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DyDo

FY2017 (Year Ending January 20, 2018) 2nd Quarter Financial Highlights

DyDo Group Holdings Inc.

(1st Section of the Tokyo Stock Exchange: 2590)

August 28, 2017

DyDo Group Business Segments

Transitioning to a holding company structure is the first step toward dramatic growth.

The change is designed to strengthen the Group's management by clarifying the roles and responsibilities of each business. Our goal is to effect a transformation to profit structures and business models that better suit the new era in which we are operating.

DyDo Group Holdings Inc.

- Domestic Beverage Business 
- International Beverage Business 
- Pharmaceutical-related Business 
- Food Business 

Purpose of transition to holding company structure

- Strengthening group management
- Agile response to expansion of business domains
- Strengthening and nurturing international beverage business

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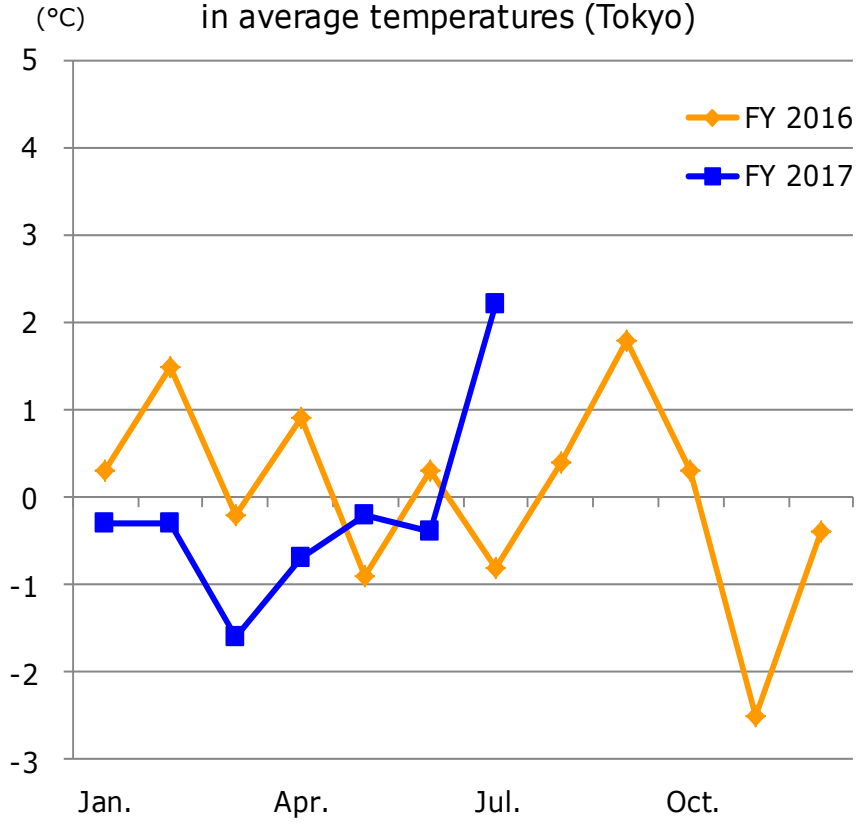
DyDo

1. Trends in the Domestic Beverages Industry

Trends in the Beverages Industry

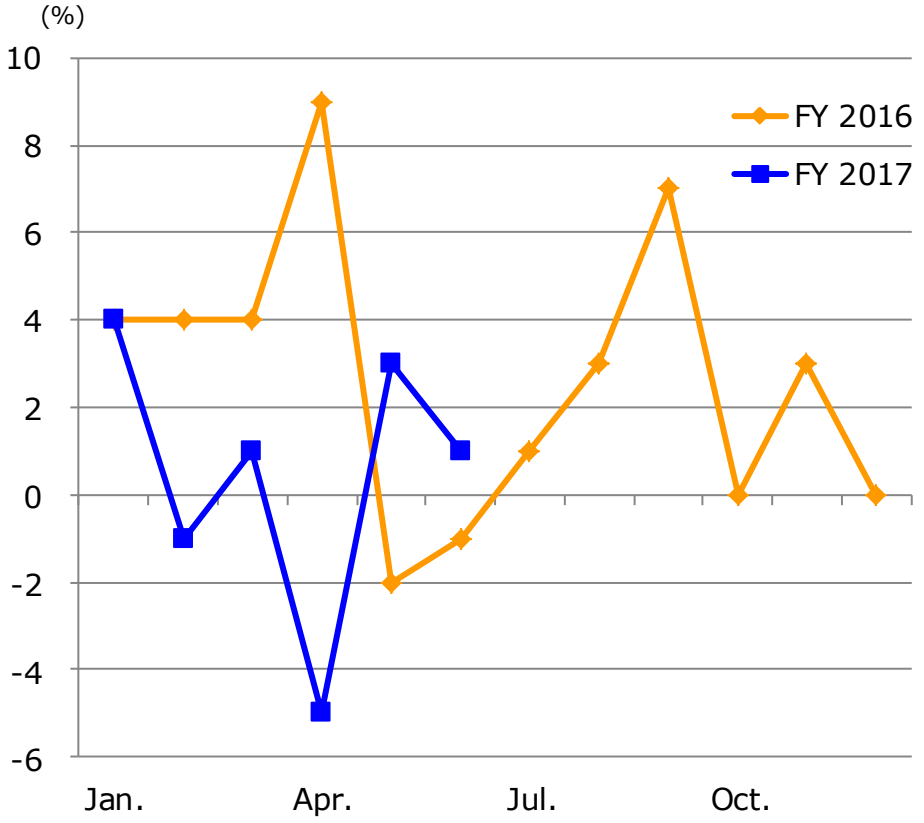
- Each company in the industry adopted profit-oriented policies and sought to strengthen key brands
- Sales volume was strong despite the high bar posed by the previous year's robust performance

Year-on-year difference in average temperatures (Tokyo)



*Left graph: Compiled by DyDo based on statistical data released by the Japan Meteorological Agency (weather observation data).

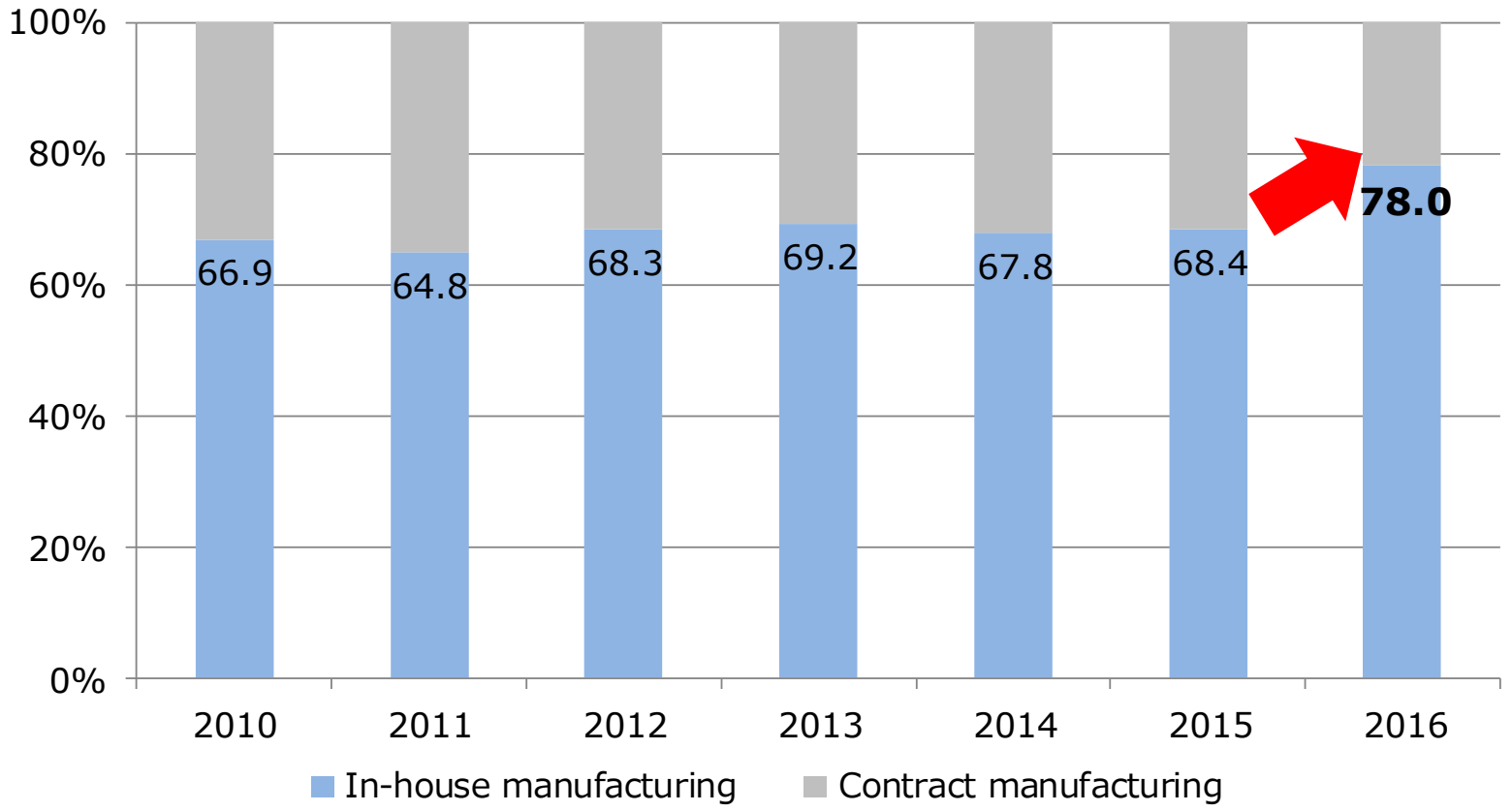
Domestic beverage sales trends (year-on-year)



* Right graph: Compiled by DyDo

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Breakdown between In-house and Contract Manufacturing in the Non-alcoholic Beverage Industry

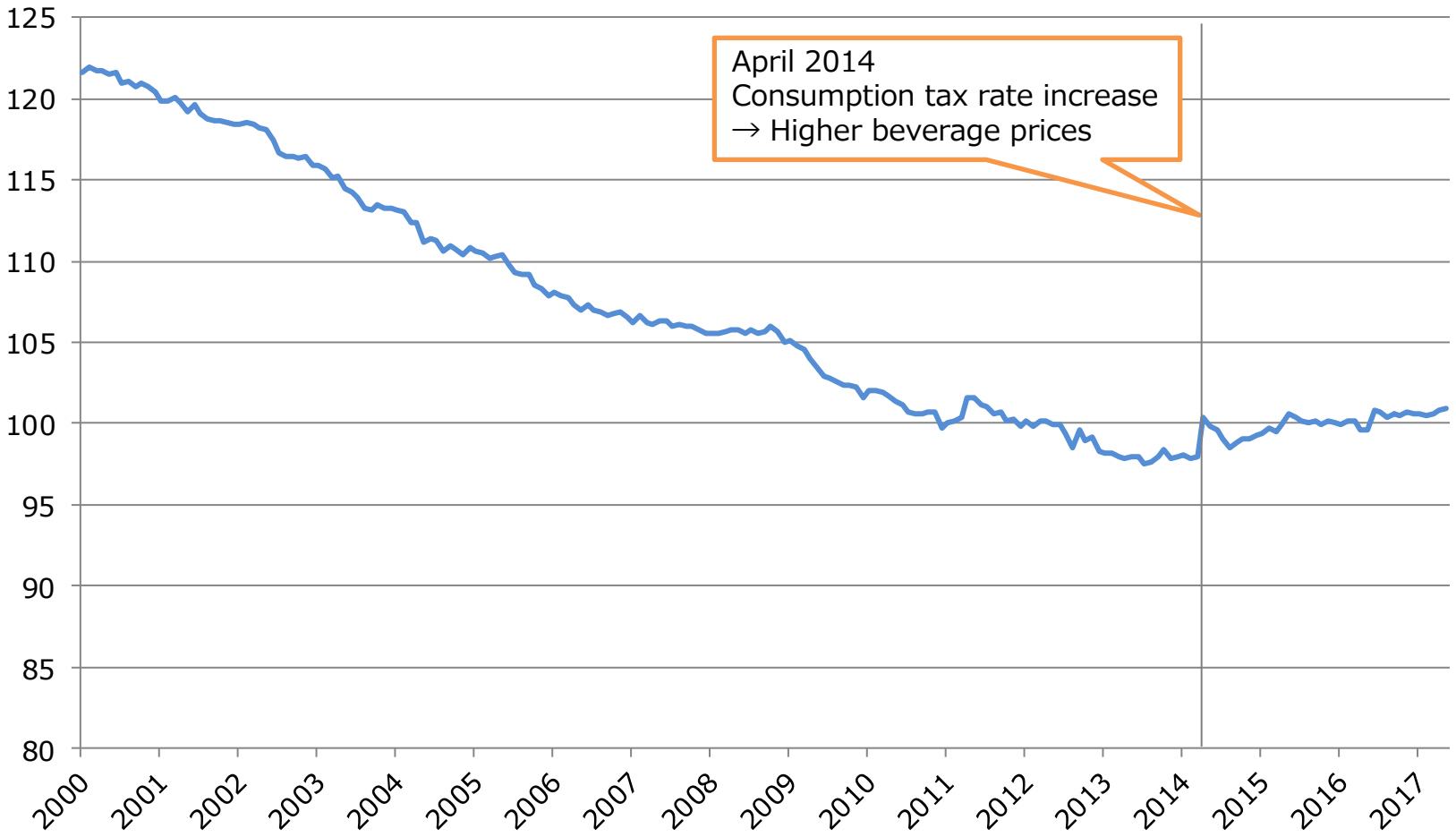


Compiled by DyDo based on the 2017 Soft Drink and Water Statistics (published by the Japan Soft Drink Association)

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Changes in the Consumer Price Index

Change in consumer price index (beverages)

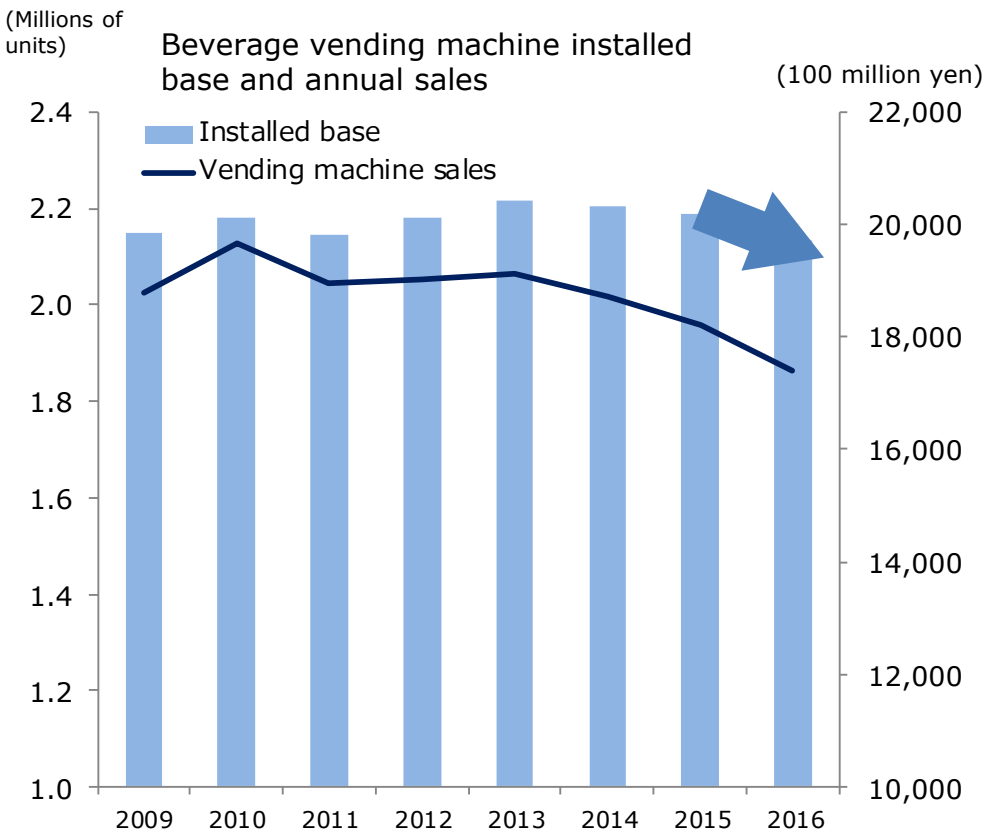


Compiled by DyDo from Consumer Price Index (CPI) from statistical data of the Statistics Bureau, MIC
Index where 2015 = 100

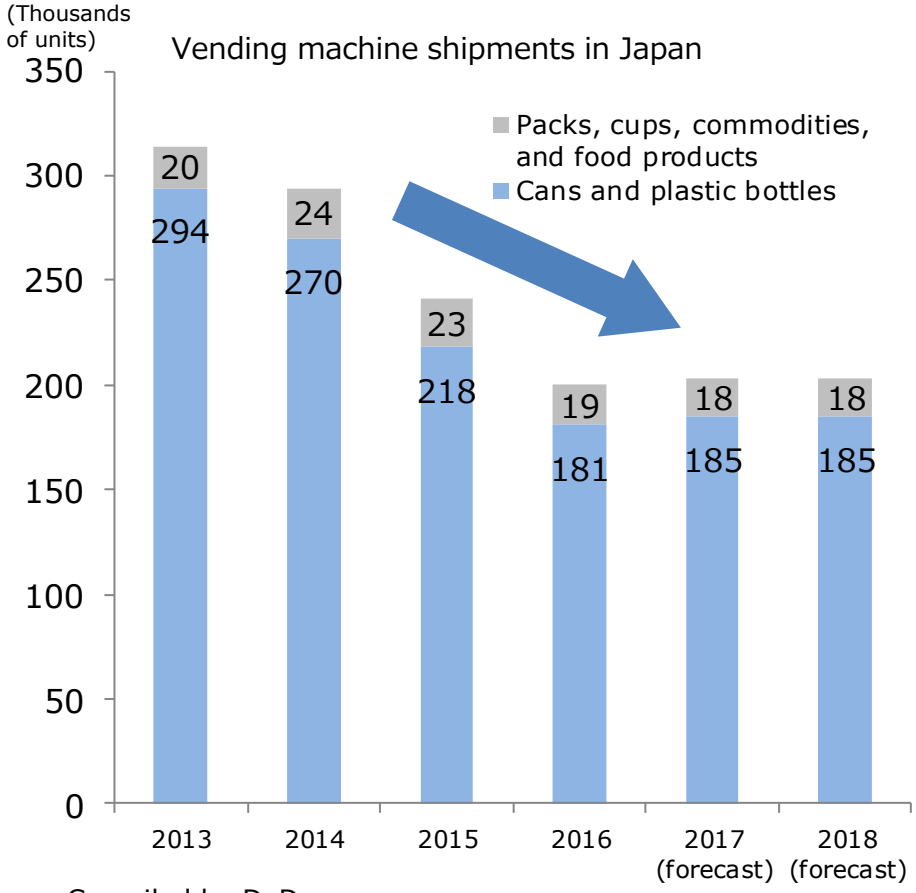
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Vending Machine Market Trends

- The size of the vending machine installed base and sales of beverages sold through vending machines trended down
- Beverage manufacturers have been reducing their investments in vending machines in recent years
- The vending machine market is poised to undergo a major transformation



Compiled by DyDo based on data published by the Japan Vending Machine Manufacturers Association



Compiled by DyDo

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2. FY2017 2nd Quarter Financial Highlights

Overview of Consolidated Financial Information for FY2017 1st Half

- Increased sales in the Domestic Beverage Business and Pharmaceutical-related Business contributed to our performance as consolidated net sales rose 0.8%
- An increase in ingredient pricing caused by exchange rate factors impacted profit in the International Beverage Business
- Ordinary income rose 6.3% due in part to a one-time increase in non-operating income
- We posted negative goodwill and other gains during the 1st half of the previous year as extraordinary income

(Millions of yen)

	1st half (Jan 21 - Jul 20)									
	FY2016 results		FY2017 forecast		FY2017 results					
		Component ratio		Component ratio		Component ratio	Year-on-year change		Vs. initial forecast	
							%	Amount	%	Amount
Net sales	86,138	100.0%	89,250	100.0%	86,803	100.0%	0.8%	665	(2.7%)	(2,446)
Operating income	2,280	2.6%	1,790	2.0%	2,158	2.5%	(5.3%)	(121)	20.6%	368
Ordinary income	2,218	2.6%	1,700	1.9%	2,357	2.7%	6.3%	138	38.7%	657
Profit attributable to owners of parent	1,925	2.2%	850	1.0%	1,133	1.3%	(41.1%)	(791)	33.4%	283
EPS	116.23 yen		51.31 yen		68.55 yen		(41.0%)	(47.68 yen)	33.6%	17.24 yen
Dividend per share	30 yen		30 yen		30 yen		0.0%	-	0.0%	-

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FY2016 1st Half Consolidated Earnings - Details -

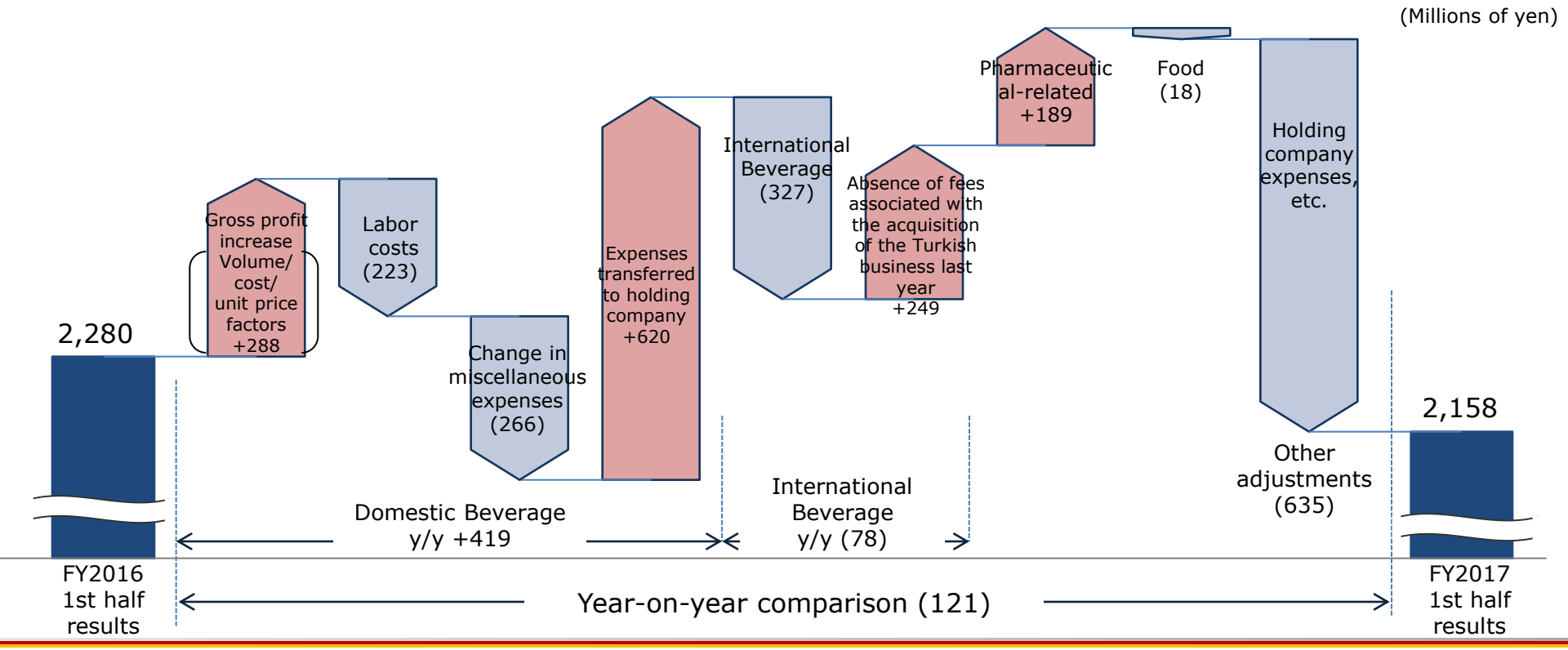
(Millions of yen)

	FY2016 1st half results	FY2017 1st half initial forecast	FY2017 1st half results				
				Year-on-year change		Vs. initial forecast	
				%	Amount	%	Amount
Domestic Beverage Business	63,434	65,450	64,029	0.9%	595	(2.2%)	(1,420)
International Beverage Business	8,668	9,680	8,456	(2.5%)	(212)	(12.6%)	(1,223)
Pharmaceutical-related Business	4,641	4,710	5,154	11.1%	512	9.4%	444
Food Business	9,808	9,770	9,536	(2.8%)	(272)	(2.4%)	(233)
Adjustment	(414)	(360)	(373)	–	41	–	(13)
Total net sales	86,138	89,250	86,803	0.8%	665	(2.7%)	(2,446)
Domestic Beverage Business	1,964	2,390	2,384	21.4%	419	(0.2%)	(5)
International Beverage Business	(491)	(350)	(569)	–	(78)	–	(219)
Pharmaceutical-related Business	508	350	698	37.3%	189	99.6%	348
Food Business	298	250	280	(6.1%)	(18)	12.3%	30
Adjustment	(1)	(850)	(636)	–	(635)	–	213
Total operating income	2,280	1,790	2,158	(5.3%)	(121)	20.6%	368

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Factors Driving Increases/Decreases in Operating Income for FY2017 1st Half - Year-on-year Comparison -

- Operating costs such as labor costs rose in the Domestic Beverage Business
- Rising costs due to weakness in the Turkish lira exerted pressure on profits in the International Beverage Business
- The Pharmaceutical-related Business saw growth in new orders and continued firmness in existing orders

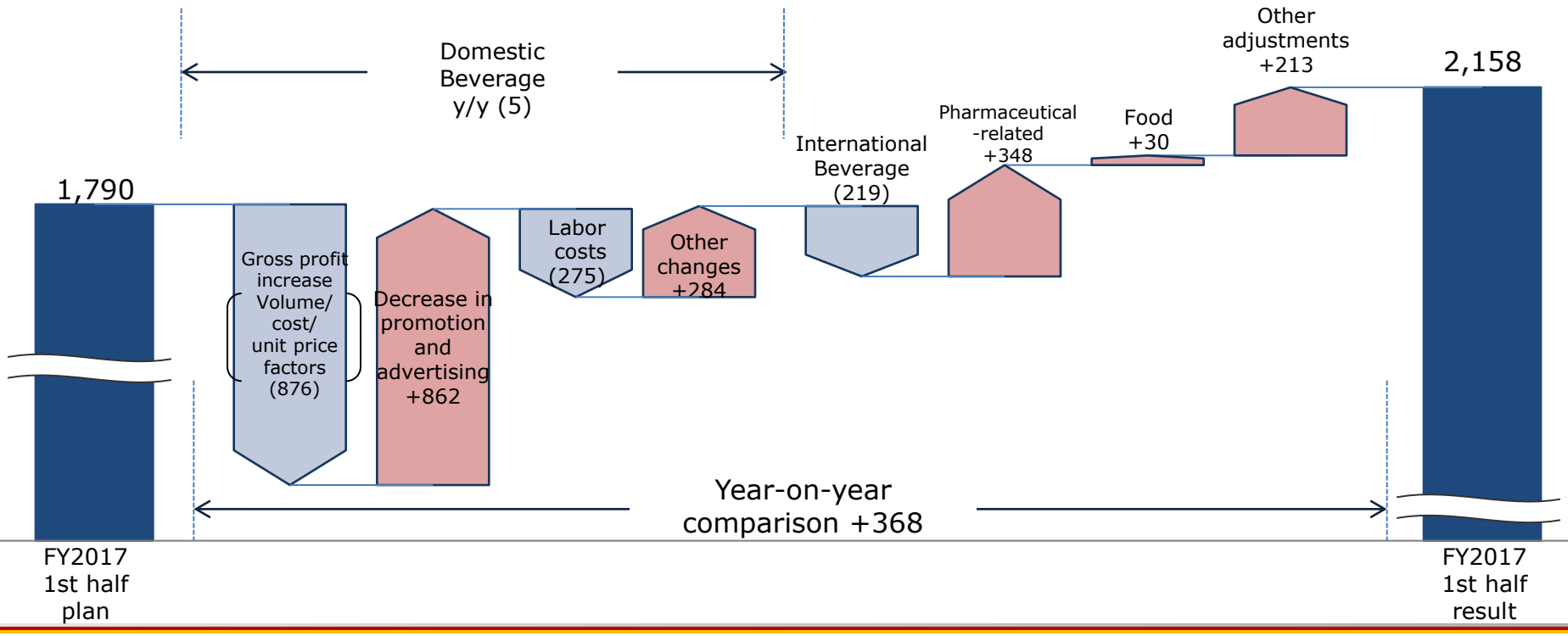


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Factors Driving Increases/Decreases in Operating Income for FY2017 1st Half - Vs. Initial Forecast -

- The Domestic Beverage Business and Food Business generated profit in line with plans
- The International Beverage Business failed to perform to plan in Turkey and Malaysia
- The Pharmaceutical-related Business generated profit that was significantly higher than planned

(Millions of yen)



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Overview by Segment -Domestic Beverage Business-

(Millions of yen)

	1st half (Jan 21 - Jul 20)									
	FY2016 results		FY2017 forecarst		FY2017 results					
		Component ratio		Component ratio		Component ratio	Year-on-year change		Vs. initial forecast	
							%	Amount	%	Amount
Net sales	63,434	100.0%	65,450	100.0%	64,029	100.0%	0.9%	595	(2.2%)	(1,420)
Operating income	1,964	3.1%	2,390	3.7%	2,384	3.7%	21.4%	419	(0.2%)	(5)

(Note) Figures prior to consolidated adjustment.

Summary of the 1st half of FY2017

- Sales volume during the 1st half rose 1.1% year on year
- Results for the overall vending machine channel failed to achieve the planned level despite increased sales to Kirin Beverage
- Aggressive moves by competing companies created competition for favorable vending machine locations
- Sales of the "Supervised by the World's Top Barista*" series and "Calolimit" Blended Tea strengthened in the convenience store/other distribution channel

Year-on-year change in sales volume	1st half volume (Jan. 21 to Jul. 20)	Results by channel	
		Vending machines	Other
Coffee beverages	1.6%	1.7%	1.5%
Tea beverages	6.2%	(6.3%)	126.6%
Other beverages	(2.2%)	(1.8%)	(6.6%)
Total	1.1%	(0.6%)	9.9%

FY2017 2nd half policy

- We will optimize our management structures to facilitate acquisition of new, favorable vending machine locations
- We will accelerate our rollout of IoT vending machines and expand Smile STAND content

*Pete Licata, 14th World Barista Championship winner

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Overview by Segment
-Domestic Beverage Business-

- "The King of Fighters D for DyDo Smile STAND": A character-based fighting game for smartphones that works with Smile STAND

DyDo & SNK

Scheduled for release in fall 2017



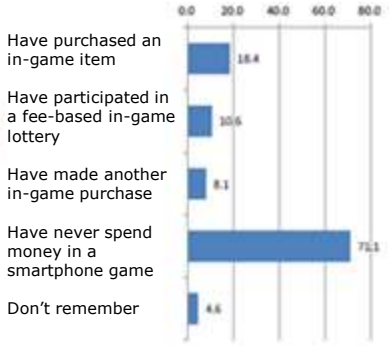
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Experience with smartphone games



Unit: Percentage

Experience spending money in a smartphone game



Unit: Percentage

Compiled by DyDo based on information about smartphone trends from the 20th Internet Consumer Transaction Liaison Conference , held on March 24, 2016

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Overview by Segment
-Domestic Beverage Business-

- We celebrated the 25th anniversary of the product launch as cumulative sales surpassed 6.2 billion
- We launched updated products in the long-running, best-selling "DyDo Blend Demitasse" series
- We launched slightly sweetened variants featuring depth and a clean finish

New!! Available September 11



DyDo Blend Demitasse Coffee



DyDo Blend Demitasse Slightly Sweetened



DyDo Blend Demitasse Black



DyDo Blend Demitasse Slightly Sweetened with 40% Less Sugar

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Overview by Segment
-Domestic Beverage Business-

- "Calolimit" Blended Tea, a food with a functional claim, surpassed cumulative sales of 20 million units about eight months after its launch!





New!!

Part 2, available September 18
"Calolimit" Refined Green Tea Plus

* This beverage has been registered with the secretary of the Consumer Affairs Agency as a product with specific health claims made by the manufacturer. Unlike food for specified health uses, it has not been reviewed by the secretary of the Consumer Affairs Agency to determine the validity of those claims.
* This product is not intended to diagnose, treat, or prevent any disease or condition.
* Eat a balanced diet based on a staple food, a main dish, and side dishes.

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Overview by Segment
-Domestic Beverage Business-

Expand sales channels for “DyDo Blend” brand

- Continue selling two bottle-shaped can coffee beverages as part of the “Supervised by the World’s Top Barista*” series, which has enjoyed strong sales through vending machines owned by Kirin Beverage





Place two products (“Gogo-no-Kocha” Hot Milk Tea and “Gogo-no-Kocha” Hot Lemon Tea) for which we expect to see strong demand in hot-drink sales during the winter season in DyDo vending machines and work to generate even better results (no change in item number: 2 items).

*Pete Licata, 14th World Barista Championship winner

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Overview by Segment
- International Beverage Business -

(Millions of yen)

	1st half (Jan 21 - Jul 20)									
	FY2016 results		FY2017 forecast		FY2017 results					
		Component ratio		Component ratio		Component ratio	Year-on-year change		Vs. initial forecast	
							%	Amount	%	Amount
Net sales	8,668	100.0%	9,680	100.0%	8,456	100.0%	(2.5%)	(212)	(12.6%)	(1,223)
Operating income	(80)	–	(160)	–	(390)	–	–	(309)	–	(230)
Amortization of goodwill, etc.	161	1.9%	190	2.0%	179	2.1%	11.1%	17	(5.5%)	(10)
Operating income after amortization of goodwill, etc.	(241)	–	(350)	–	(569)	–	–	(327)	–	(219)
Acquisition fees	249	2.9%	–	–	–	–	–	(249)	–	–
Operating margin after subtracting the above fees	(491)	–	(350)	–	(569)	–	–	(78)	–	(219)
Turkish lira	38.43	–	33.00	–	31.05	–	–	(7.38)	–	(1.95)
Malaysian ringgit	27.58	–	25.00	–	25.68	–	–	(1.90)	–	0.68

(Note) Figures prior to consolidated adjustment.

Summary of the 1st half of FY2017

<Turkey>

- Efforts to put in place sales structures progressed smoothly, and sales rose on a local currency basis
- Sales of “Saka” mineral water rose significantly
- We streamlined operations by completing the relocation of our fruit juice manufacturing line

<Malaysia>

- We focused on expanding sales of chilled beverages as dry beverages posed challenges

FY2017 2nd half policy

- Initiatives to utilize Japanese expertise in order to bring products to market
- Strengthen sales and management structures

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Overview by Segment
- International Beverage Business -

Turkish business: Promoting and fostering the development of core brands

"Saka" mineral water



We also launched a line of sparkling water drinks under the "Saka" brand.

"Çamlica" carbonated beverages



"Maltana" carbonated beverages



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Overview by Segment -Pharmaceutical-related Business-

(Millions of yen)

	1st half (Jan 21 - Jul 20)									
	FY2016 results		FY2017 forecast		FY2017 results					
		Component ratio		Component ratio		Component ratio	Year-on-year change		Vs. initial forecast	
							%	Amount	%	Amount
Net sales	4,641	100.0%	4,710	100.0%	5,154	100.0%	11.1%	512	9.4%	444
Operating income	508	11.0%	350	7.4%	698	13.6%	37.3%	189	99.6%	348

(Note) Figures prior to consolidated adjustment.

Summary of the 1st half of FY2017

- Beauty drinks showed signs of a recovery even as challenging conditions persisted in the drinkable preparation market
- Orders exceeded plans thanks to an organizational approach to proposal-based sales
- New orders rose, while orders for existing products firmed

FY2017 2nd half policy

- Conduct a comprehensive inspection of plant facilities in order to ensure our ability to accommodate sustained increases in order volume
- Carry out maintenance to ensure stable supply
- Pursue an organizational approach to proposal-based sales in order to capture orders in anticipation of the completion of our new plant

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Overview by Segment -Food Business-

(Millions of yen)

	1st half (Jan 21 - Jul 20)									
	FY2016 results		FY2017 forecast		FY2017 results					
		Component ratio		Component ratio		Component ratio	Year-on-year change		Vs. initial forecast	
							%	Amount	%	Amount
Net sales	9,808	100.0%	9,770	100.0%	9,536	100.0%	(2.8%)	(272)	(2.4%)	(233)
Operating income	475	4.8%	426	4.4%	456	4.8%	(3.8%)	(18)	7.2%	30

(Note) Figures prior to consolidated adjustment.

Summary of the 1st half of FY2017

- We dealt with intensifying competition due to aggressive moves by competing manufacturers
- We undertook companywide initiatives in areas including production and procurement to secure profits
- We made strategic advertising investments to increase the value of our “Tarami” brand

FY2017 2nd half policy

- Embrace the challenge of expanding markets by diversifying products
- Continue to implement procurement and product strategies
- Focus on reforming profit structure and building infrastructure in the business

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3. FY2017 Full-year Earnings Forecast

FY2017 Consolidated Full-year Earnings Forecast

- We will leave our initial full-year earnings forecast unchanged
- We will strive to achieve the figures outlined in the full-year plan by accomplishing sales plan targets for the Domestic Beverage Business
- Due to the one-time nature of the previous fiscal year's extraordinary gains, current profit attributable to owners of parent will total 3 billion yen

(Millions of yen)

	FY2016 results		FY2017 earnings forecast			
		Component ratio		Component ratio	%	Amount
Net sales	171,401	100.0%	175,500	100.0%	2.4%	4,099
Operating income	3,857	2.3%	5,300	3.0%	37.4%	1,443
Ordinary income	3,741	2.2%	5,200	3.0%	39.0%	1,459
Profit attributable to owners of parent	3,269	1.9%	3,000	1.7%	(8.2%)	(269)

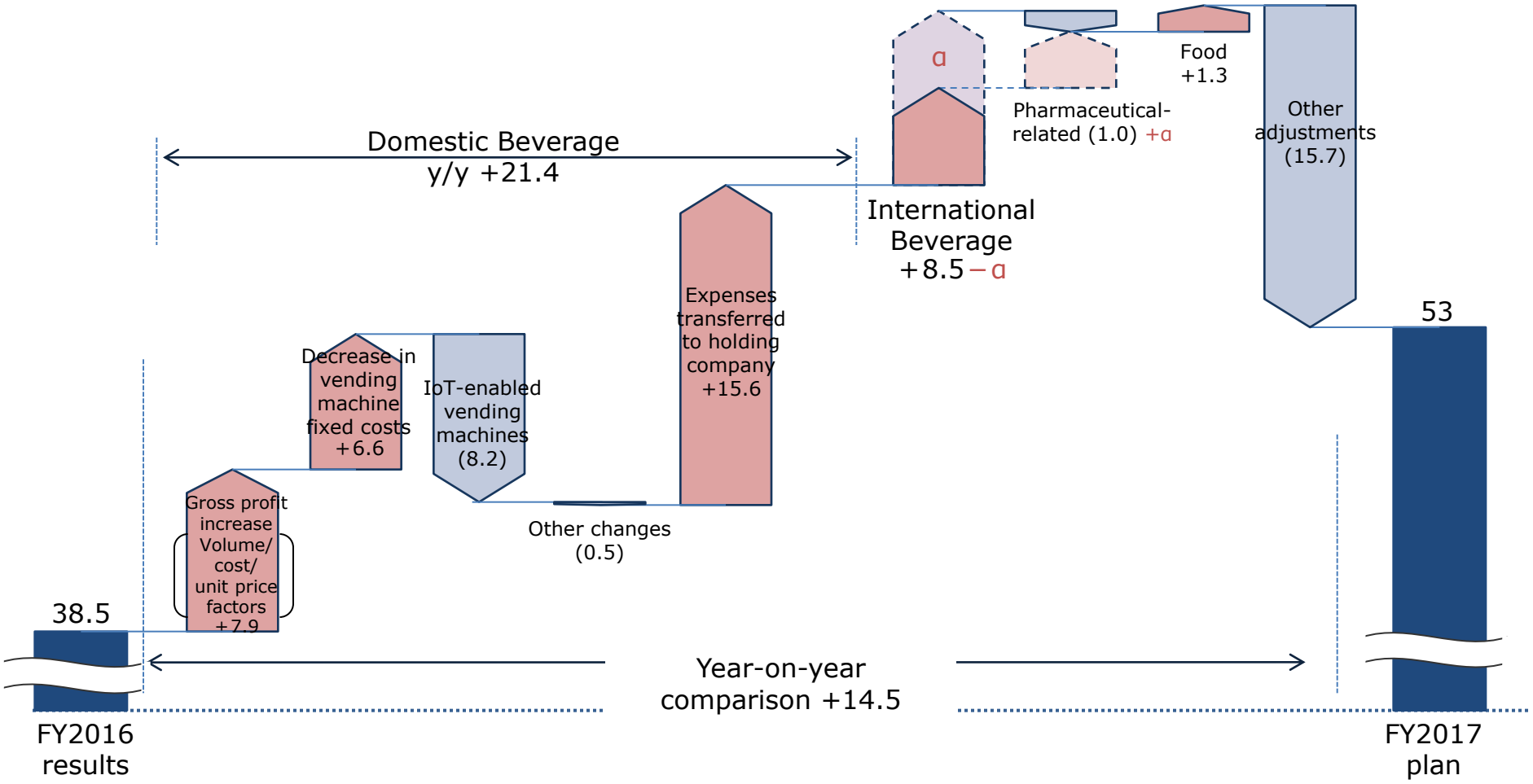
EPS	197.34 yen	181.08 yen	(8.2%)	(16.26 yen)
Dividend per share	60 yen	60 yen	0.0%	-

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Factors Driving Increases/Decreases in Operating Income for FY2017 Full-year Earnings Forecast

- We will increase sales and aggressively control costs in the Domestic Beverage Business
- We expect to see continued order growth in the Pharmaceutical-related Business

(100 million yen)



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4. Taking Up the Challenge of Creating New Corporate Value for the Next Generation

- Striving to achieve sustained growth -

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DyDo Group History

(100 million yen)

◆ New business

2,000

◆ Overseas expansion

- Expansion of vending machine business within Moscow
- Entry into the Turkish and Malaysian markets

Tarami

- Acquisition of Tarami Corporation

DyDo

- Establishment of Dydo Drinco, Inc. and launch of DyDo blend coffee



- HOT & COLD vending machine



- Launch of Demitasse Coffee



- Introduction of point card



- Introduction of talking vending machines with different dialects



- Launch of MIU



- Strengthening of the DyDo Blend brand



- Launch of the "Supervised by the World's Top Barista" series



- Smile STAND



Beverage sales business spun off

DAIDO PHARMACEUTICAL CORPORATION

- Establishment as household pharmaceutical distributor and start of manufacture of drinkable preparations



- Start sales of drinkable preparations and canned coffee at gas station



- Full-scale involvement in OEM following relaxation of regulations for quasi-drugs



2001
- Listed on the Second Section of the Tokyo Stock Exchange

2003
- Designated as a blue-chip stock on the First Section of the Tokyo Stock Exchange



- Expansion of orders of beauty health drink



*Envisioned sales

0

1,000

1950s 1970s 1990s 2010s 2018

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Group Philosophy / Vision / Slogan Formulation

DyDo Group Philosophy

DyDo Group strives to achieve happiness and prosperity
together with people and society as a whole.
To realize this, we will continue our dynamic efforts
to take on new challenges.

DyDo Group Vision

Together with customers	We are always offering high-quality products with added surprise to deliver distinctively DyDo taste and wellness to customers.
Together with society	We are committed to building a rich and vibrant society through "All DyDo" product development and corporate activities involving the entire group.
Together with future generations	We create "DyDo standards" for future generations that go beyond current frameworks and values.
Together with people	We uphold a tireless "DyDo challenging spirit" to bring happiness to all people whose lives are touched by the DyDo Group.

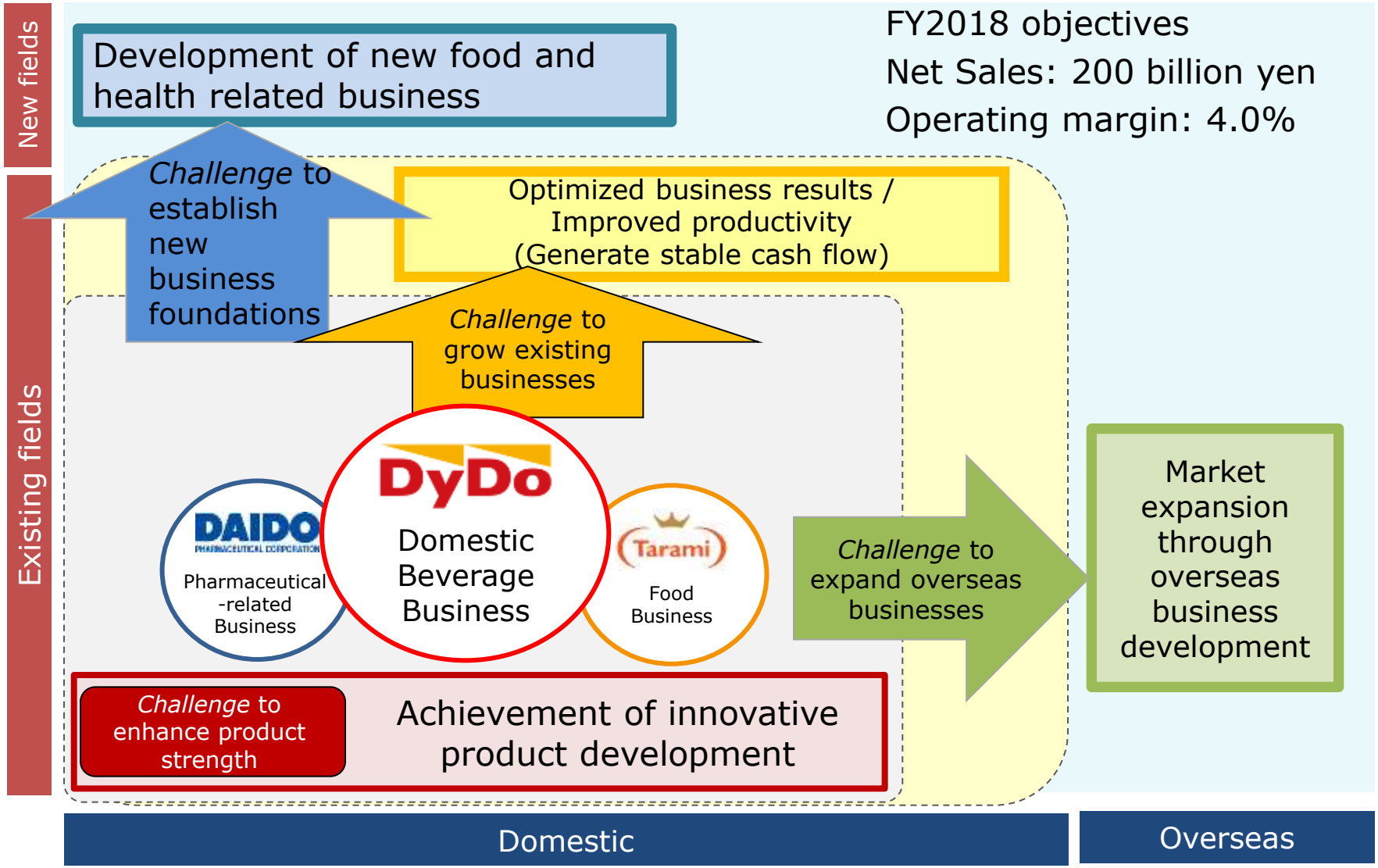
Group Slogan

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Offering delicious products
for the sound mind and body

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Mid-term Business Plan: "Challenge the Next Stage" - Four Challenges to the Next Stage -



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Business Strategy
- Challenge to Create Future-oriented Corporate Value -

Challenge to grow existing businesses

Work to increase cash flows on an ongoing basis by reforming the vending machine business model

Challenge to enhance product strength

Enhance the DyDo Blend brand and strive to make it the leading brand in its market segment

Challenge to expand overseas businesses

Achieve dramatic, top-line growth by accelerating the development of our overseas businesses

Challenge to establish new business foundations

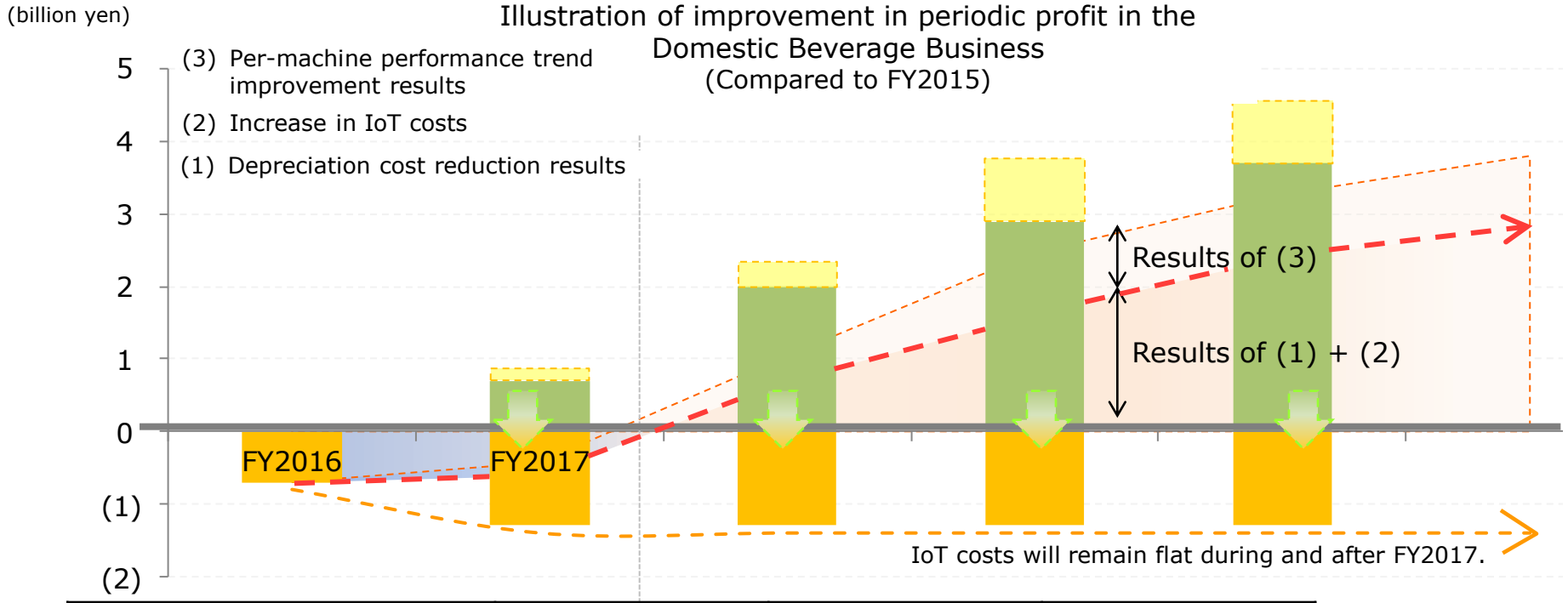
Establish new profit centers through an M&A strategy

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Facilitating Continued Increases in Cash Flow

Bringing innovation to our vending machine business model

(1) Lowering per-machine procurement costs while maintaining the number of installations
(2) Utilizing cost savings to boost investments in IoT-enabled vending machines
(3) Working to improve the per-machine performance trend by investing in IoT-enabled vending machines



Domestic Beverage Business	FY2015	FY2016	FY2017 (budget)
Capital expenditure	9.3 billion yen	6.8 billion yen	6.6 billion yen
Depreciation expenses	9.8 billion yen	9.8 billion yen	9.2 billion yen

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Developing Smile STAND





Display of points earned from "DyDo Smile STAND" vending machines



"Smile STAND vending machine" search screen



Information about DyDo brands and other DyDo services

Lottery

Smile SLOT



Everyone wins

LINEギフトコード

楽天スーパーポイント

©SQEX

©BNEI

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Launch of the Smile Town Portal

- Vending machines will evolve into information centers that disseminate information about the areas where customers live
- Vending machines in communities will deliver exciting information to customers’ smartphones



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Transformation into Information Centers

- The first step will be to work with Recruit lifestyle Co., Ltd., a company that provides lifestyle information about businesses such as restaurants and beauty salons
- Vending machines will disseminate information about such businesses located within a distance of 1 km



Purchase a beverage from a Smile STAND vending machine



Activate the exclusive app and wave phone in front of the vending machine to earn points



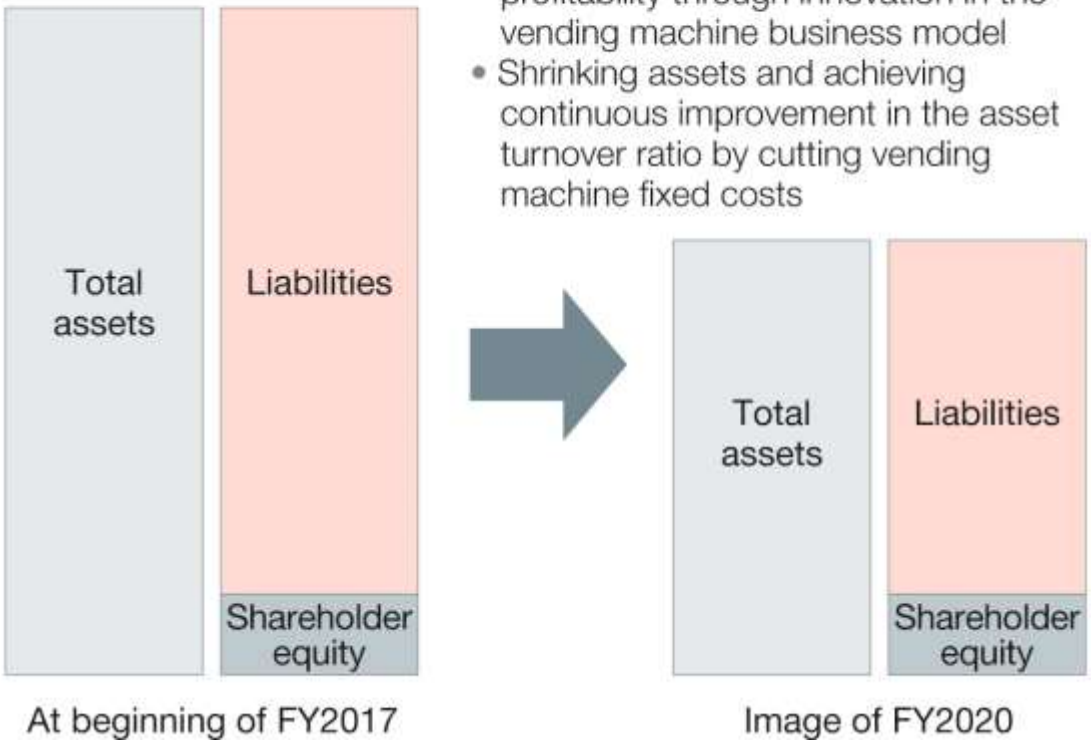
View information about nearby gourmet restaurants and beauty salons

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Facilitating Continued Increases in Cash Flow

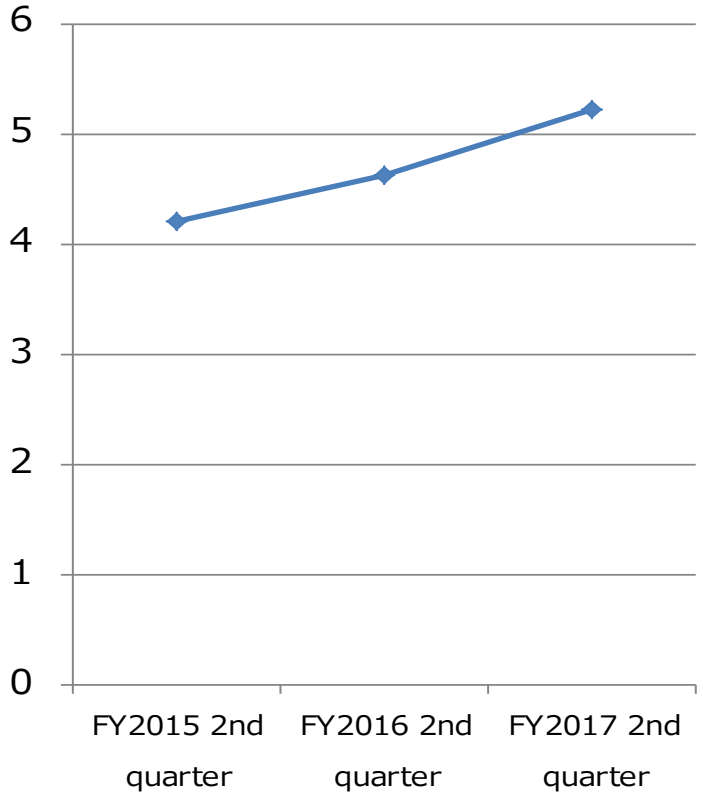
- Improving profitability by increasing sales and diversifying profit sources
- Continuously improving the asset turnover ratio and steadily increasing ROIC

Image of Domestic Beverage Business Balance Sheet



- Increasing net sales and improving profitability through innovation in the vending machine business model
- Shrinking assets and achieving continuous improvement in the asset turnover ratio by cutting vending machine fixed costs

Vending machine asset turnover ratio



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Making Vending Machines Essential as Infrastructure

- Developing a platform business based on networked vending machines
- Creating value through open innovation

DyDo's vision for the future of vending machines

Beverages

Health

Contribution to local communities

Information

Communication

Security





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Pharmaceutical-related Business Plans for building a new factory in the greater Tokyo area

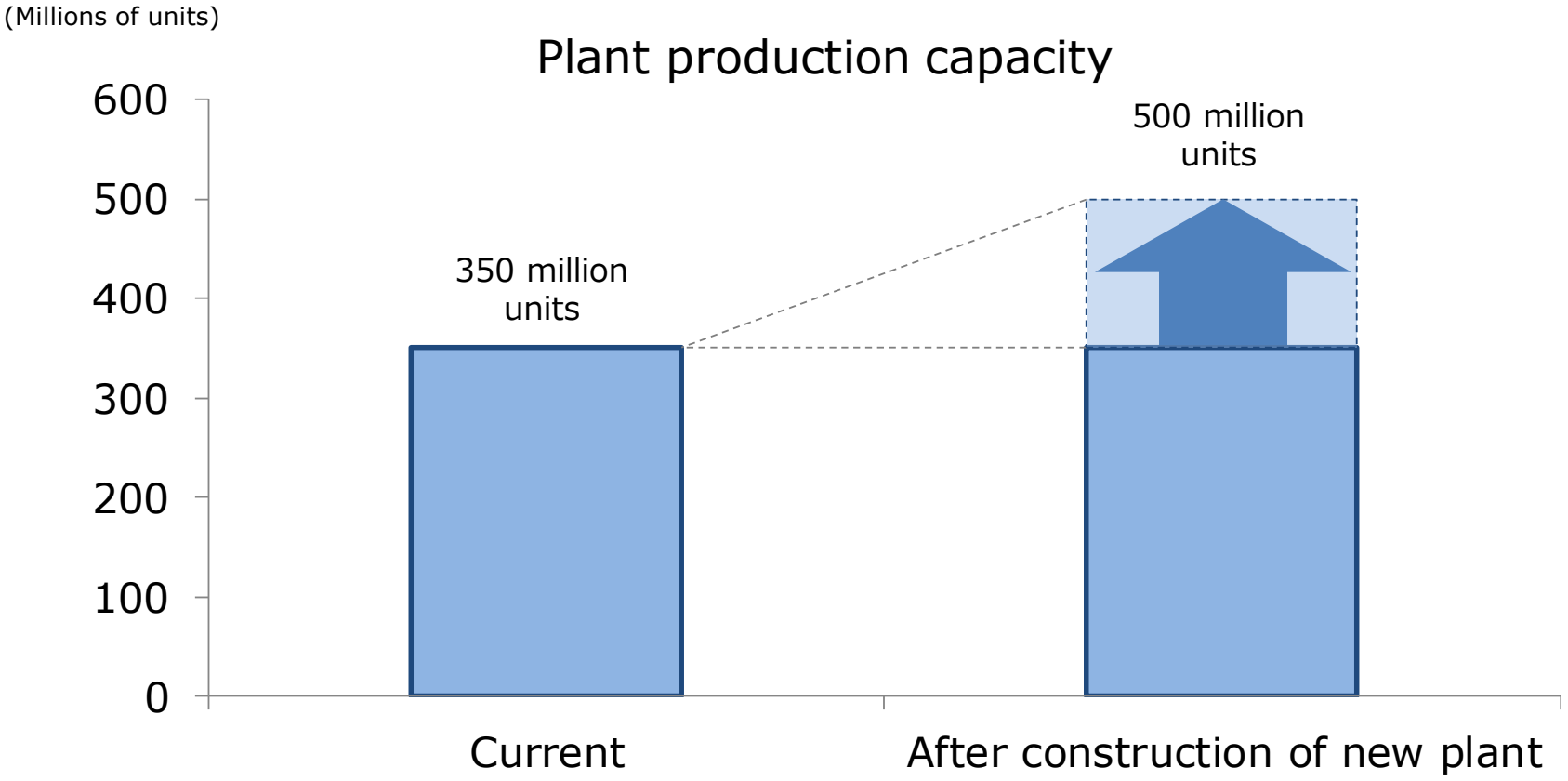
- DyDo Pharmaceutical Corporation will construct a new factory in the greater Tokyo area.
  - Objectives
    - To respond quickly to customer needs
    - To put in places structures to facilitate high manufacturing quality and stable supply
    - To disperse production risk as part of the company's BCP measures
  - Overview of the new factory

Name	Kanto Plant
Tentative site	No. 7, 110 Uchiya, Shimosagawada-cho, Tatebayashi-shi, Gunma Prefecture
Site area	About 27,000 m^2
Completion of construction	End of 2019
Planned start of operation	Start of 2020
Products	Drinkable preparations
Production capacity	150 million units per year
Capital investment	About 6 billion yen

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Pharmaceutical-related Business: Planning a New Plant in the greater Tokyo area

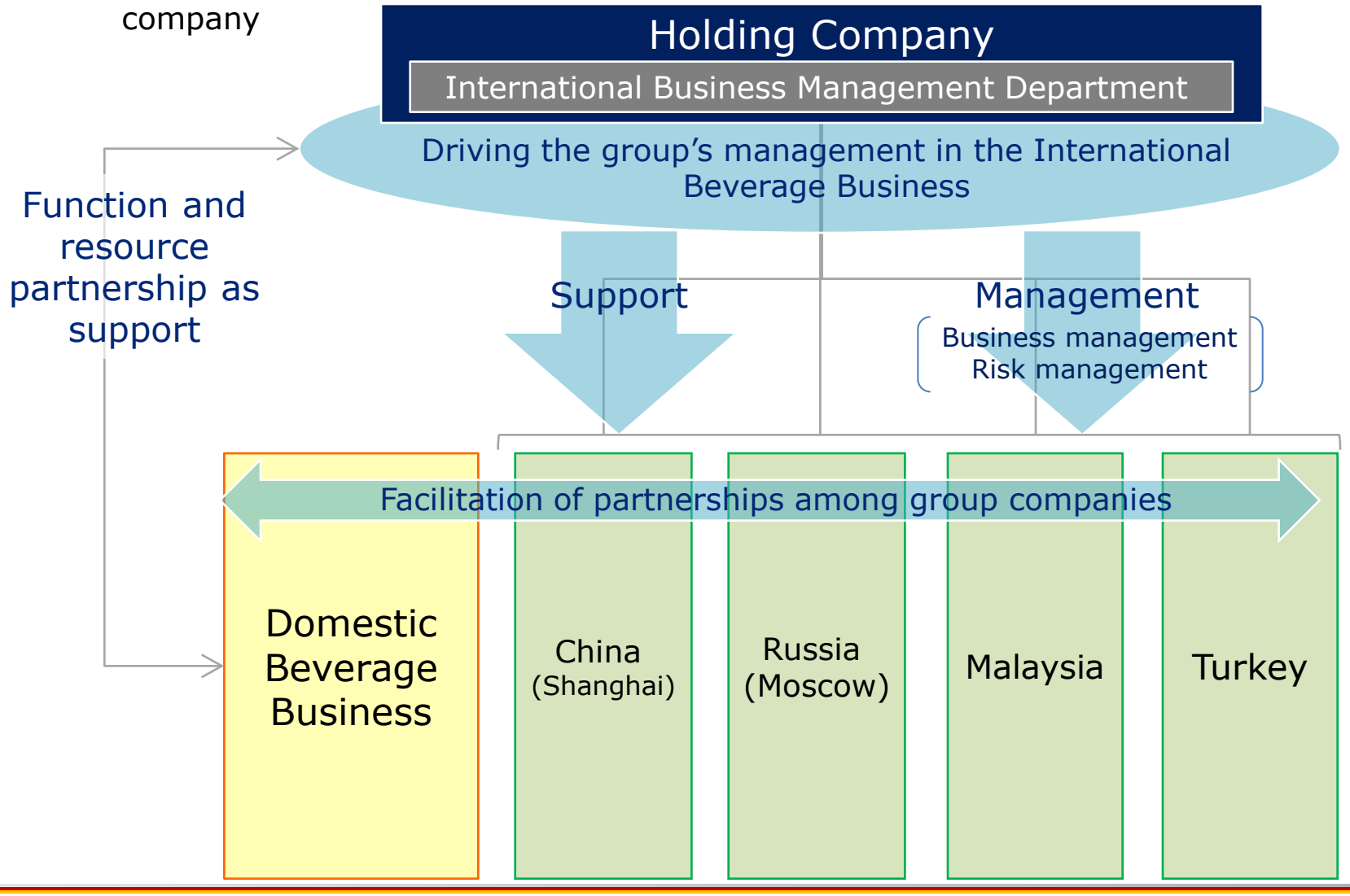
- Take advantage of the new plant's favorable location to strengthen cost competitiveness
- Increase the total production capacity of our two plants to 500 million units after construction of our new Kanto plant



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Strengthening and Nurturing International Beverage Business

Working to strengthen and nurturing the International Beverage Business by establishing the International Business Management Department at the holding company



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International Beverage Business: Creating Group Synergies

- We will host global meetings to facilitate human resources changes in order to create group synergies
- We will seek to share Halal expertise from the Islamic world along with unique Japanese product development expertise and to apply that knowledge in the countries where we do business

First global meeting

Presentation and discussion about the market environment in various countries and our future direction

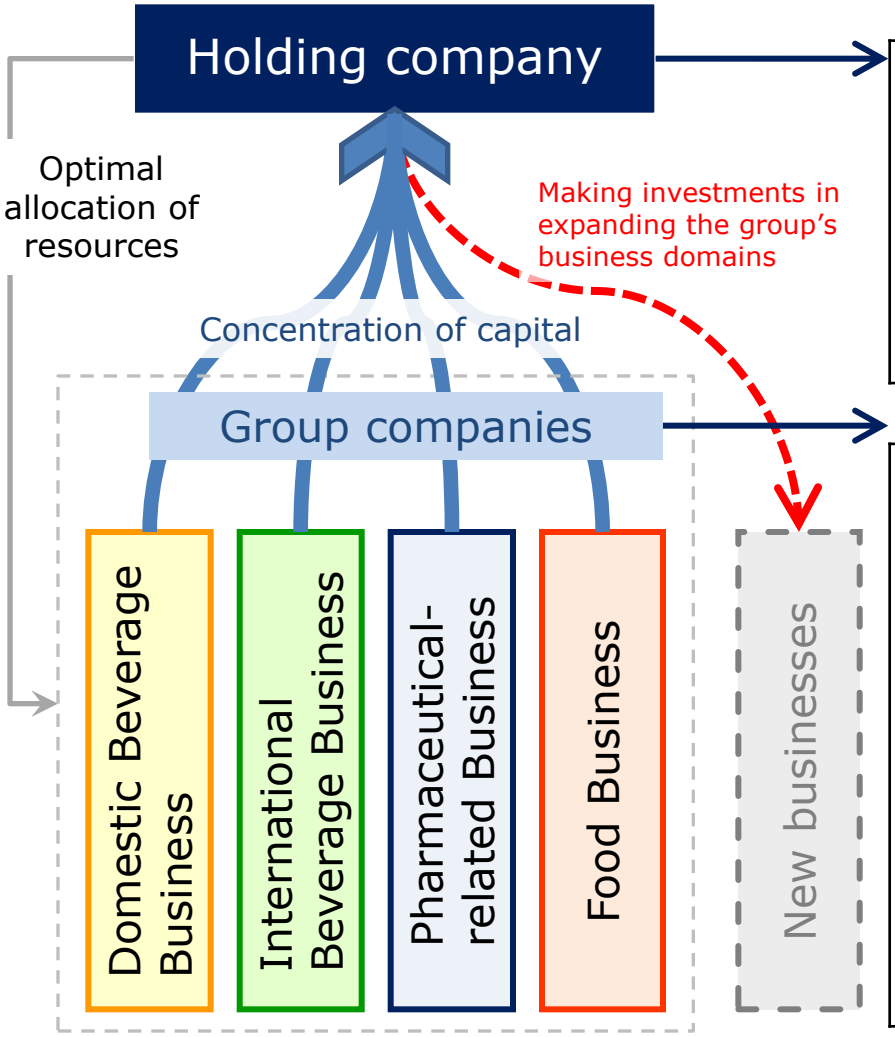




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Agile Response to Expansion of Business Domains

Improving capital efficiency

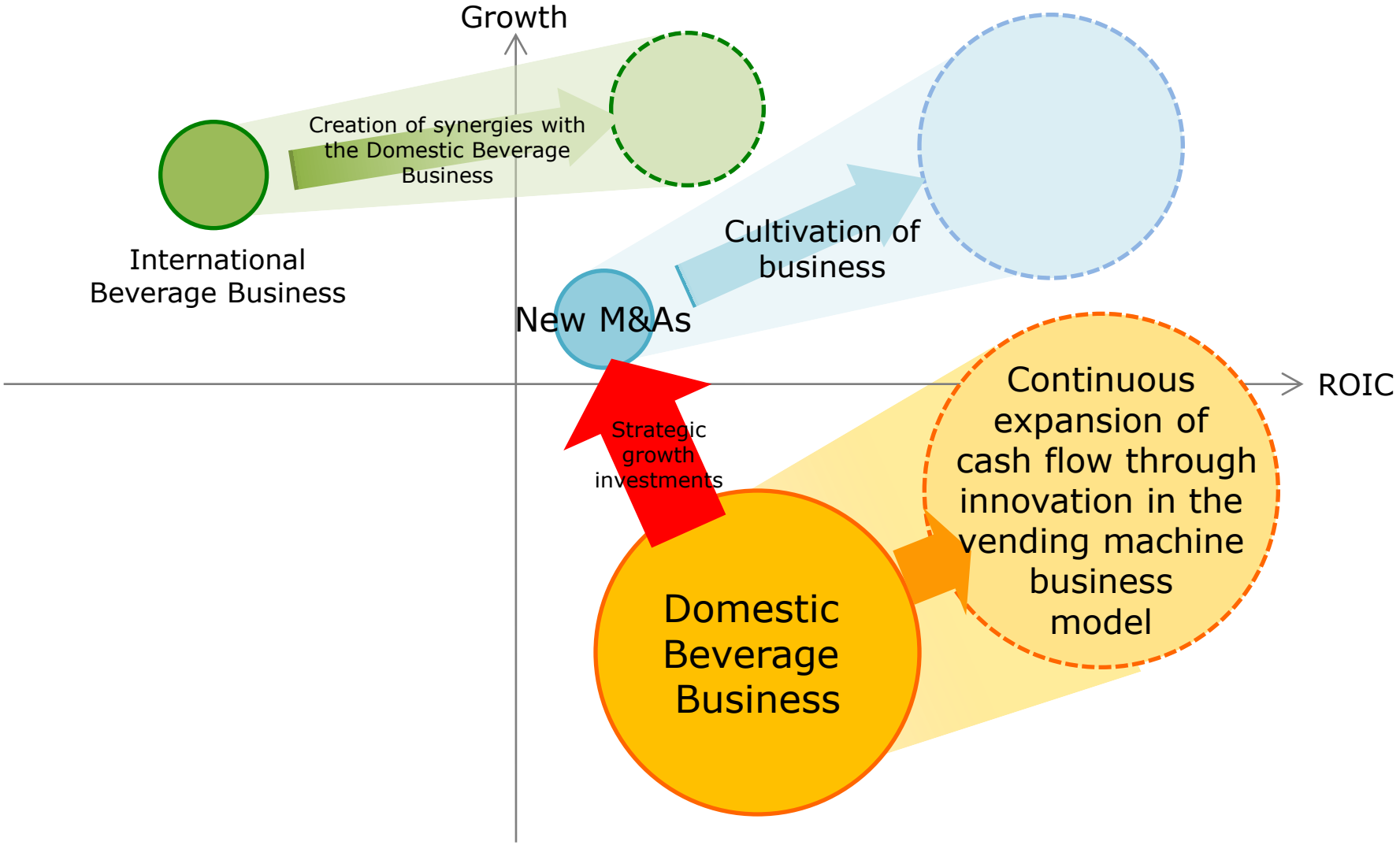


Profitability	Efficiency
[Roles of holding company]	
• Making strategic business investments • Allocating resources optimally	• Strengthening and expanding the group's portfolio of businesses • Optimizing the group's balance sheet
[Roles of group companies]	
• Strengthening the group's brands • Strengthening the group's services (sales capabilities and vending machines) • Optimizing costs	<u>Domestic Beverage Business</u> • Shrinking vending machine assets • Improving the asset turnover ratio <u>Pharmaceutical-related Business / Food Business / International Beverage Business</u> • Improving the plant operation ratio

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Direction of DyDo's Growth Strategy

Strengthening and enhancing the group's portfolio of business



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On Capital Policy and Returns to Shareholders

Returns to shareholders
Realizing sustainable, profitable growth

Effective use of capital
Establishing a new business foundation via strategic investment

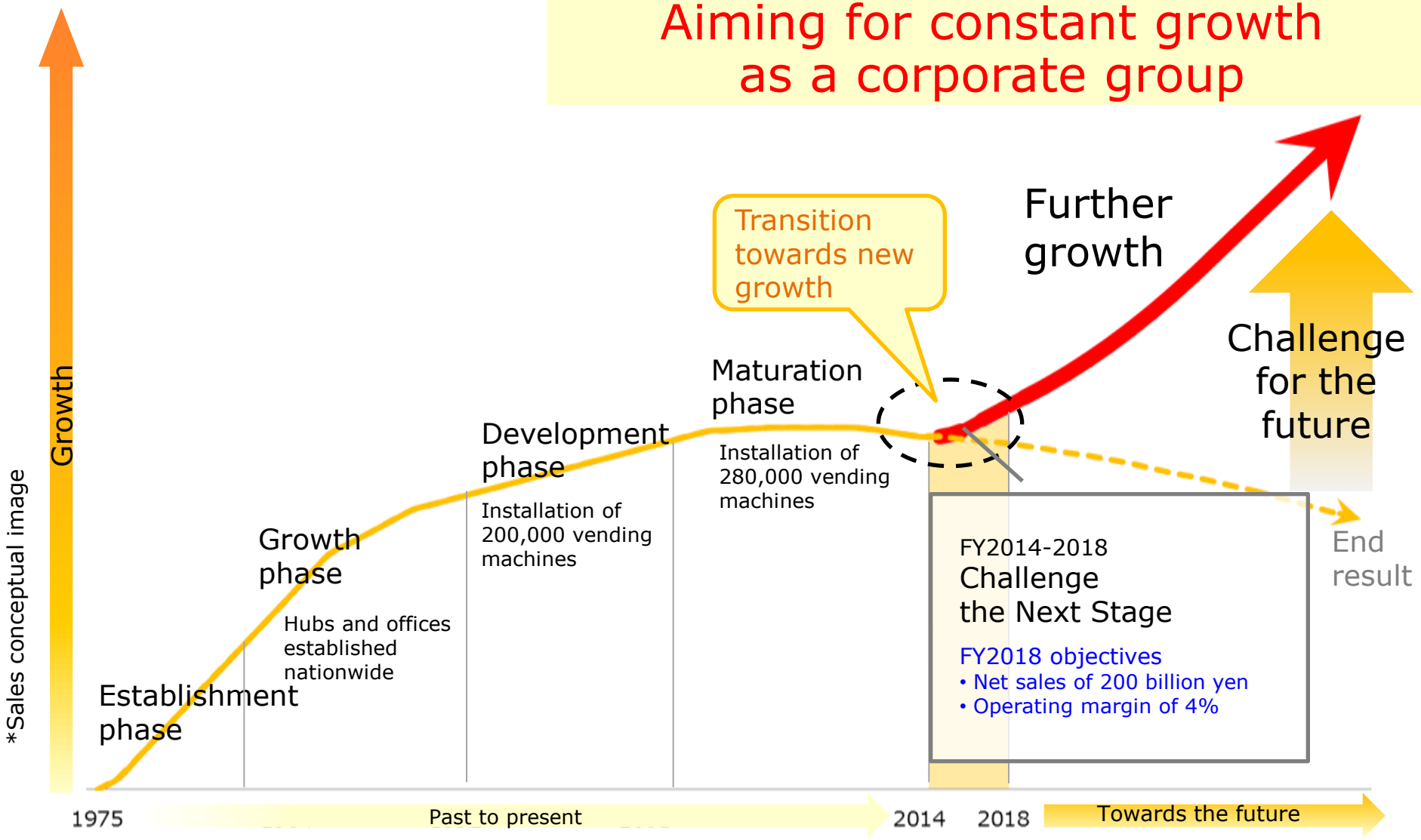
Maintaining fiscal soundness
Improving cash creation capacity in existing businesses

	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 ・Maintain financial foundation enabling ongoing strategic business investment
Returns to shareholders	・Continue to maintain stable dividends despite the severe earnings environment ・Aim to realize ongoing profit/growth for mid-term increased dividends

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Aiming for Constant Growth as a Corporate Group

Aiming for constant growth as a corporate group



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■ APPENDIX

FY2017 Consolidated Full-year Earnings Forecast

(Millions of yen)

	FY2016 full-year result	FY2017 full-year earnings forecast		
			%	Amount
Domestic Beverage Business	128,278	129,400	0.9%	1,122
International Beverage Business	16,735	19,100	14.1%	2,365
Pharmaceutical-related Business	9,068	9,500	4.8%	432
Food Business	18,013	18,180	0.9%	167
Adjustment	(695)	(680)	–	15
Total net sales	171,401	175,500	2.4%	4,099
Domestic Beverage Business	3,958	6,100	54.1%	2,142
International Beverage Business	(1,266)	(410)	–	856
Pharmaceutical-related Business	944	835	(11.5%)	(109)
Food Business	212	345	62.7%	133
Adjustment	9	(1,570)	–	(1,579)
Total operating income	3,857	5,300	37.4%	1,443

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Seasonal Fluctuations -Net sales-

(Millions of yen)

Consolidated

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	38,204	47,933	46,095	39,167	171,401
Ratio of full year (%)	22.3%	28.0%	26.9%	22.8%	100.0%
FY2017	38,940	47,862	–	–	–

Domestic Beverage Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	29,451	33,982	33,740	31,104	128,278
Ratio of full year (%)	23.0%	26.5%	26.3%	24.2%	100.0%
FY2017	29,698	34,331	–	–	–

International Beverage Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	2,939	5,729	5,012	3,053	16,735
Ratio of full year (%)	17.6%	34.2%	30.0%	18.2%	100.0%
FY2017	3,331	5,124	–	–	–

Pharmaceutical-related Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	2,288	2,352	2,325	2,101	9,068
Ratio of full year (%)	25.2%	25.9%	25.7%	23.2%	100.0%
FY2017	2,408	2,745	–	–	–

Food Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	3,717	6,091	5,196	3,008	18,013
Ratio of full year (%)	20.6%	33.8%	28.9%	16.7%	100.0%
FY2017	3,697	5,839	–	–	–

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Seasonal Fluctuations -Operating income-

(Millions of yen)

Consolidated

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	(391)	2,671	2,144	(566)	3,857
Ratio of full year (%)	—	69.3%	55.6%	—	100.0%
FY2017	(53)	2,211	–	–	–

Domestic Beverage Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	(103)	2,068	1,680	312	3,958
Ratio of full year (%)	—	52.3%	42.5%	7.9%	100.0%
FY2017	354	2,029	–	–	–

International Beverage Business

- Before amortization of goodwill
- FY2016 does not include fees associated with the acquisition of the Turkish business.

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	(87)	6	72	(649)	(657)
Ratio of full year (%)	—	—	—	—	100.0%
FY2017	(278)	(111)	–	–	–

Pharmaceutical-related Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	252	256	271	164	944
Ratio of full year (%)	26.7%	27.2%	28.7%	17.4%	100.0%
FY2017	354	344	–	–	–

Food Business

- Before amortization of goodwill

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2016	(60)	535	304	(214)	564
Ratio of full year (%)	—	94.9%	53.9%	—	100.0%
FY2017	16	440	–	–	–

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□ The Business Model of DyDo Group

DyDo Group Business Segments

- Three businesses with unique business models and a growing international beverage business

DyDo Group Holdings Inc.

Domestic Beverage Business

- DyDo DRINCO, Inc.
- DyDo Beverage Service, Inc. etc.



International Beverage Business

Countries in which we have operations:
- Turkey
- Malaysia
- Russia
- Others



Pharmaceutical-related Business

- DAIDO Pharmaceutical Corporation



Food Business

- Tarami Corporation



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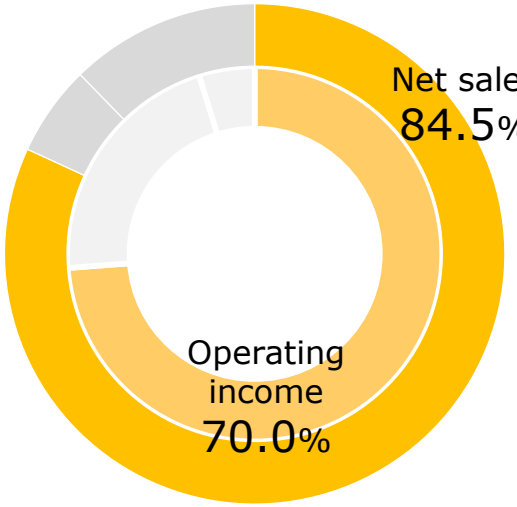
Domestic Beverage Business

At the core of the DyDo Group: Domestic Beverage Business

- DyDo DRINCO (Osaka, Osaka Prefecture)
- DyDo Beverage Service (Osaka, Osaka Prefecture)

Others

Beverage businesses as a percentage of overall performance (including International Beverage Business, FY 2016 results)





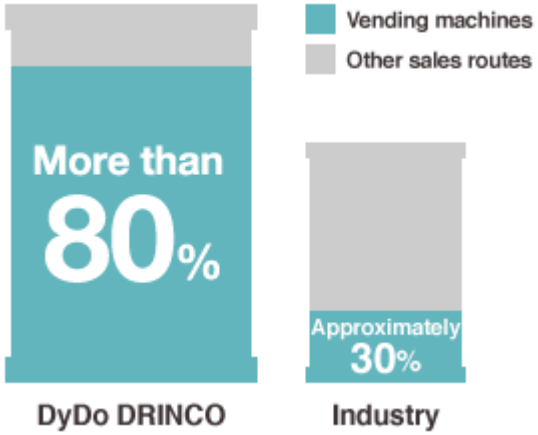


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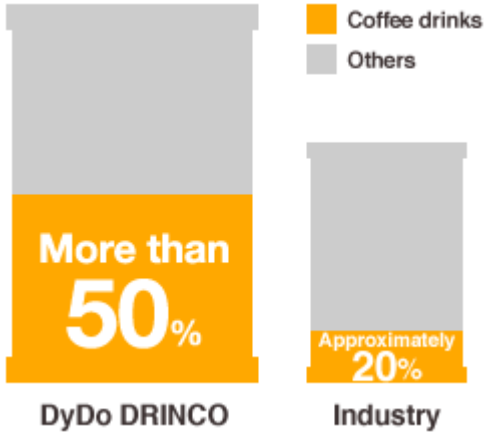
Key Features / Strengths of Domestic Beverage Business

Securing steady profit with sales of coffee from vending machines

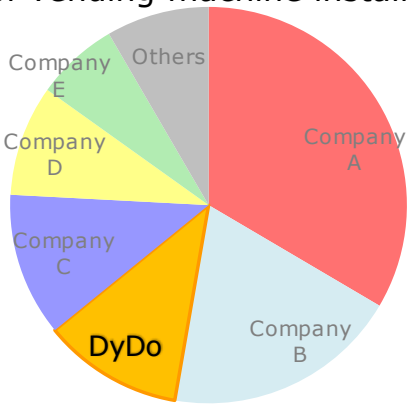
Vending Machine Sales account for more than 80%



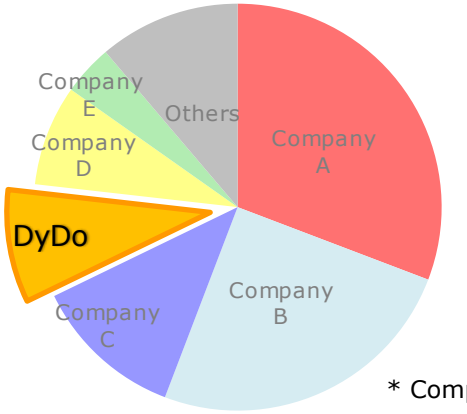
Coffee sales account for more than 50%



Share of vending machine installed base



Share of coffee drink sales

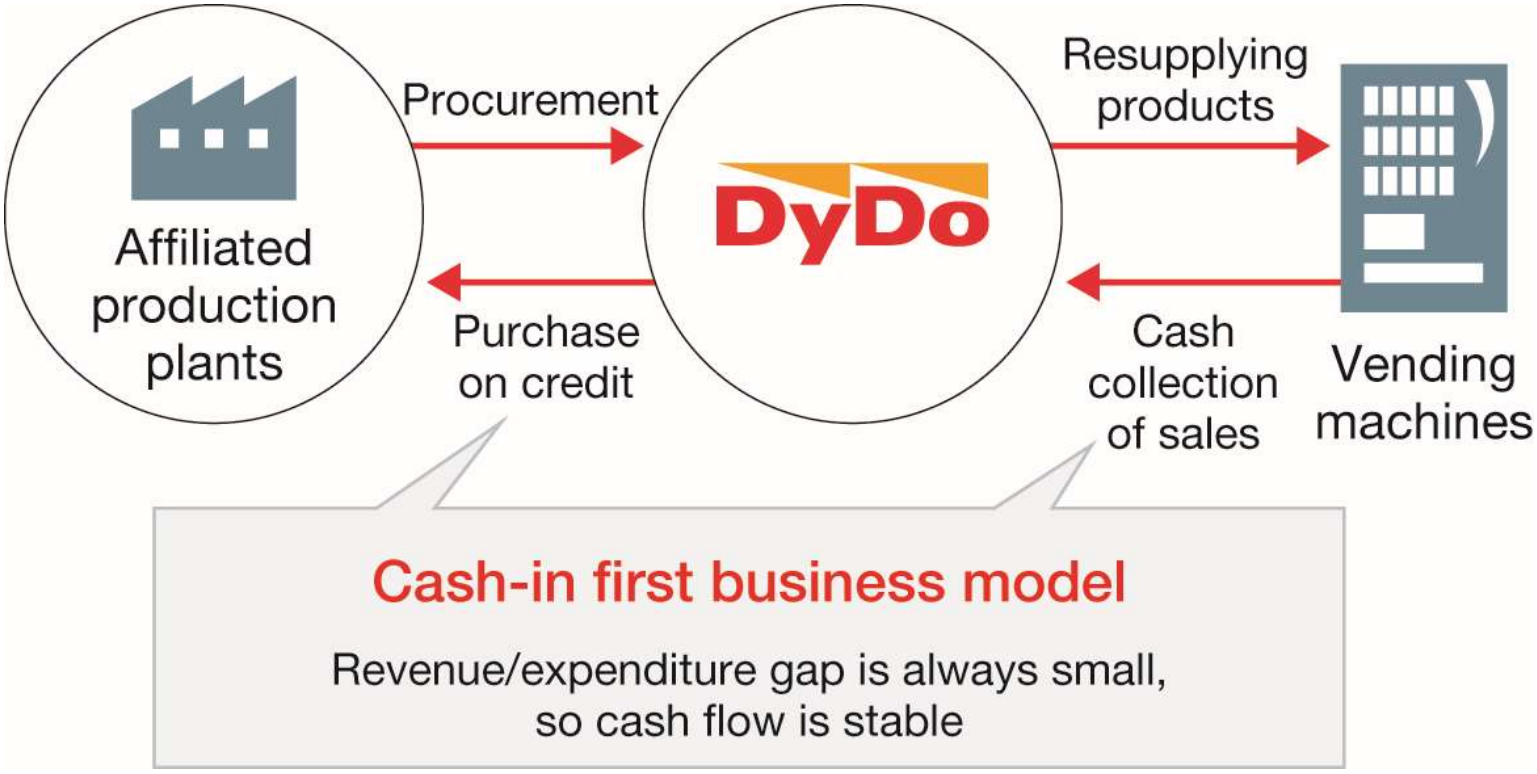


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Key Features / Strengths of Domestic Beverage Business

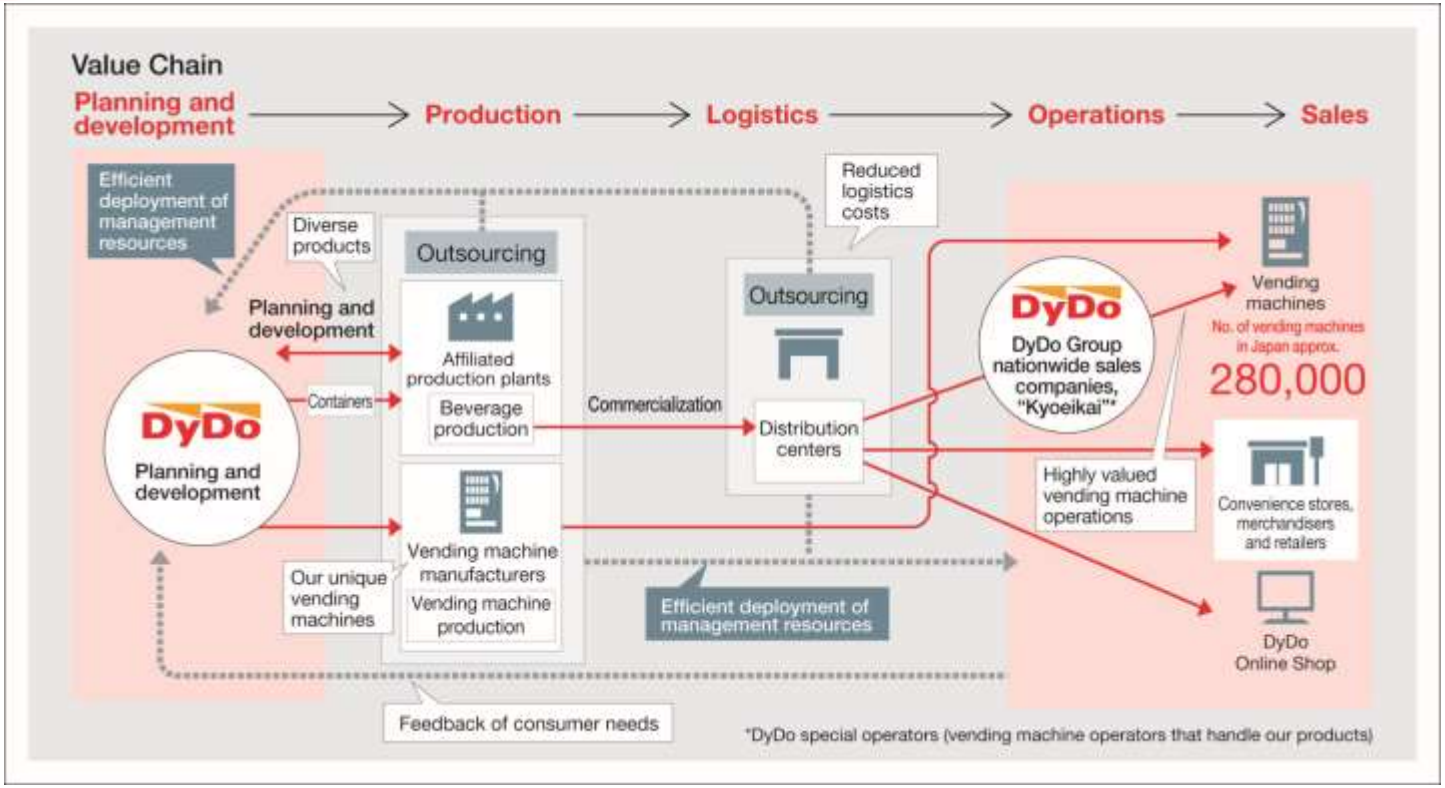
- Building a solid financial base through “fabless” management



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Domestic Beverage Business: Business Model



Issues and Future Strategy

The vending machine channel that is DyDo DRINCO's foundation has the feature that sale prices are stable, and thus although the marginal profit rate is high, fixed costs are also high, and there are major differences in general distribution channels and revenue structure. Therefore, if net sales are increased while also reducing fixed costs, the result can be a dramatic improvement in profitability.

The business climate for vending machine-based business continues to be severe due to current trends such as the increasing frugality of consumers and the increasing level of competition with convenience stores. However, at DyDo DRINCO, we are raising the percentage of vending machines installed at in-office locations and other places that continue to be seen as a steady source of sales, while also working to maximize sales by further improving the attractiveness of vending machine purchases through efforts such as high-quality operations and expanded deployment of IoT-enabled vending machines. We are also working to revamp our cost structure by reducing fixed costs through efficient procurement of vending machines and lengthening their lifespans.

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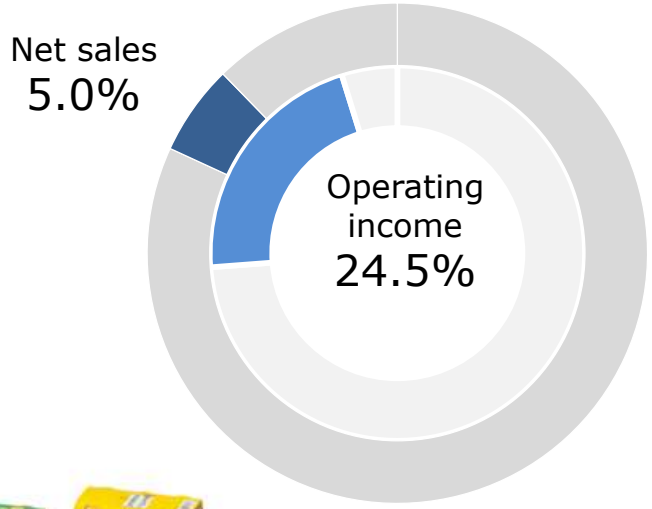
Pharmaceutical-related Business

- We're developing a business that specializes in drinkable preparation OEM operations

DAIDO PHARMACEUTICAL CORPORATION

- DAIDO Pharmaceutical Corporation (Katsuragi, Nara Prefecture)

- Pharmaceutical-related Business as a percentage of overall performance
(FY 2016 results)







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Key Features / Strengths of the Pharmaceutical-related Business

- We've involved in research, planning, development, and manufacturing of drinkable preparations, and we offer contract manufacturing services to major pharmaceutical, cosmetics, and health food manufacturers.



Joint development with more than 100 manufacturers

- We've maintained high profitability by leading the industry in performance through involvement with the development of about 50 products every year, from pharmaceuticals and quasi-drugs to beverages.



Operating margin of greater than 10%

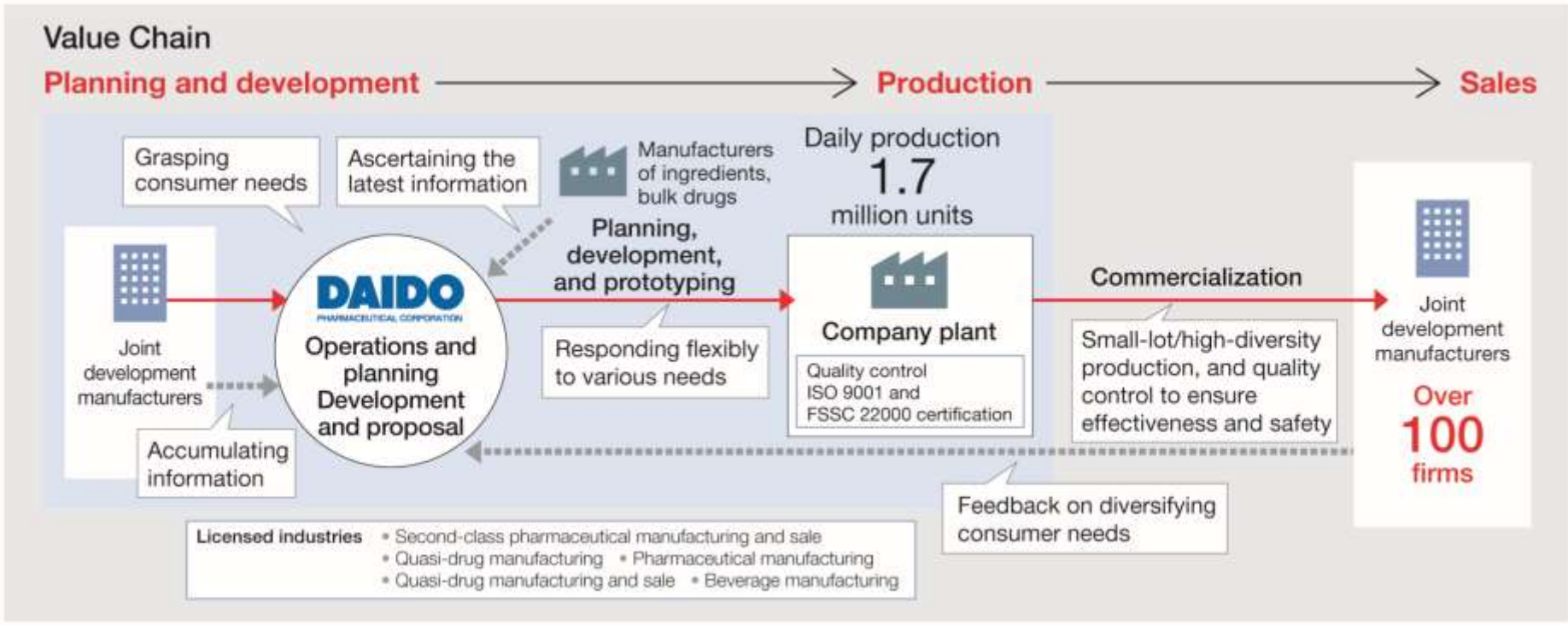
- We're striving to reach new highs and create appealing plants in an effort become No. 1 in product quality by maintaining and strengthening our safe and secure production system.



Leading performance in the industry

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Pharmaceutical-related Business: Business Model



Issues and Future Strategy

The climate in the nutritional drink market is severe due to aging of the core user segment and the emergence of new markets, such as growth of the energy drink market. In the overall pharmaceuticals/health field, on the other hand, there are prospects for new demand due, for example, to the increasing need for products for international export in the category of beauty tonics. DAIDO Pharmaceutical Corporation will pioneer these new markets, and at the same time we will aim as a group to expand our field of business, including acquisition of new business domains through M&A.

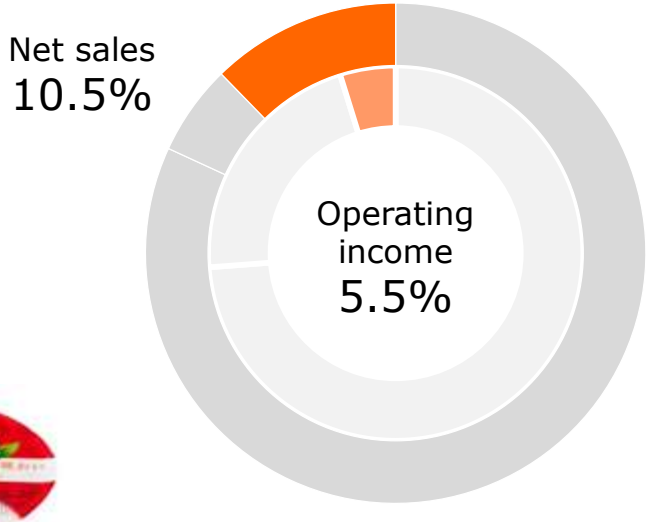
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Food Business

- Manufacture and sale of fruit dessert jellies

- Tarami (Nagasaki, Nagasaki Prefecture)

- Food Business as a percentage of overall performance (FY 2016 results)



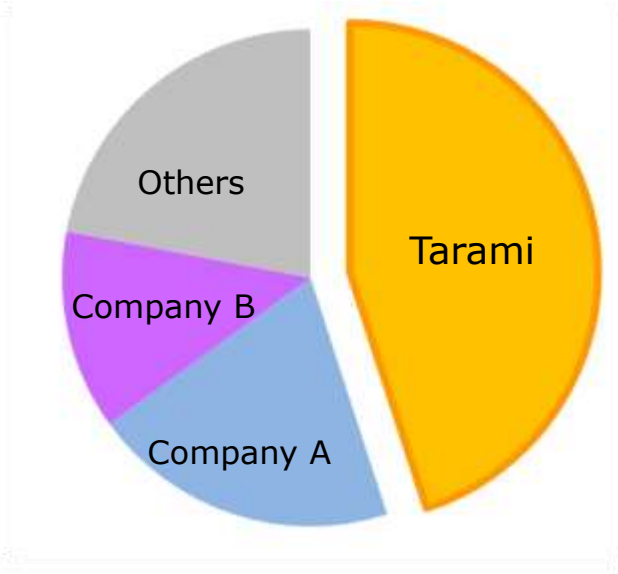


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Key Features / Strengths of the Food Business

- Tarami became a wholly owned subsidiary in June 2012 and today contributes to consolidated performance as the Group's third main contributor.
- Thanks to high name recognition and brand strength, we've maintained top share in the fruit dessert jelly market.
- Going forward, we plan to develop higher-added-value products, new markets, and sales channels while building an unshakable position in the fruit dessert jelly market.

- Dry jelly market share

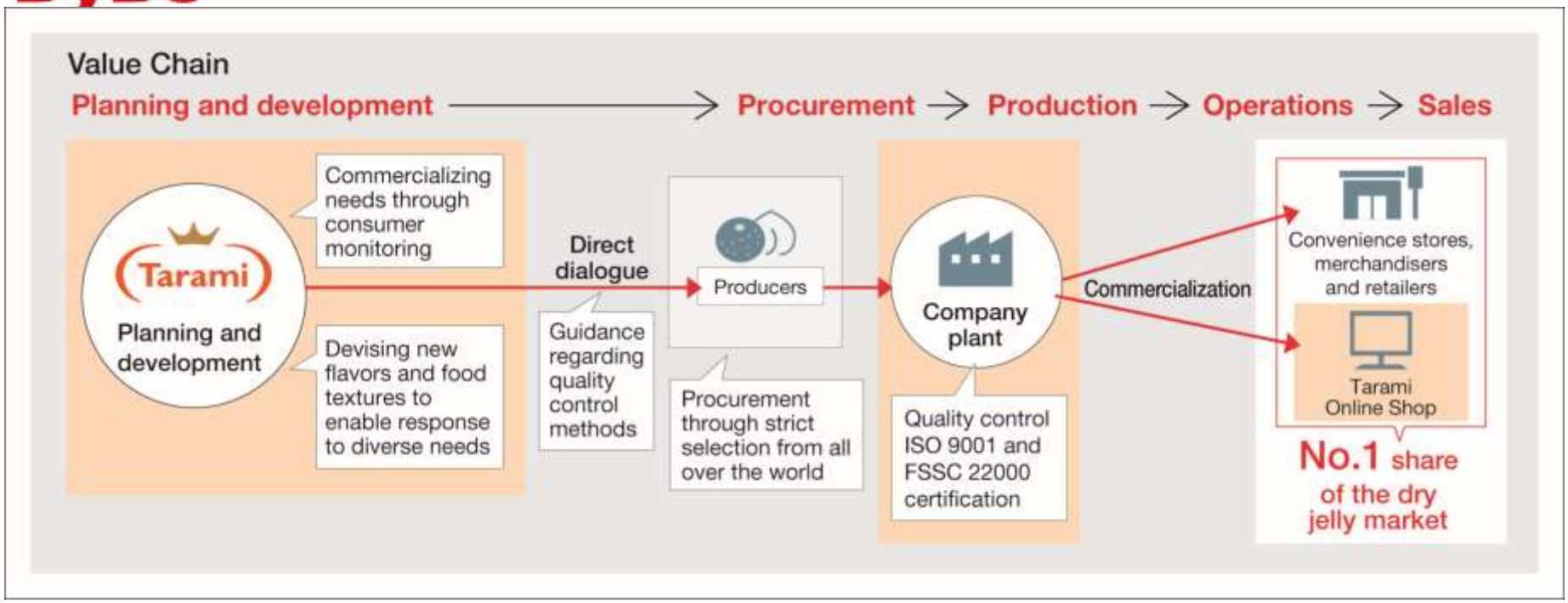




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Food Business: Business Model



Issues and Future Strategy

In the food industry, there are issues with increasing raw material unit and logistics costs as well as a reduction of market scale due to Japan's decreasing population. Also, competition is intensifying in the jelly industry. Tarami will meet these challenges from every direction, with the aim of improving added value of products and transforming to a business model which continuously generates profits under such business conditions. Tarami will strive to differentiate itself from other companies and improve its brand value through a broad range of initiatives. In specific terms, we will continue to create products which meet the multifaceted needs of customers and generate surprise and wonder, improve the efficiency of production through strenuous work to control raw material and manufacturing costs and curb loss, make new efforts to attract customers and promote products, develop international business, and ensure thoroughgoing commitment to food safety through a stringent response based on the FSSC 22000 certification the company has acquired.

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International Beverage Business: Turkish Business

Long-term vision	Looking toward the EU based on growth in the Turkish market

Current business conditions

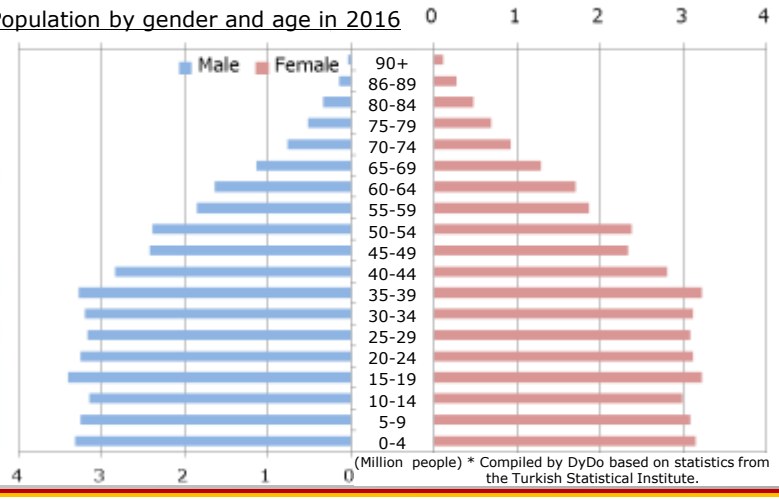
S • Brands with high name recognition, for example ÇAMLICA, Saka, and İçim • Five manufacturing factories in Turkey (in northern and southern Turkey)	**W** • Relatively low market share • High degree of dependence on Yildiz
O • Potential for market growth as the result of the country's growing population • Drinking of coffee and tea as an entrenched custom • Potential of new product categories	**T** • Inflation rate • Exchange rate fluctuations • Geopolitical risk

Action plan

- Bring sales structures in-house
- Focus on core brands and streamline promotional efforts
- Streamline operations by relocating manufacturing lines
- Embrace the challenge of harnessing Japanese expertise to create new product categories



Population by gender and age in 2016



(Million people) * Compiled by DyDo based on statistics from the Turkish Statistical Institute.

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International Beverage Business: Malaysian Business

Long-term vision	Looking toward the Middle East and ASEAN as strategic bases in the Islamic world

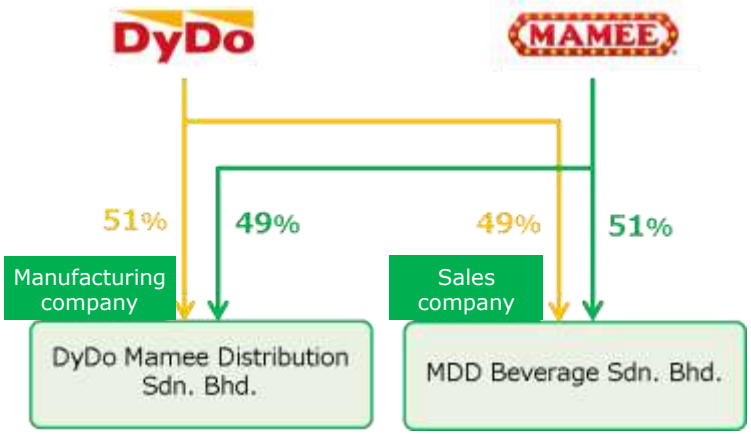
Current business conditions	
• Joint venture with Mamee, one of Malaysia's leading snack manufacturers • Mamee's sales capabilities • Dry and chilled products manufacturing factories	• Relatively low market share • Issues with growing core brands
• Perception that Japanese products have high quality • High market growth potential	• Downward pressure on prices due to intensifying competition

S W O T

Action plan

- Focus on chilled products; grow brands
- Achieve stable sales of beverages (dry); ensure promotional tools are effectively utilized
- Harness Japanese expertise to launch new products

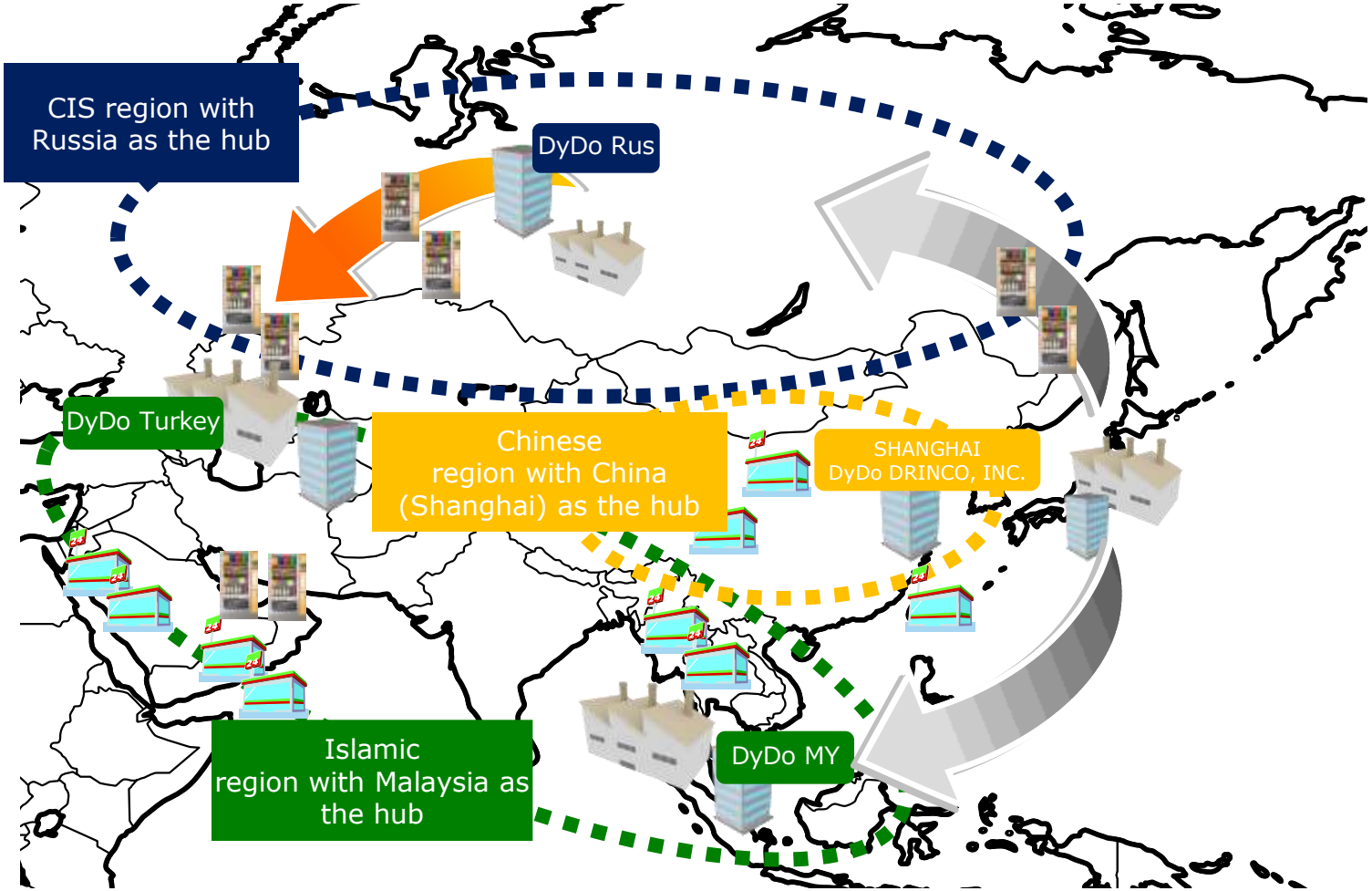




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Future vision for the International Beverage Business

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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Achieving New Growth against the Backdrop of a Stable Financial Foundation

Consolidated balance sheet status (as of January 20, 2017)

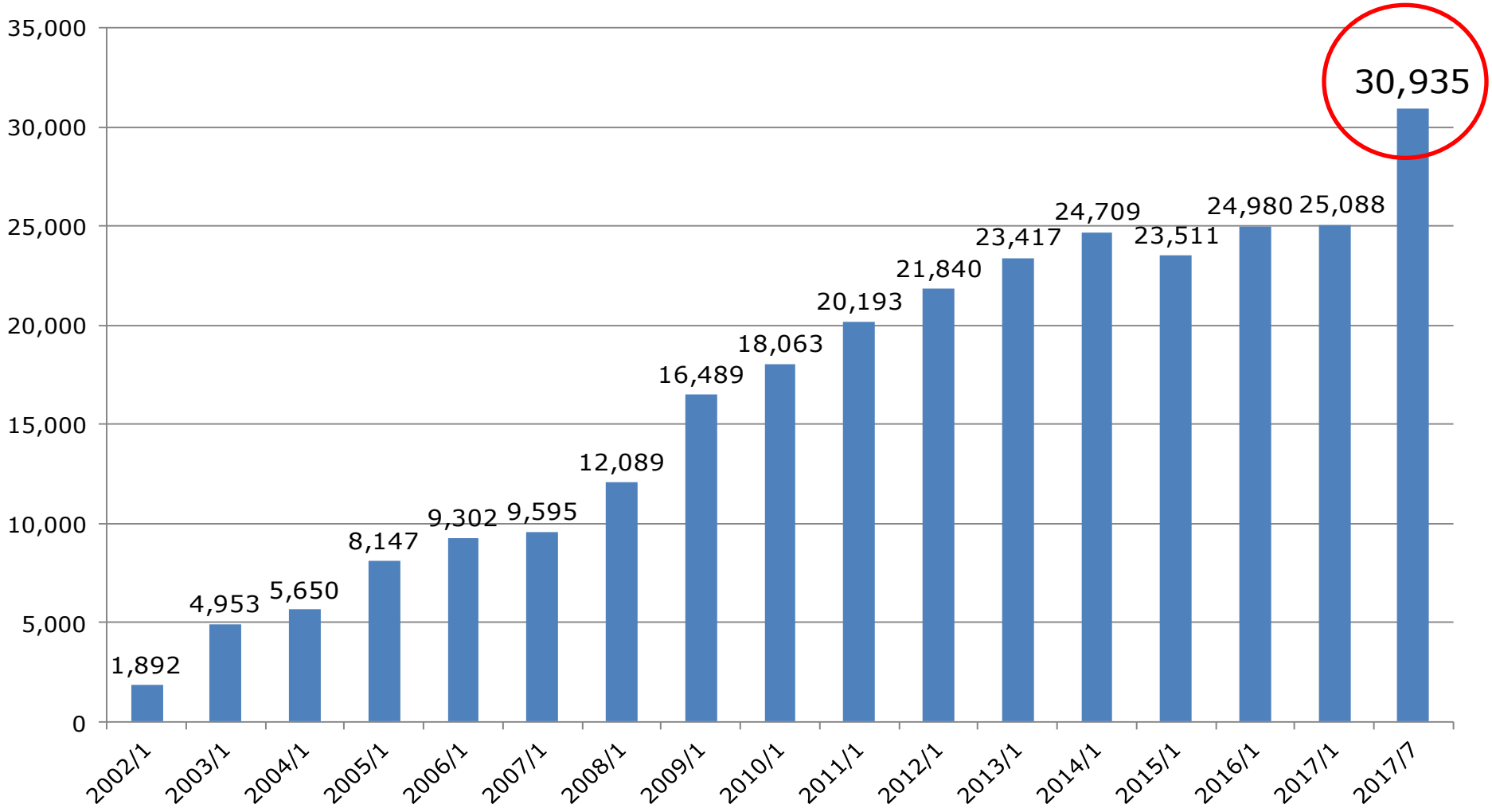
(Millions of yen)

Financial assets	73,466	Interest-bearing debt	37,738
		Accounts payable	19,908
		Accrued liabilities	11,158
		Other liabilities	9,373
Receivables	17,955		
Inventory assets	8,470		
Other assets	63,979	Net assets	85,693

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Number of Shareholders



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