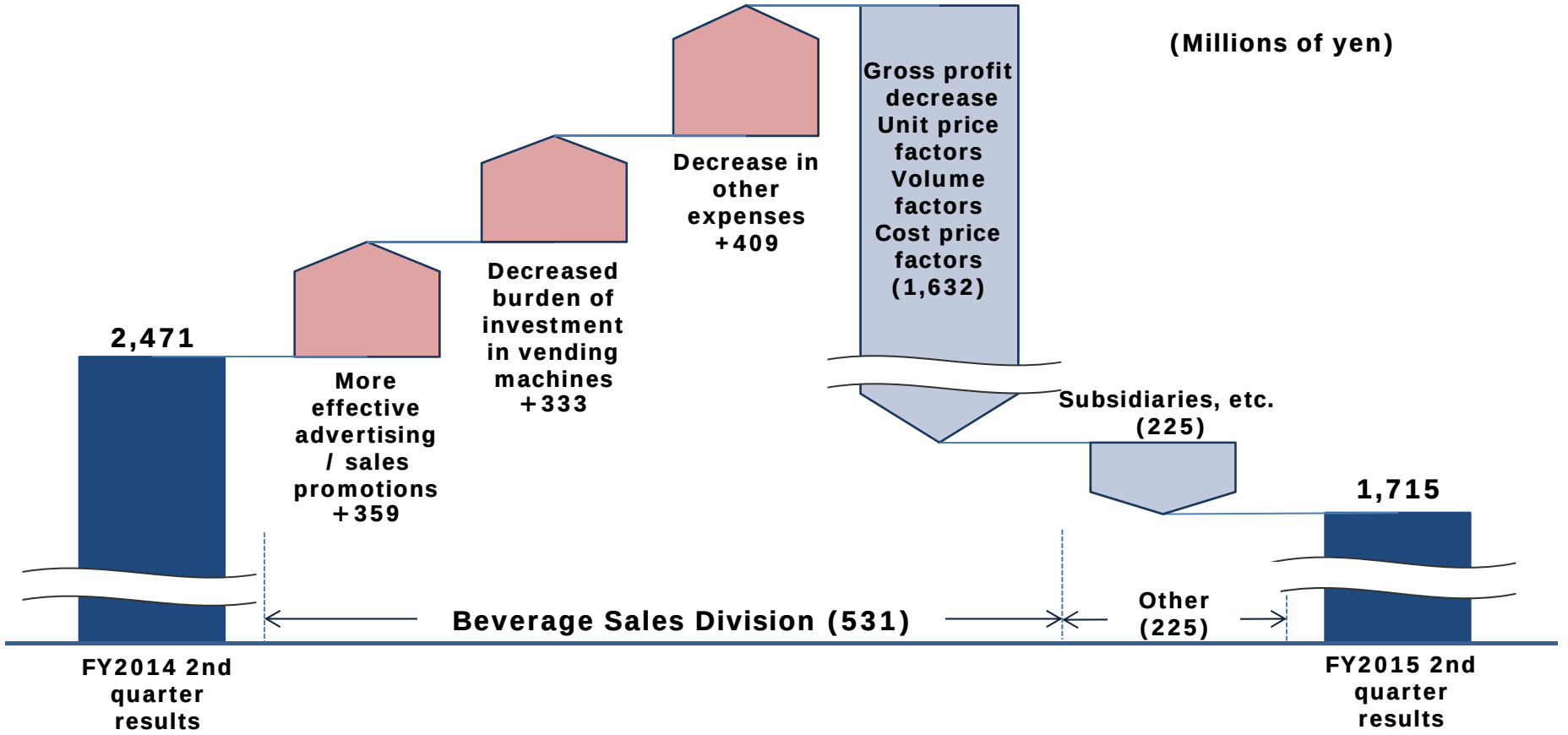
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# (2) Causes for increased / decreased operating income in the 2nd quarter FY2015 -Vs. Quarter-on-quarter basis-

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- The Beverage Sales Division is affected by a reduced sales volume and soaring cost prices. Improved sales unit price
- The OEM Beverage Production Division suffered a rebound from the boost in demand prior to the consumption tax hike last year
- The Food Production and Sales Division absorbed the impact of soaring cost prices due to yen depreciation through major earnings increases



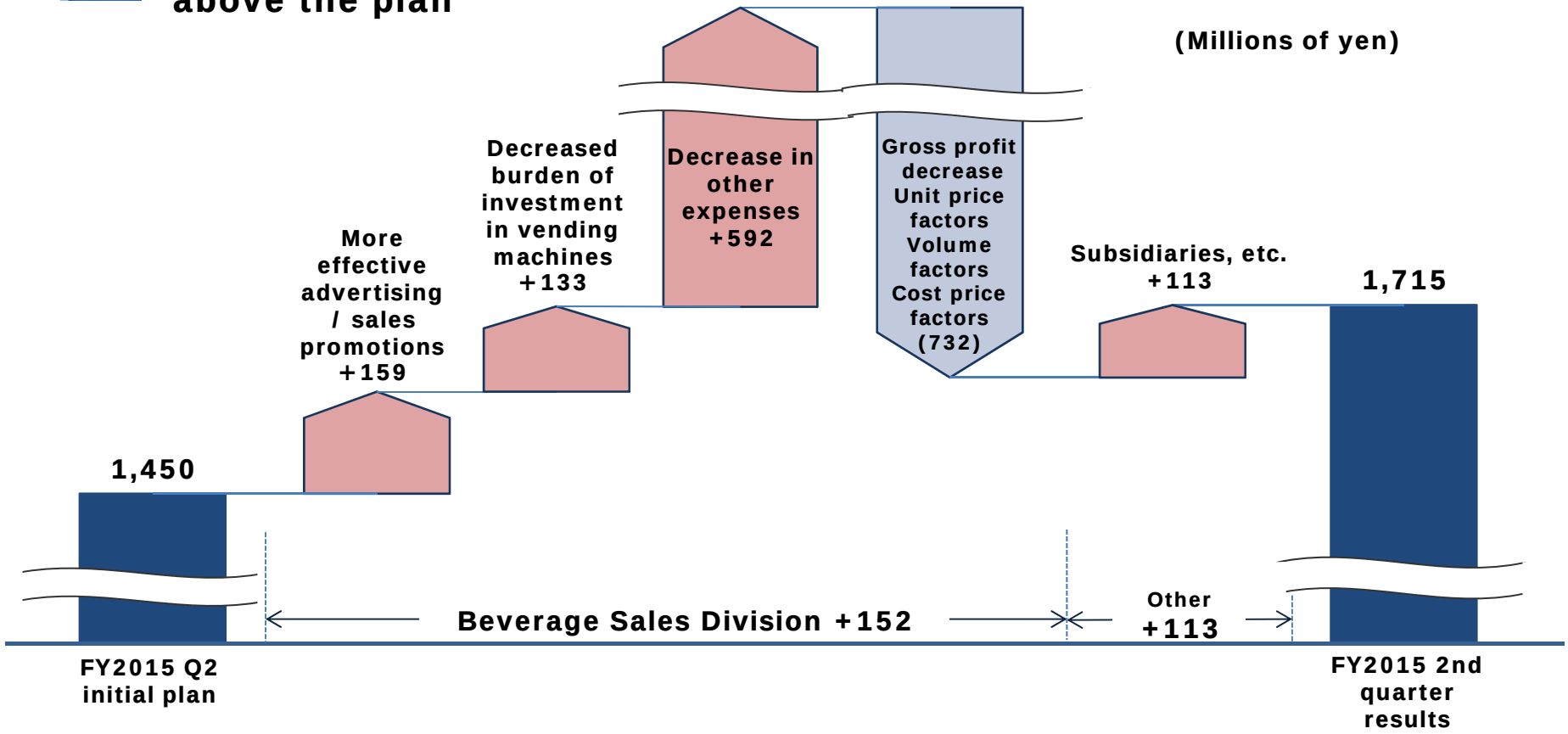

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# (3) Causes for increased / decreased operating income in the 2nd quarter FY2015 -Vs. initial plan-



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- Sales volume for the Beverages Sales Division was below the plan
- Profit of the Beverage Sales Division is above the plan due to cost controls, etc.
- For subsidiaries, the Food Production and Sales Division secured profits above the plan




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# (4) Overview by business divisions -Beverage Sales Division-

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## DyDo Beverage Sales Division

*Figures prior to consolidated adjustment
(Millions of yen)

| | 2nd Quarter (Jan 21 - Jul 20) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY2014 results | | Initial forecast for FY2015 | | FY2015 results | | | | | |
| | | Component ratio | | Component ratio | | Component ratio | Quarter-on-quarter | | Vs. initial forecast | |
| | | | | | | | Difference (%) | Difference (amount) | Difference (%) | Difference (amount) |
| Net sales | 62,685 | 100.0% | 62,400 | 100.0% | 61,060 | 100.0% | (2.6%) | (1,625) | (2.1%) | (1,339) |
| Operating income | 1,423 | 2.3% | 740 | 1.2% | 891 | 1.5% | (37.3%) | (531) | 20.5% | 151 |

### Summary of the first half of FY2015

- Although there was a rebound decrease in the first quarter, sales rallied in the second quarter
- The World's Top Barista* and the miu Series are performing steadily
- The number of units gained in new locations is above the plan




### FY2015 last half policy

- Coffee gained strength with the renewal of the Demitasse Series
- Efforts for ongoing cost controls
- Continue to promote expansion of vending machines in Russia




* Pete Licata, 2013 World Barista Champion

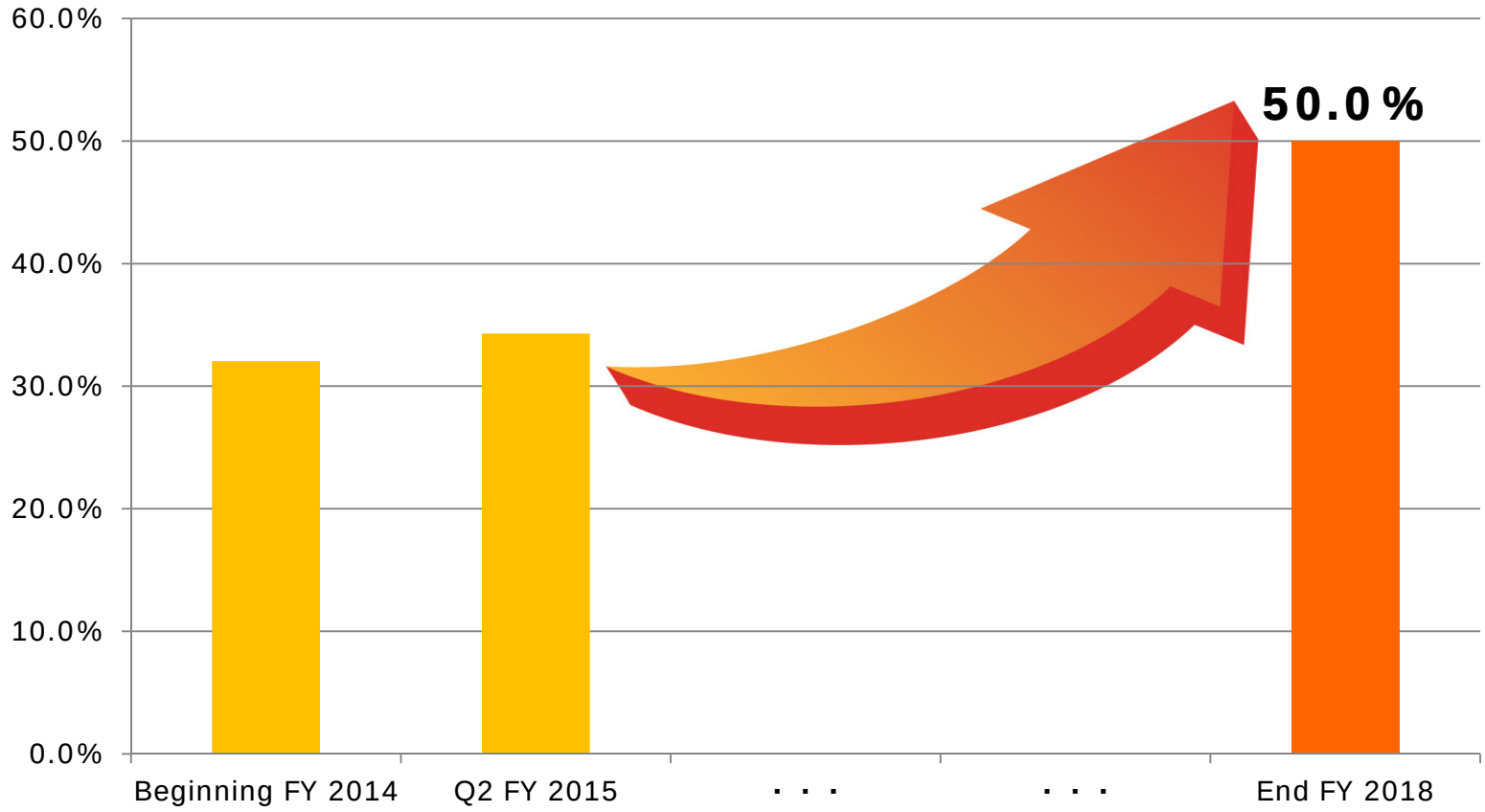
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# (4) Overview by business divisions -Beverage Sales Division-

## ◆ Efforts to gain closed locations*

➢ **Aim at a 50% closed ratio by the end of FY 2018**

### Changes in the composition of closed locations




* Locations where we expect to be able to secure consumers.

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# (4) Overview by business divisions -Beverage Sales Division-

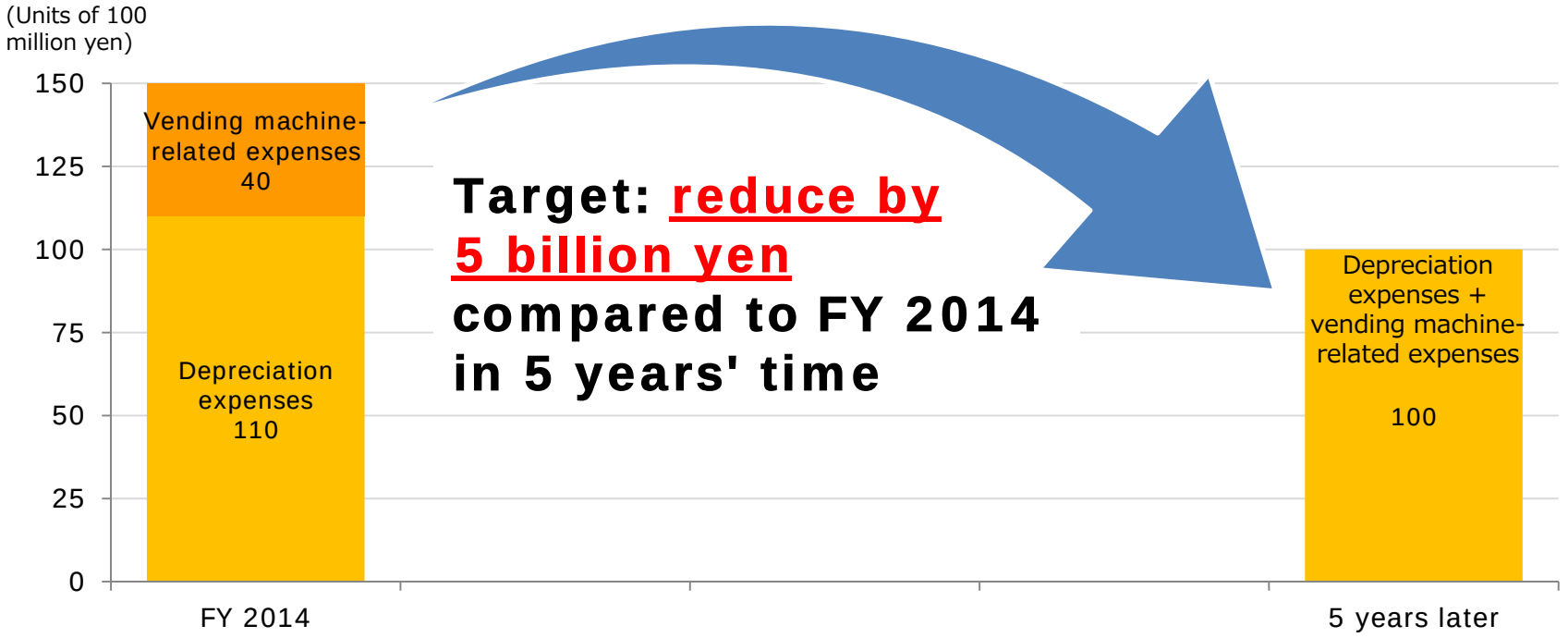
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## ◆ Efforts to reduce the cost of vending machine procurement

- ➢ Innovations in vending machine procurement to lower the purchase cost per unit
- ➢ Efforts to extend the operating years of vending machines

**Expenses relating to vending machines in the Beverage Sales Division (Depreciation expenses + vending machine-related expenses)**




* Vending machine expenses include installing the vending machine, repairing it, plus consumables for use of the machine (e.g. point of sale displays, fluorescent lights)

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# (4) Overview by business divisions -Beverage Sales Division-



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## ◆ Promoting the installation of vending machines in Moscow, Russia





DyDo vending machine inside the Aero Express station from Sheremetyevo International Airport, Russia's second-largest airport, to the central city.



Subway



Bus terminal



Gas station



Train station



Cinema

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# (5) Overview by business divisions -OEM Beverage Production Division-

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ドリンク剤の受託製造 DAIDO PHARMACEUTICAL CORPORATION

## OEM Beverage Production Division

*Figures prior to consolidated adjustment

(Millions of yen)

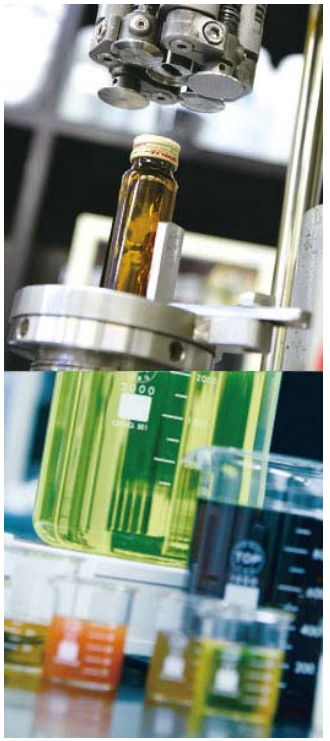
| | 2nd Quarter (Jan 21 - Jul 20) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY2014 results | | Initial forecast for FY2015 | | FY2015 results | | | | | |
| | | | | | | | Quarter-on-quarter | | Vs. initial forecast | |
| | | Component ratio | | Component ratio | | Component ratio | Difference (%) | Difference (amount) | Difference (%) | Difference (amount) |
| Net sales | 5,531 | 100.0% | 5,050 | 100.0% | 4,548 | 100.0% | (17.8%) | (982) | (9.9%) | (501) |
| Operating income | 711 | 12.9% | 480 | 9.5% | 487 | 10.7% | (31.4%) | (223) | 1.6% | 7 |

### Summary of the first half of FY2015

- ◆Rebound from the boost in demand prior to the consumption tax hike last year
- ◆Severe changes in the situation for orders in the second quarter
- ◆Undertaking ongoing efforts to reduce manufacturing costs

### FY2015 last half policy

- ◆Maintain / strengthen safe / reliable production structure
- ◆Reduce costs by promoting efficiency
- ◆Construct a foundation for the future by strengthening development and solutions capabilities



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# (6) Overview by business divisions -Food Production and Sales Division-

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*Figures prior to consolidated adjustment

## Food Production and Sales Division

(Millions of yen)

| | 2nd Quarter (Jan 21 - Jul 20) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FY2014 results | | Initial forecast for FY2015 | | FY2015 results | | | | | |
| | | Component ratio | | Component ratio | | Component ratio | Quarter-on-quarter | | Vs. initial forecast | |
| | | | | | | | Difference (%) | Difference (amount) | Difference (%) | Difference (amount) |
| Net sales | 7,929 | 100.0% | 8,500 | 100.0% | 9,104 | 100.0% | 14.8% | 1,175 | 7.1% | 604 |
| Operating income | 556 | 7.0% | 390 | 4.6% | 524 | 5.8% | (5.9%) | (32) | 34.4% | 134 |

## Summary of the first half of FY2015

- Further penetration into convenience stores
- Releasing high added value products in new sectors
- Impact of yen depreciation on soaring raw material prices




## FY2015 last half policy

- Switch to a business model able to steadily generate profits even with yen depreciation
- Develop products matching a diverse range of consumer needs
- Ongoing efforts for the Indonesian market

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# 4. FY2015 Full-year Earnings Forecast

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# (1) FY2015 Full-year Earnings Forecast

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- No change to earnings forecast declared of February 27, 2015
- The Beverage Sales Division's sales volume plan is to increase 1.5% year-on-year in the second half year
- Achieve the profit plan with increased sales and cost control

(Millions of yen)

| | FY2014 results | | FY2015 earnings forecast | | | |
|---|---|---|---|---|---|---|
| | | Component ratio | | Component ratio | Difference (%) | Difference (amount) |
| Net sales | 149,526 | 100.0% | 151,000 | 100.0% | 1.0% | 1,474 |
| Operating income | 5,174 | 3.5% | 4,500 | 3.0% | (13.0%) | (674) |
| Ordinary income | 4,470 | 3.0% | 4,400 | 2.9% | (1.6%) | (70) |
| Net income | 2,322 | 1.6% | 2,700 | 1.8% | 16.3% | 378 |
| EPS | 140.16 yen | | 162.98 yen | | 16.3% | 22.82 yen |
| Dividend per share | 60 yen | | 60 yen | | 0.0% | - |

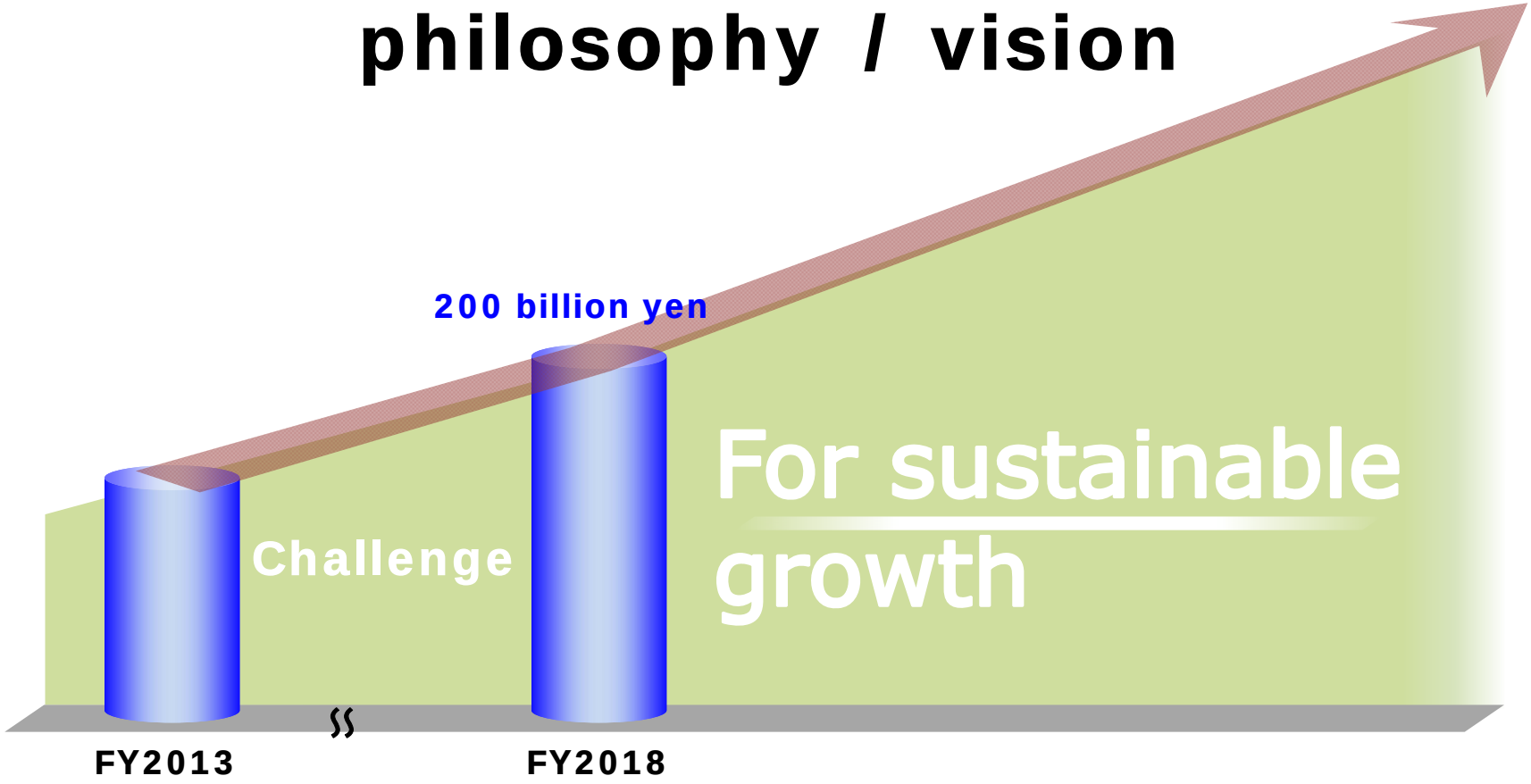
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# (2) Realizing sustainable growth

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## Specific corporate philosophy / vision




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# APPENDIX

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# Full-year earnings forecast by segments

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## Beverage Sales Division

*Figures prior to consolidated adjustment

(Millions of yen)

| | FY2013 results | FY2014 results | | | Initial projections for FY 2015 | | |
|---|---|---|---|---|---|---|---|
| | | | Difference (%) | Difference (amount) | | Difference (%) | Difference (amount) |
| Net sales | 130,400 | 124,597 | (4.4%) | (5,802) | 125,500 | 0.7% | 902 |
| Operating income | 4,578 | 3,839 | (16.2%) | (739) | 3,300 | (14.0%) | (539) |

## OEM Beverage Production Division

*Figures prior to consolidated adjustment

(Millions of yen)

| | FY2013 results | FY2014 results | | | Initial projections for FY 2015 | | |
|---|---|---|---|---|---|---|---|
| | | | Difference (%) | Difference (amount) | | Difference (%) | Difference (amount) |
| Net sales | 10,857 | 10,220 | (5.9%) | (636) | 10,100 | (1.2%) | (120) |
| Operating income | 1,227 | 1,135 | (7.5%) | (91) | 1,000 | (12.0%) | (135) |

## Food Production and Sales Division

*Figures prior to consolidated adjustment

(Millions of yen)

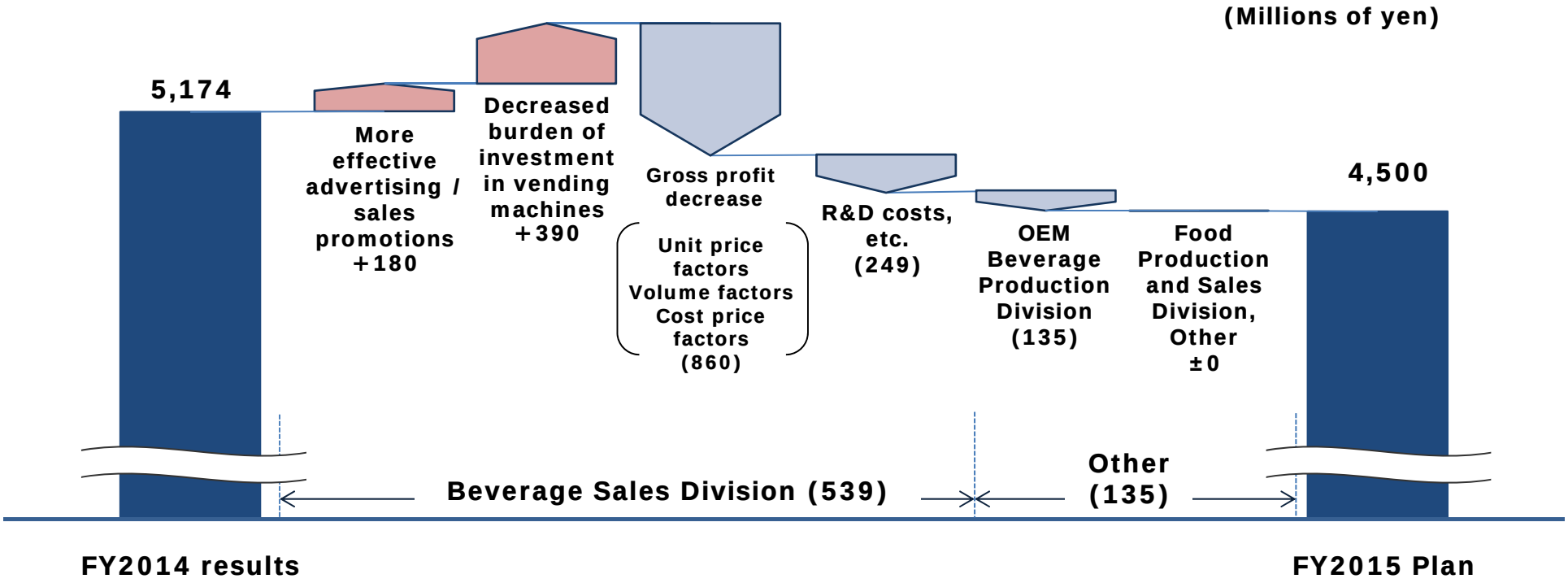
| | FY2013 results | FY2014 results | | | Initial projections for FY 2015 | | |
|---|---|---|---|---|---|---|---|
| | | | Difference (%) | Difference (amount) | | Difference (%) | Difference (amount) |
| Net sales | 14,299 | 15,360 | 7.4% | 1,060 | 16,100 | 4.8% | 739 |
| Operating income | 609 | 614 | 0.9% | 5 | 620 | 0.9% | 5 |

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# [Reference: Initial Plan] 2015 earnings forecast: causes for increasing / decreasing operating income



- The Beverage Sales Division has a gross loss of approx. JPY860M due to high costs (Assuming annual sales volume down 0.5% year-on-year)
- Assuming severe changes for the commissions status of the OEM Beverage Production Division
- Aiming to secure operating income via increased earnings for the Food Production and Sales Division




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# Seasonal Fluctuations - Sales

Next Stage

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*Figures for each division are prior to consolidated adjustments

(Millions of yen)

## [Consolidated]

| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Total |
|---|---|---|---|---|---|
| FY2014 | 35,401 | 40,358 | 39,927 | 33,839 | 149,526 |
| Ratio of full year (%) | 23.7% | 27.0% | 26.7% | 22.6% | 100.0% |
| FY2015 | 33,331 | 41,044 | – | – | – |

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**Beverage Sales Division**

| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Total |
|---|---|---|---|---|---|
| FY2014 | 30,083 | 32,602 | 32,726 | 29,185 | 124,597 |
| Ratio of full year (%) | 24.1% | 26.2% | 26.3% | 23.4% | 100.0% |
| FY2015 | 27,863 | 33,196 | – | – | – |

DAIDO PHARMACEUTICAL CORPORATION

**OEM Beverage Production Division**

| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Total |
|---|---|---|---|---|---|
| FY2014 | 2,724 | 2,807 | 2,521 | 2,168 | 10,220 |
| Ratio of full year (%) | 26.6% | 27.5% | 24.7% | 21.2% | 100.0% |
| FY2015 | 2,256 | 2,292 | – | – | – |

Tarami

**Food Production and Sales Division**

| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Total |
|---|---|---|---|---|---|
| FY2014 | 2,756 | 5,172 | 4,822 | 2,609 | 15,360 |
| Ratio of full year (%) | 17.9% | 33.7% | 31.4% | 17.0% | 100.0% |
| FY2015 | 3,369 | 5,735 | – | – | – |

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# Seasonal Fluctuations - Operating income (loss)



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*Figures for each division are prior to consolidated adjustments

(Millions of yen)

## [Consolidated]

| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Total |
|---|---|---|---|---|---|
| FY2014 | 518 | 1,953 | 2,744 | (41) | 5,174 |
| Ratio of full year (%) | 10.0% | 37.8% | 53.0% | – | 100.0% |
| FY2015 | (596) | 2,311 | – | – | – |

## Beverage Sales Division

| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Total |
|---|---|---|---|---|---|
| FY2014 | 200 | 1,222 | 2,229 | 186 | 3,839 |
| Ratio of full year (%) | 5.2% | 31.8% | 58.1% | 4.9% | 100.0% |
| FY2015 | (819) | 1,711 | – | – | – |

## OEM Beverage Production Division

| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Total |
|---|---|---|---|---|---|
| FY2014 | 398 | 312 | 252 | 172 | 1,135 |
| Ratio of full year (%) | 35.0% | 27.6% | 22.2% | 15.2% | 100.0% |
| FY2015 | 254 | 233 | – | – | – |

## Food Production and Sales Division

| | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Total |
|---|---|---|---|---|---|
| FY2014 | 38 | 518 | 339 | (282) | 614 |
| Ratio of full year (%) | 6.2% | 84.4% | 55.3% | – | 100.0% |
| FY2015 | 64 | 459 | – | – | – |

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# Renewal of the Demitasse Coffee Series

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◆ **Renewed sale of three even tastier versions of the Demitasse Series, which in the small canned coffee segment*1 boasts an overwhelming top share in sales!*2**

- Use 1.5 times the number of beans for the coffee standard*

*lower limit of the coffee standard (5g / 100g)

- Intensify and increase compared to previous products the amount of premium beans specially selected for Demitasse
- Design with a premium feel




**Demitasse Coffee**

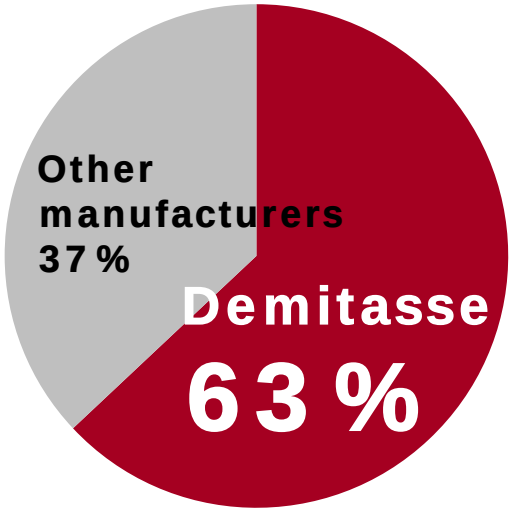



**Demitasse Low Sugar**




**Demitasse Black**

**The Demitasse Series is maintaining an overwhelming 63% share*2 of the small canned coffee market!*1**




*1 Can or bottle can coffee of 180ml or less
*2 INTAGE SRI: Combined sales amount of the Demitasse Series from March 2014 to May 2015 – can or bottle can coffee of 180ml or less.

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# Challenge to enhance product strength

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Tarami

## Expanding the lineup of high added value products in new sectors

### WITH HAPPINESS

### Strawberry Jelly and Condensed Milk Sauce




A fruit dessert combining a rich sauce made even tastier with fruits plus a fruit jelly with a juicy, springy texture.

### KANOMEGUMI Grape




Enjoy the juicy, fresh taste of grapes as the best fruit for fall Sliced Fruit Jelly

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# Tarami: Entry into the Indonesian market

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## Early April

## Putting on sale three types of Tarami Fruit Market jellies in Indonesia

- Production using factories of our local partner as the first step in overseas market entry
- Aiming at sales of 100 million yen in the first fiscal year









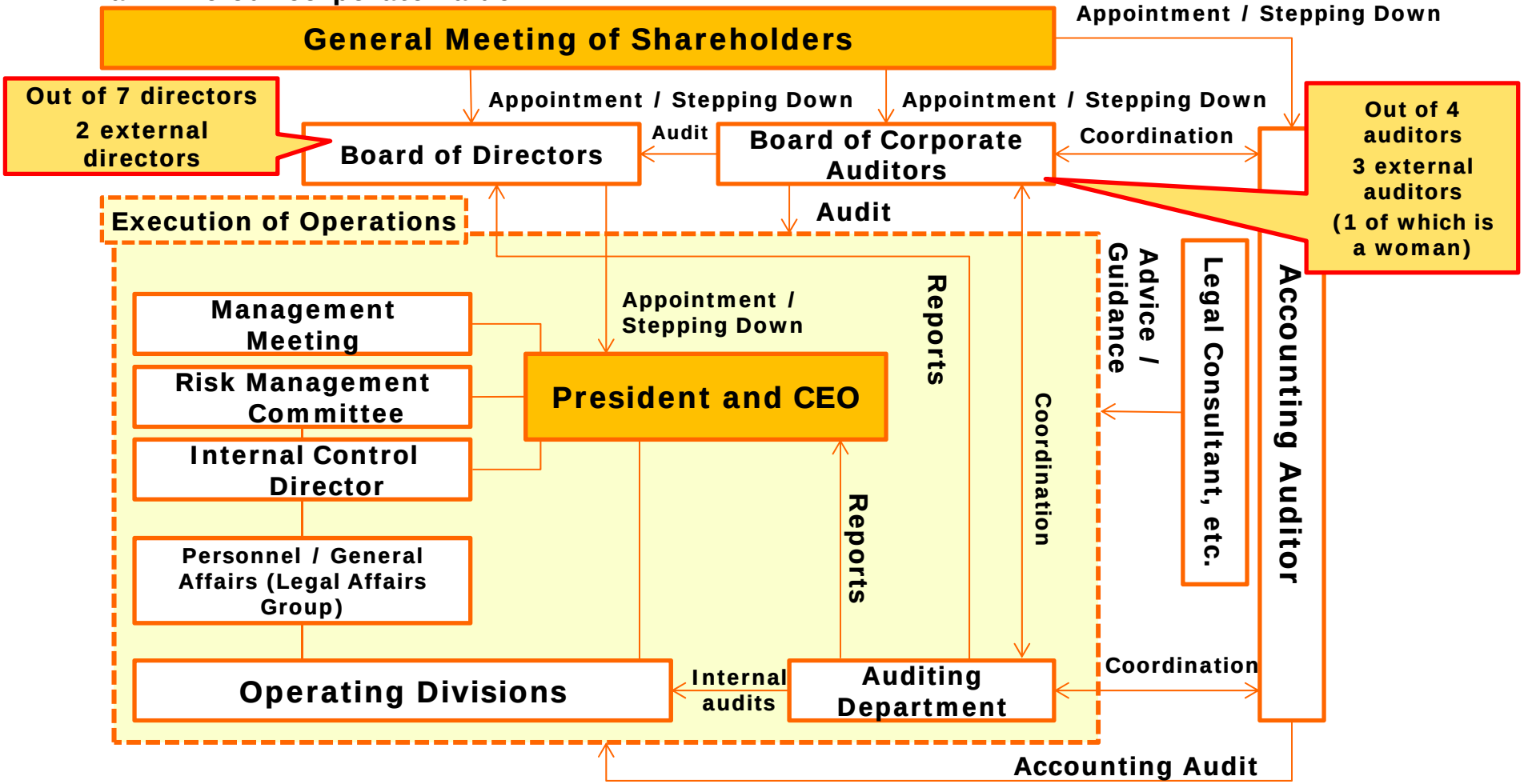

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# Corporate Governance

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**Our company takes as its fundamental approach to corporate governance as to undertake sound corporate activities and thorough compliance, and to improve the transparency and efficiency of our management, to build smooth relations with all the stakeholders involved with us, including our customers, employees, trading partners, local communities and shareholders, and strive to maximize our corporate value.**




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# On capital policy and returns to shareholders

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## Returns to shareholders

Realizing sustainable, profitable growth

### Effective use of capital

Establishing a new business foundation via strategic investment

### Maintaining fiscal soundness

Improving cash creation capacity in existing businesses

| | Basic approach |
|---|---|
| Effective use of capital | ・ Internal reserves are given priority in appropriation for strategic business investment for sustained profits/growth and improving capital efficiency |
| Maintaining fiscal soundness | ・ Improve stable cash creation capacity via existing businesses<br>・ Maintain financial foundation enabling ongoing strategic business investment |
| Returns to shareholders | ・ Continue to maintain stable dividends despite the severe earnings environment<br>・ Aim to realize ongoing profit/growth for mid-term increased dividends |

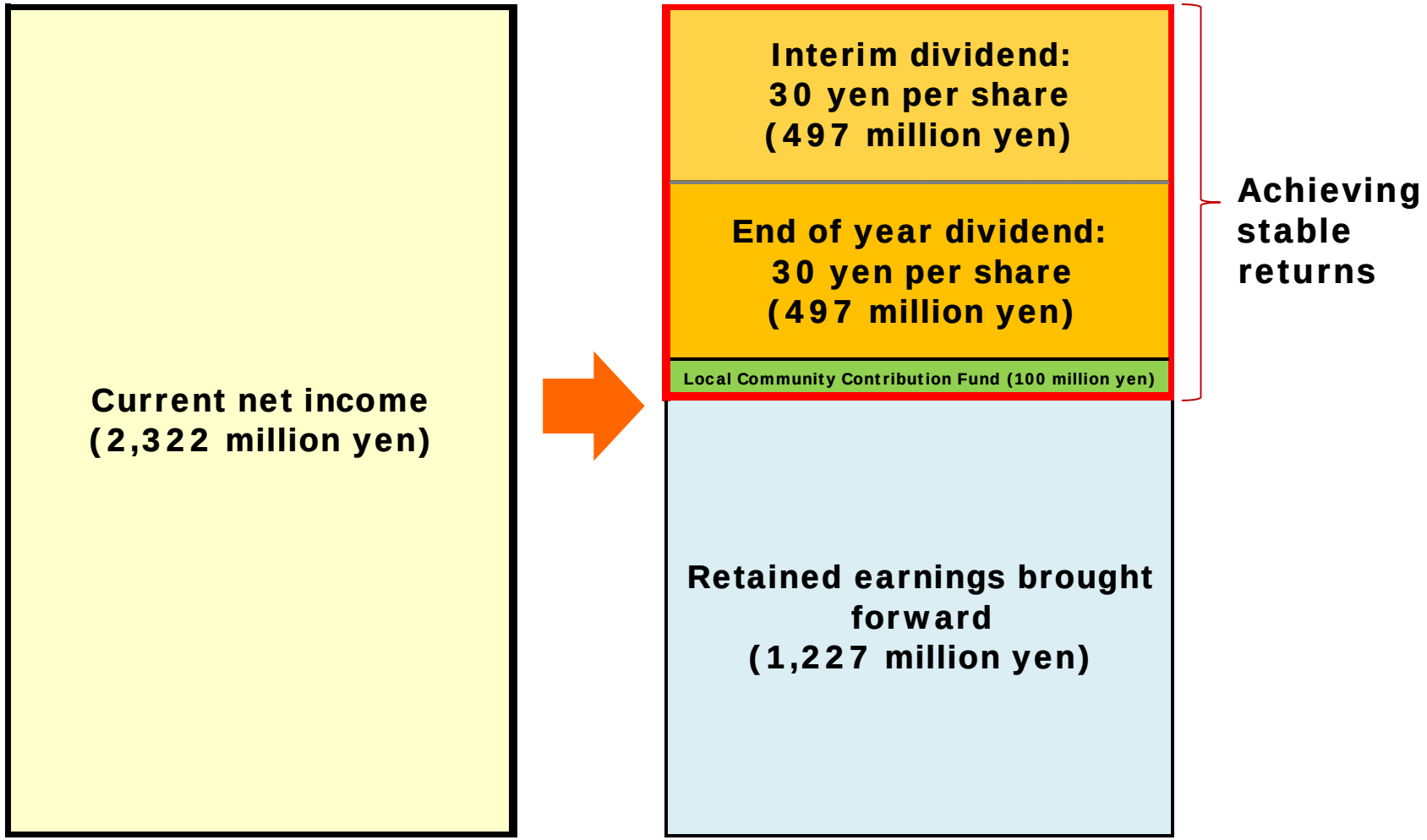
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# Returns to shareholders



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## Ensuring stable returns each term (the following is the performance for the 40th term)




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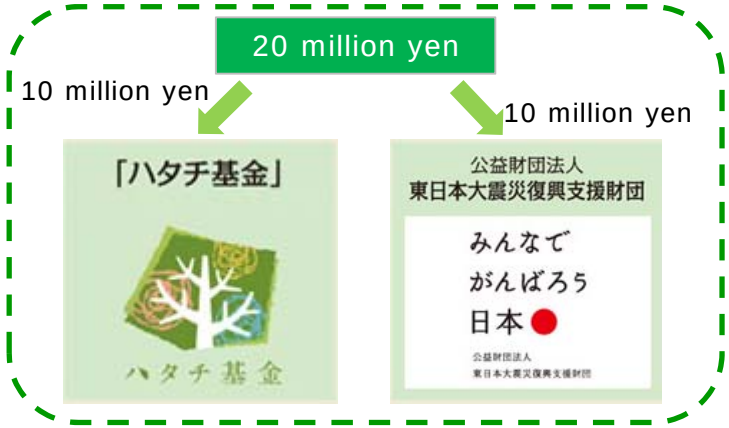
# Using the Local Community Contribution Fund

Next Stage

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## - Contributing to society using the Local Community Contribution Fund -

### Ongoing aid for the Great East Japan Earthquake




### Support from vending machines to the Kizuna Tohoku recovery donations




### Cultural support in school education e.g. street dancing



### Aiding lack of exercise for children in Fukushima



### Support to Nippon Matsuri Network NPO

DyDo DRINCO joins the Nippon Matsuri Network NPO (Non-Profit Organization)

NPO(特定非営利活動法人)
日本の祭りネットワーク
Nippon Matsuri Network

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# Returns to shareholders: Special shareholder benefits

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**Sending gift packs of our products worth 3,000 yen to shareholders owning 100 or more of our shares**

**Twice a year**

**(Allocation base date: January 20, July 20)**




Sample image of set to our current shareholder, as of January 20th, 2015

**No. 1 spot in popularity ranking** selected by readers for shareholder preferential treatment for 2015 edition useful information on shareholder preferential treatment*




* Issued by Nomura IR, November 2014

Total ranking of shareholder preferential treatment

**2nd place in total for the 5th year running**

| Ranking | Company name |
|---|---|
| 1 | **McDonald's Holdings Japan** |
| **2** | **DyDo DRINCO** |
| 3 | **Nissin Holdings** |

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# Towards achieving the group vision

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**We are looking for ideas from all employees of the DyDo Group for "Challenge Plans" to achieve our vision and mid-term business plan, based on the concept of "Challenge," the main keyword in our business philosophy.**

***4-O (4 Circles)**
**Achieving (circling) our 4 visions (Together with Customers / Together with Society / Together with Future Generations / Together with People)**

| Together with Customers Section | Together with Society Section | Together with Future Generations Section | Together with People Section |
|---|---|---|---|
| Taking the challenge of seeking out new customers and ensuring satisfaction to customers with services and surprises to them. | Taking the challenge of contributing to the building of an enriched and plentiful society. | Taking the challenge of making a new DyDo Standard beyond borders and existing frameworks. | Taking the challenge of realizing happiness for all the people involved with DyDo, inside or outside the company. |

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# Holding information sessions for private investors

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## Regularly holding information sessions for private investors



| Date: | Location |
|---|---|
| Friday March 20 | Tokyo (SMBC Nikko Securities) |
| Wednesday April 22 | Tokyo<br>(for SMBC Nikko Securities Advice Center) |
| Wednesday June 17 | Sapporo (Nomura Securities) |
| Thursday July 16 | Nagoya (Nomura Securities) |
| Saturday September 5 (provisional) | Tokyo (Bellesalle Tokyo Nihonbashi: Forum for Women Investors) |
| Thursday September 10 (provisional) | Tokyo (Conference Square M+, Mitsubishi Building) |
| Tuesday September 29 (provisional) | Sendai (Nomura Securities) |
| Tuesday October 6 (provisional) | Kobe (SMBC Nikko Securities) |
| Wednesday October 14 (provisional) | Kawaguchi (Nomura Securities) |
| Wednesday October 21 (provisional) | Osaka (Mizuho Securities) |

Note: The schedule is subject to change.
We will update the IR site on our website after deciding on details for future sessions.

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## Challenge

## Next Stage

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