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DyDo

FY2017 (Year Ended January 20, 2018) Financial Briefing Materials

DyDo Group Holdings Inc.

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

March 2, 2018

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1. Progress in the “Challenge the Next Stage” Mid-term Business Plan and Future Growth Outlook

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.

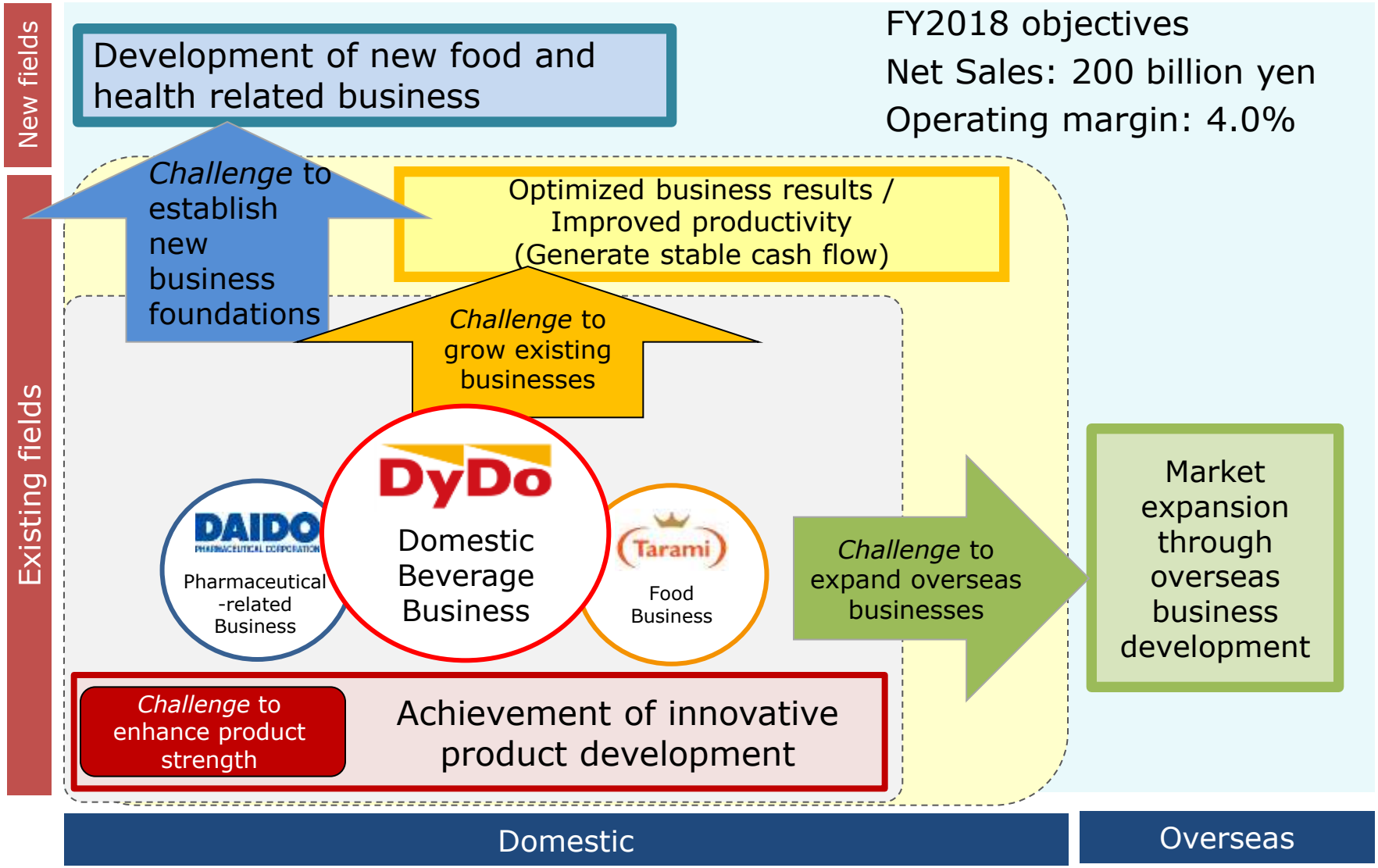
Group Slogan

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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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Progress in the "Challenge the Next Stage" Mid-term Business Plan

	Progress in four challenges		Group vision implementation and sustainable growth initiatives
	Results to date	**Issues to address**	
Challenge to grow existing businesses	• We made progress in reforming our fixed cost structure. • We developed as a "Frontier Vendor" that combines environmental friendliness with cost savings. • We installed 50,000 "DyDo Smile STAND" vending machines with IoT functionality as of the end of the fiscal year	• Dealing with declining sales per vending machine • Promoting installation of vending machine in offices and other spaces with the potential to generate high sales • Optimizing our product lines for individual vending machines • Expanding the number of "DyDo Smile STAND" users	Together with society • Transforming vending machines into social infrastructure • Creating new added value for vending machines • Pursuing sustainability with a vending machine business that takes into consideration people, society, and the environment
Challenge to enhance product strength	• We cultivated increased consumer appetite for the "DyDo Blend" brand and expanded the range of contacts we enjoy with customers. • We improved the market position of the "Supervised by the World's Top Barista*" and "Calolimit" brands.	• Dealing with the diversification of customer values and consumption behavior • Dealing with the diversification of customers' needs with regard to delicious flavor and health • Developing products that earn customers' empathy	Together with customers • Recruiting, retaining, and developing the careers of a diverse workforce of employees capable of innovating • Integrating outside knowledge and R&D capability (open innovation)

*Pete Licata, 14th World Barista Championship winner

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Progress in the "Challenge the Next Stage" Mid-term Business Plan

	Progress in four challenges		Group vision implementation and sustainable growth initiatives
	Results to date	**Issues to address**	
Challenge to expand overseas businesses	• We acquired strategic bases in the Islamic world (Turkey and Malaysia). • We undertook initiatives to strengthen the value chain and rebuild our business model in Turkey.	• Reforming our business in Malaysia, Russia, and China • Strengthening and expanding product lines that accommodate growing interest in health worldwide	Together with future generations • Developing high-quality products that combine Japanese and local expertise • Creating a "DyDo Standard" that transcends conventional frameworks
Challenge to establish new business foundations	• We put in place structures capable of dealing with expanding business domains in an agile manner. • We narrowed down our focus in the healthcare domain, for example in the life sciences, and recruited specialized staff.	• Acquiring specialized staff, knowledge, expertise, and technology related to health and pharmaceuticals • Pioneering new markets to accommodate the increase in healthy lifespan	Together with people • Resolving social issues by providing value through pharmaceuticals • Offering delicious products for the sound mind and body in a way that goes beyond the boundaries of beverages, foods, and pharmaceuticals

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Progress in the "Challenge the Next Stage" Mid-term Business Plan and Future Growth Outlook

- Identifying the healthcare market as the next growth area and embracing the challenge of achieving new success in that domain

- Demographic changes in Japan's population
- Major trend toward growing interest in health worldwide

Sustained growth

Creating new value by accommodating health trends

Creating medium- and long-term corporate value by investing in invisible assets

FY2014 to FY2016
Development of a growth-oriented infrastructure

FY2017
First step toward dramatic new growth: Transition to a holding company structure

FY2018 and beyond
The challenge of achieving new success

Spreading the Group Philosophy

Cultivating a corporate culture that embraces challenges

Strengthening governance structures

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2. Overview of Results

Overview of Consolidated Financial Information for FY2017

- Strong performance in the Pharmaceutical-related Business made a significant contribution to our consolidated results
- Ordinary profit rose 43.8%, due in part to a decline in non-operating expenses such as interest payments
- During the previous year, we posted negative goodwill as extraordinary income
- We posted extraordinary losses totaling 516 million yen during the fiscal year under review, including impairment losses of 431 million yen in the International Beverage Business and losses on the appraisal of affiliate shares of 84 million yen.

(Millions of yen)

	FY2016 3rd quarter results		FY2017 3rd quarter results			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	171,401	100.0%	172,684	100.0%	0.7%	1,283
Operating profit	3,857	2.3%	4,891	2.8%	26.8%	1,033
Ordinary profit	3,741	2.2%	5,382	3.1%	43.8%	1,640
Profit attributable to owners of parent	3,269	1.9%	2,504	1.5%	(23.4%)	(764)
EPS	197.34 yen		151.73 yen		(23.1%)	(45.61 yen)
Dividend per share	60 yen		60 yen		-	-

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FY2017 Consolidated Earnings - Net sales/Operating profit -

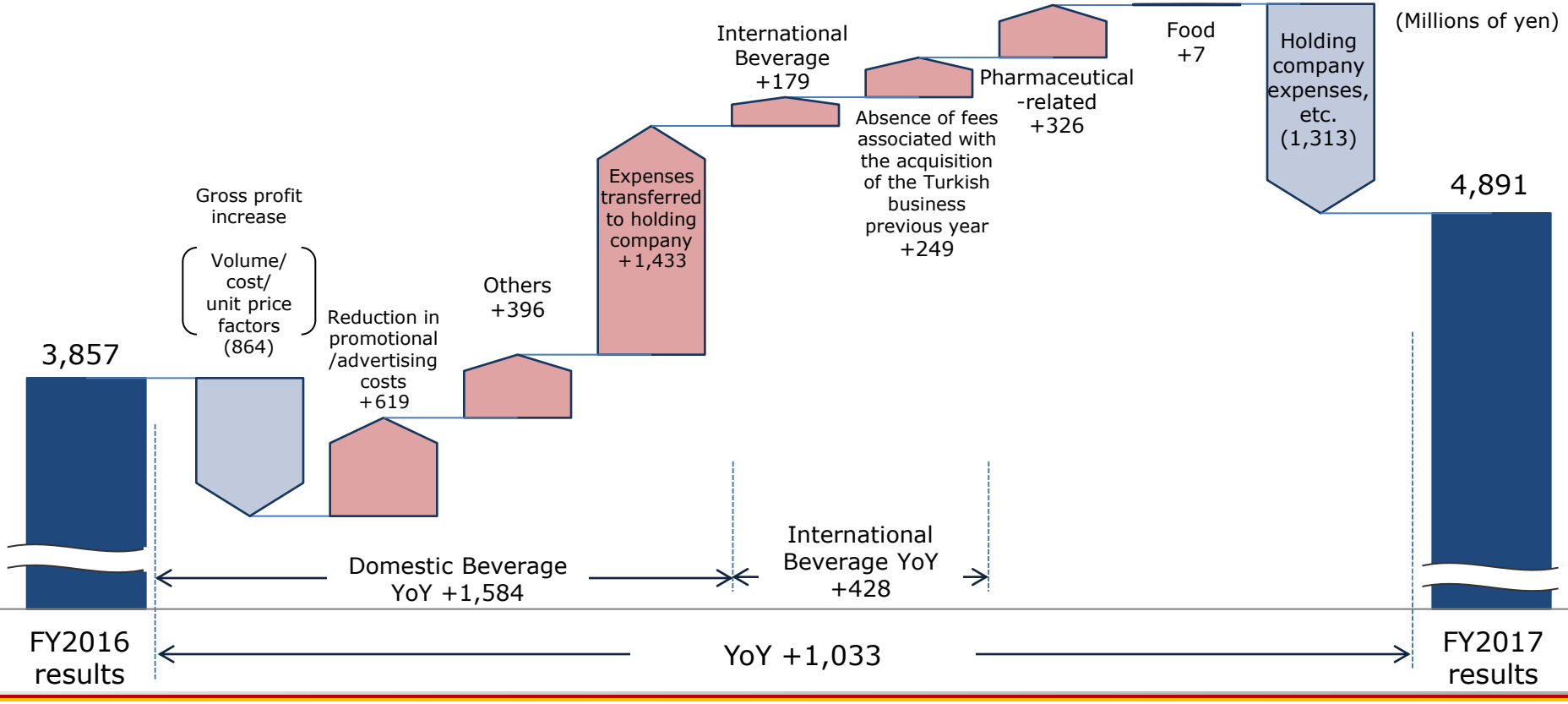
(Millions of yen)

	FY2016 Results	FY2017 Results	FY2017 % (YoY)	FY2017 Amount (YoY)
Domestic Beverage Business	128,278	126,712	(1.2%)	(1,565)
International Beverage Business	16,735	18,547	10.8%	1,811
Pharmaceutical-related Business	9,068	10,536	16.2%	1,468
Food Business	18,013	17,560	(2.5%)	(453)
Adjustment	(695)	(673)	–	22
Total net sales	171,401	172,684	0.7%	1,283
Domestic Beverage Business	3,958	5,542	40.0%	1,584
International Beverage Business	(1,266)	(838)	–	428
Pharmaceutical-related Business	944	1,271	34.6%	326
Food Business	212	219	3.3%	7
Adjustment	9	(1,303)	–	(1,313)
Total operating income	3,857	4,891	26.8%	1,033

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Factors Driving Increases/Decreases in Operating Income for FY2017 - Year-on-Year Comparison -

- The Pharmaceutical-related Business posted strong performance, with growth in both new and existing orders
- In the International Beverage Business, sales of mineral water in our Turkish beverage business grew significantly
- Large profits in the Domestic Beverage Business were caused primarily by the transfer of expenses our holding company



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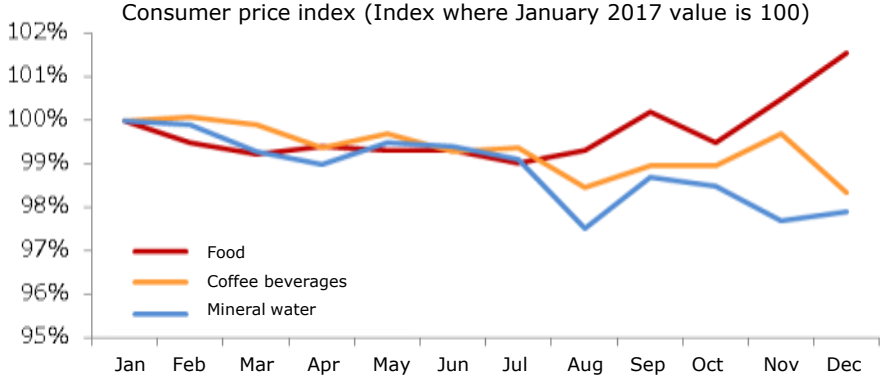
Trends in the Beverages Industry

- Market prices have trended down since the second half of 2017
- There has been an increase in the number of drug stores and other businesses that have not traditionally sold beverages competing with vending machines
- Companies throughout the industry are setting ambitious sales targets for FY2018

- **Changes in product mix**
  - Multiple new coffee products are being introduced in plastic bottles
  - The trend toward lower prices and more volume is accelerating
  - More products are being marketed exclusively in vending machines
  - Falling SOT and growth in resealable products are causing a deterioration in product mix

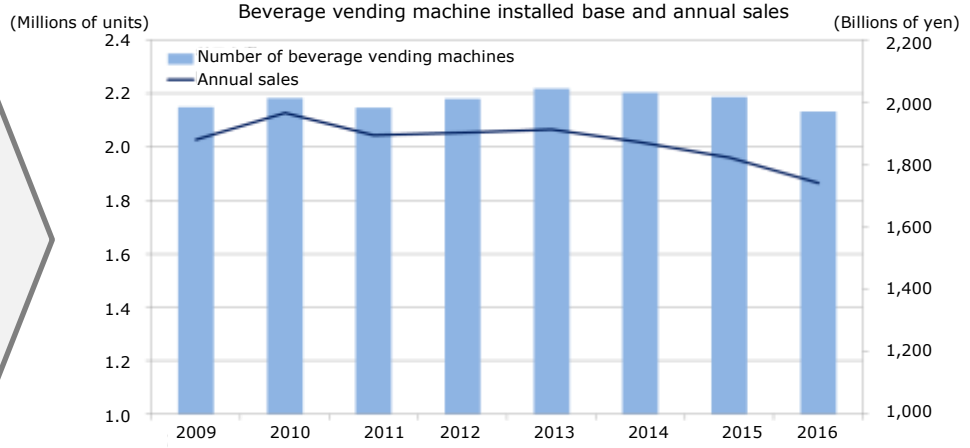
- **Changes in sales channels**
  - Competition from drugstores is intensifying
    - Stores are trying to lure customers with the promise of cheap food and drink products
  - CVSs, supermarkets, and other businesses are adopting a pricing strategy that shows awareness of drugstores
  - There have been developments in small businesses, for example in the form of miniature supermarkets

Consumer price index (Index where January 2017 value is 100)



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

Beverage vending machine installed base and annual sales



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

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Overview by Segment
-Domestic Beverage Business-

(Millions of yen)

	FY2016 results		FY2017 results				FY2018 forecast			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio	% (YoY)	Amount (YoY)
Net sales	128,278	100.0%	126,712	100.0%	(1.2%)	(1,565)	127,070	100.0%	0.3%	358
Operating income	3,958	3.1%	5,542	4.4%	40.0%	1,584	6,700	5.3%	20.9%	1,158

FY2017 summary

- Sales of the "Supervised by the World's Top Barista*" series of bottled coffee rose
- In the distribution channel, the "Calolimit" series contributed to the growth of sales routes
- We were able to reduce vending machine fixed costs according to plan
- Falling sales per vending machine was a major issue

Issues and action plan

- We will optimize our product lines to take into account sales channel characteristics
- We will secure favorable locations where we can expect stable sales
- We will improve the productivity of vending machine operational structures
- We increase vending machine added value from the customer's perspective

*Pete Licata, 14th World Barista Championship winner

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Domestic Beverage Business
Optimizing our product lines to take into account sales channel characteristics

Action plan

- Deal with the diversification of customer values and consumption behavior
  - Offer two Asahi Soft Drinks products in vending machines in order to optimize the line of products sold through our vending machines
  - Deal with health trends and roll out highly differentiated products
- Put in place product development structures that take advantage of a diverse workforce that understands the characteristics and needs of each sales channel



"DyDo Blend Supervised by the World's Top Barista*" series



"PuruSsh!! Jelly×Sparkling" series

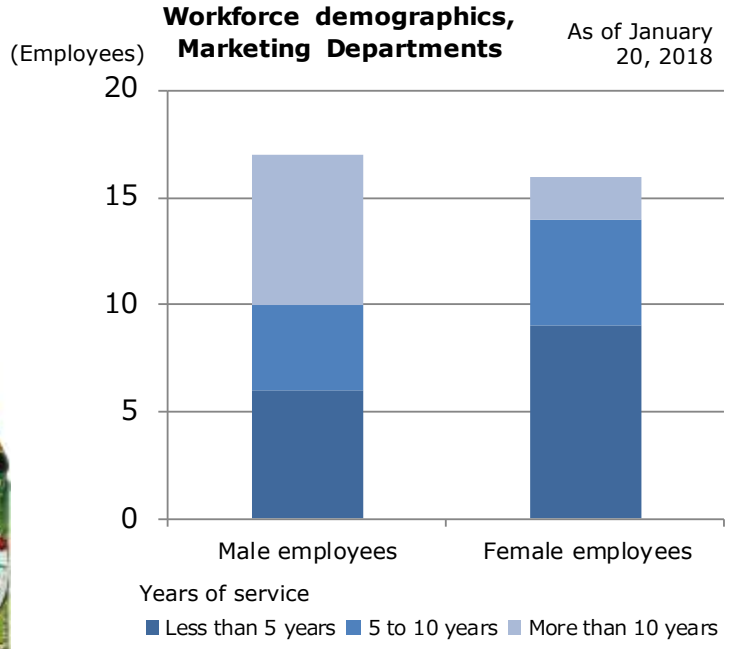


"DyDo Blend Good Work Blend"

[Foods with a functional claim]



"Calolimit" series



*Pete Licata, 14th World Barista Championship winner

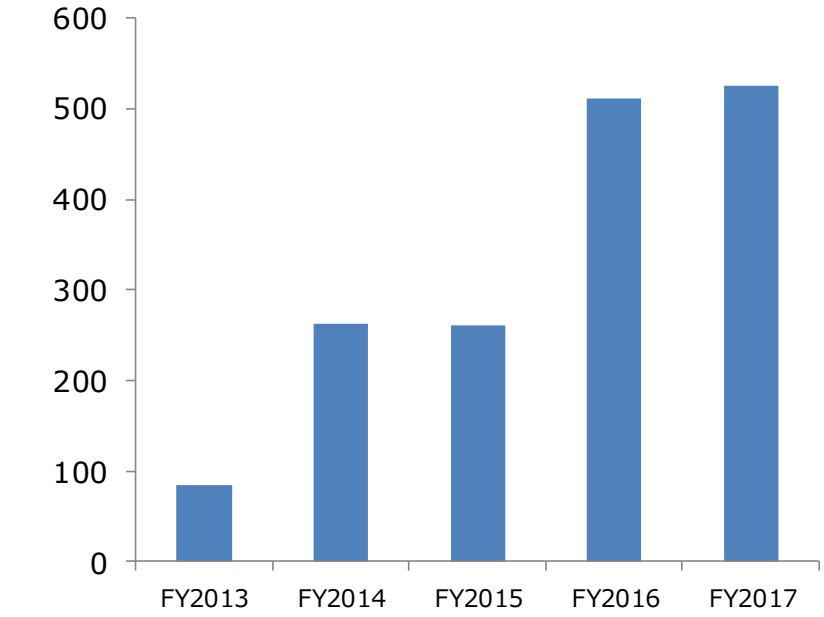
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Domestic Beverage Business
Securing favorable locations where we can expect stable sales

Action plan

- Work to bring vending machines to locations like offices that are close to consumers
- Continue to offer special internal training
- Pursue solutions-based sales around the keyword “health management”

Total number of participants in special internal training



“Caffeine naps” as a facilitator of business discussions



Health Server as a proposal tool



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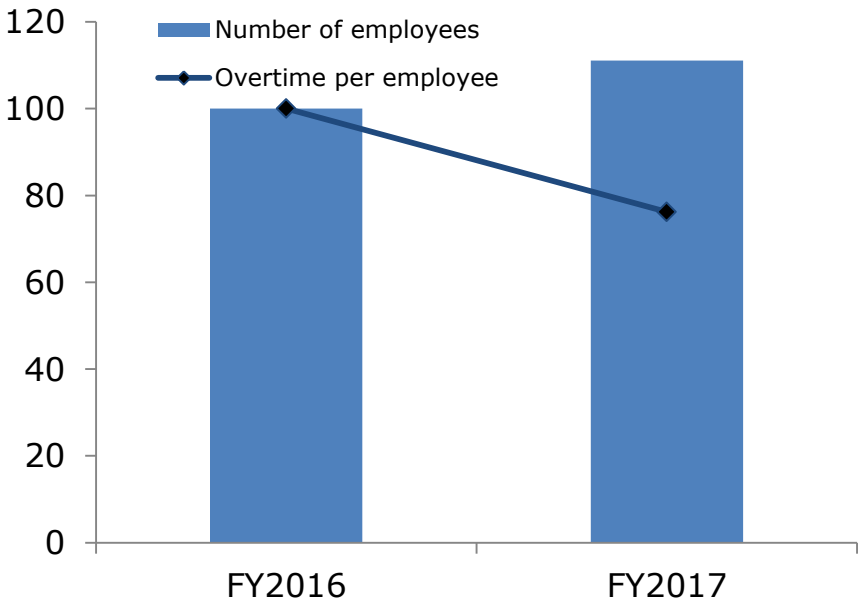
Domestic Beverage Business
Improving the productivity of vending machine operational structures

Action plan

- Improve productivity by streamlining operations
- Relocate some facilities and optimize staff assignments in order to streamline vending machine operations
- Introduce programs that provide opportunities for employees to learn and that support healthy lifestyles



Trend in the number of employees engaged in vending machines operations and overtime work per employee



*Where FY2016 results are assigned a value of 100.

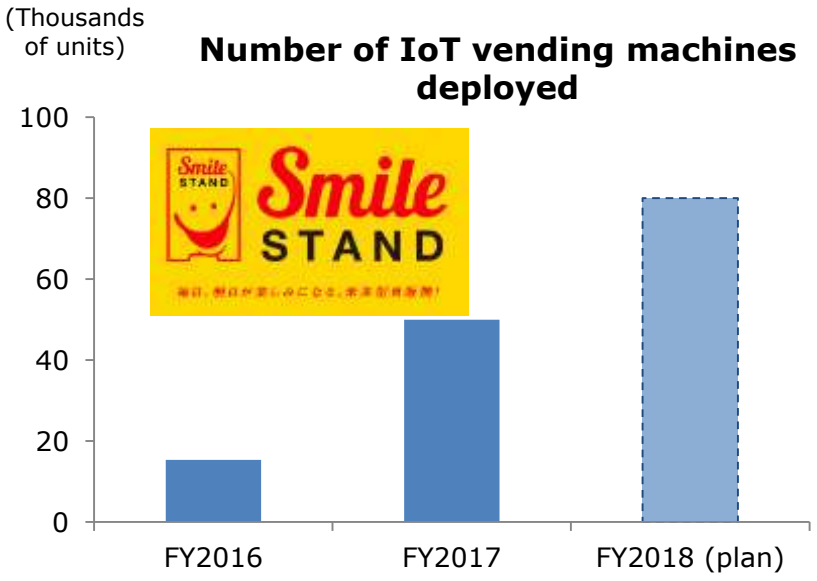
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Domestic Beverage Business
Increasing vending machine added value from the customer's perspective

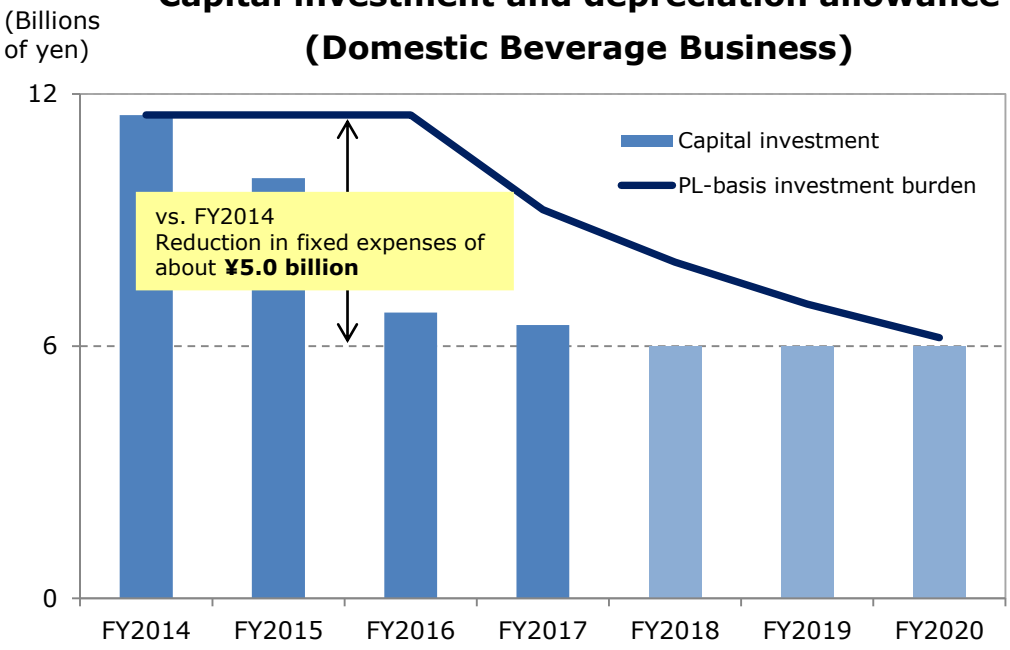
Action plan

- Lay the groundwork for future growth by systematically deploying IoT vending machines
- Expand the number of users by enhancing "DyDo Smile STAND" services
- Achieve both environmental friendliness and cost savings as a "Frontier Vendor"

Number of IoT vending machines deployed



Capital investment and depreciation allowance (Domestic Beverage Business)



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Overview by Segment
- International Beverage Business -

(Millions of yen)

	FY2016 results		FY2017 results				FY2018 forecast			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio	% (YoY)	Amount (YoY)
Net sales	16,735	100.0%	18,547	100.0%	10.8%	1,811	19,410	100.0%	4.7%	863
Operating income	(657)	—	(482)	—	—	175	(352)	—	—	130
Amortization of goodwill, etc.	359	2.2%	356	1.9%	(0.9%)	(3)	328	1.7%	(7.9%)	(28)
Operating income after amortization of goodwill, etc.	(1,017)	—	(838)	—	—	178	(680)	—	—	158
Acquisition fees	249	1.5%	—	—	—	(249)	—	—	—	—
Operating margin after subtracting the above fees	(1,266)	—	(838)	—	—	428	(680)	—	—	158

(Yen)

Turkish lira	36.13	—	30.78	—	—	(5.35)	30.00	-	-	(0.78)
Malaysian ringgit	26.44	—	26.21	—	—	(0.23)	25.00	-	-	(1.21)

FY2017 summary

- We rebuilt our business model by strengthening the value chain in Turkey
- We also realized top-line growth, particularly in sales of Saka mineral water in Turkey

Issues and action plan

- We will carry out reforms in Malaysia, Russia, and China
- We will develop high-quality products that utilize Japanese expertise

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Overview by Segment
International Beverage Business: Turkey

(Millions of yen)

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

Current business conditions

S • Brands with high name recognition (Saka and Çamlica) • Highly differentiated brands (Maltana) • Two water manufacturing plants in the country (one in the north and one in the south) • Proprietary sales structures in the modern/ HOD* channel	**W** • Relatively low market share • High level of dependence on Yildiz in the traditional channel
O • Potential for market growth as the result of the country's growing population • Growth in mineral water consumption • Drinking of coffee and tea as an entrenched custom • Lira weakness as a tailwind for the export business	**T** • Special consumption tax introduced in 2018 (10% tax on carbonated beverages, juice, etc.) • Inflation rate, exchange rate fluctuations • Geopolitical risk

*1 HOD: Home Office Delivery

Action plan

- Expanding the export business
- Achieving additional growth in mineral water sales
- Concentrating management resources on high-potential brands
- Focusing on securing a certain level of profitability and maintaining market presence



FY2018 profit improvement plan

• Increase in gross margin*2	+815
• Impact of special consumption tax	(600)
• Variable costs, etc.	(210)
Total	+5

*2 Excluding impact of special consumption tax

(Millions of yen)

Exchange rates	• FY2017: JPY 30.78 = TRY 1.0 • FY2018 forecast: JPY 30.00 = TRY 1.0

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Overview by Segment
International Beverage Business: Turkey

- We will define the mission and values that should be shared in the Turkish beverage business based on the DyDo Group's philosophy and vision and work to spread them among employees.

DyDo Drinco Turkey mission statement

"To bring happiness and pleasure with uniqueness and high quality products.

In harmony with customer, society, and people by doing continuous dynamic challenges."

Core values



- **Customer First**
- **Challenge**
- **Collaboration**
- **High Quality Standard**
- **Uniqueness**
- **First Mover**



Group picture from an event held to spread awareness of the business's mission and values:
Employees wore T-shirts of different colors to indicate which of the six shared values they believe is most important in their particular area of responsibility.

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Overview by Segment
International Beverage Business: Malaysia

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

Current business conditions

S • Product development structures that utilize Japanese expertise • Dry and chilled products manufacturing factories	**W** • Relatively low market share • Pressing need to strengthen management structures and cultivate core brands
O • Perception that Japanese products have high quality • Growing interest in health • High market growth potential	**T** • Growing interest in health • Downward pressure on prices due to intensifying competition

Action plan

- Launching new, high-quality products modeled on Japan's image
- Rebuilding our brand portfolio
- Strengthening management structures with a view to expand the business



FY2018 profit improvement plan

• Increase in gross margin	+243
• Increase in promotional advertising	(117)
• Elimination of goodwill, etc.	+36
• Total	+162

(Millions of yen)

Exchange rates	• FY2017: JPY 26.21 = MYR 1.0 • FY2018 forecast: JPY 25.00 = MYR 1.0

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Overview by Segment
International Beverage Business: Russia

Long-term vision	To look toward the CIS region based on deployment of vending machines in the Russian market

Current business conditions

S • Vending machine business expertise • Use of used vending machines from Japan • High-quality Japanese products	**W** • High sales prices compared to local products • Management of inventory in a way that takes into consideration shipping times
O • Low vending machine penetration • Perception that Japanese products have high quality • Consumer willingness to purchase high-quality products, even if they're more expensive	**T** • Mandated online tax payments for vending machines • Exchange rate fluctuations and geopolitical risk

Action plan

- Complying with the requirement that vending machines be online
- Dramatically reviewing vending machine locations
- Improving vending machine operations



FY2018 profit improvement plan	
• Reduction in gross margin	(17)
• Other	+ 23
Total	+ 6
	(Millions of yen)

Exchange rates	• FY2017: JPY 1.93 = RUB 1.0 • FY2018 forecast: JPY 1.90 = RUB 1.0

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Overview by Segment
-Pharmaceutical-related Business-

(Millions of yen)

	FY2016 results		FY2017 results				FY2018 forecast			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio	% (YoY)	Amount (YoY)
Net sales	9,068	100.0%	10,536	100.0%	16.2%	1,468	10,500	100.0%	(0.3%)	(36)
Operating income	944	10.4%	1,271	12.1%	34.6%	326	1,100	10.5%	(13.5%)	(171)

FY2017 summary

- Orders exceeded plans thanks to an organizational approach to proposal-based sales
- Orders were strong for products that accorded with the trend toward focusing on health and beauty, which is gathering momentum particularly quickly overseas
- New orders rose, while orders for existing products firmed

Issues and action plan

- Invest in employees to accommodate future order growth
- Carry out maintenance to ensure stable supply
- Put in place an organizational approach to solution-based sales along with product development and quality control structures with a view to bringing a new plant online in FY2020

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Overview by Segment -Food Business-

(Millions of yen)

	FY2016 results		FY2017 results				FY2018 forecast			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio	% (YoY)	Amount (YoY)
Net sales	18,013	100.0%	17,560	100.0%	(2.5%)	(453)	18,850	100.0%	7.3%	1,290
Operating income	564	3.1%	571	3.3%	1.2%	6	997	5.3%	74.6%	426

*Operating income does not include amortization of goodwill.

FY2017 summary

- The competitive environment is intensifying due to aggressive moves from competitors
- We put in place structures to strengthen product development and enhance customer communication
- We undertook companywide initiatives in areas including production and procurement to secure profits

Issues and action plan

- Promote brand value and product value more aggressively
- Enhance “Torokeru Ajiwai” products and roll out new health-oriented products
- Continue capital investment and workforce investment in order to reform the business’s profit structure

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FY2018 Consolidated Full-year Earnings Forecast

- Consolidated net sales of 175,220 million (up 1.5% year on year)
- Profit attributable to owners of parent of 3,640 million (up 45.4% year on year)
- Focus on locking in the transition to rising profits and then moving toward additional growth

(Millions of yen)

	FY2017 results		FY2018 earnings forecast			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	172,684	100.0%	175,220	100.0%	1.5%	2,536
Operating income	4,891	2.8%	5,740	3.3%	17.4%	849
Ordinary income	5,382	3.1%	5,725	3.3%	6.4%	343
Profit attributable to owners of parent	2,504	1.5%	3,640	2.1%	45.4%	1,136
EPS	151.73 yen		220.99 yen		45.6%	69.26 yen
Dividend per share	60 yen		60 yen		-	-

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FY2017 Full-year Earnings Forecast by Segment

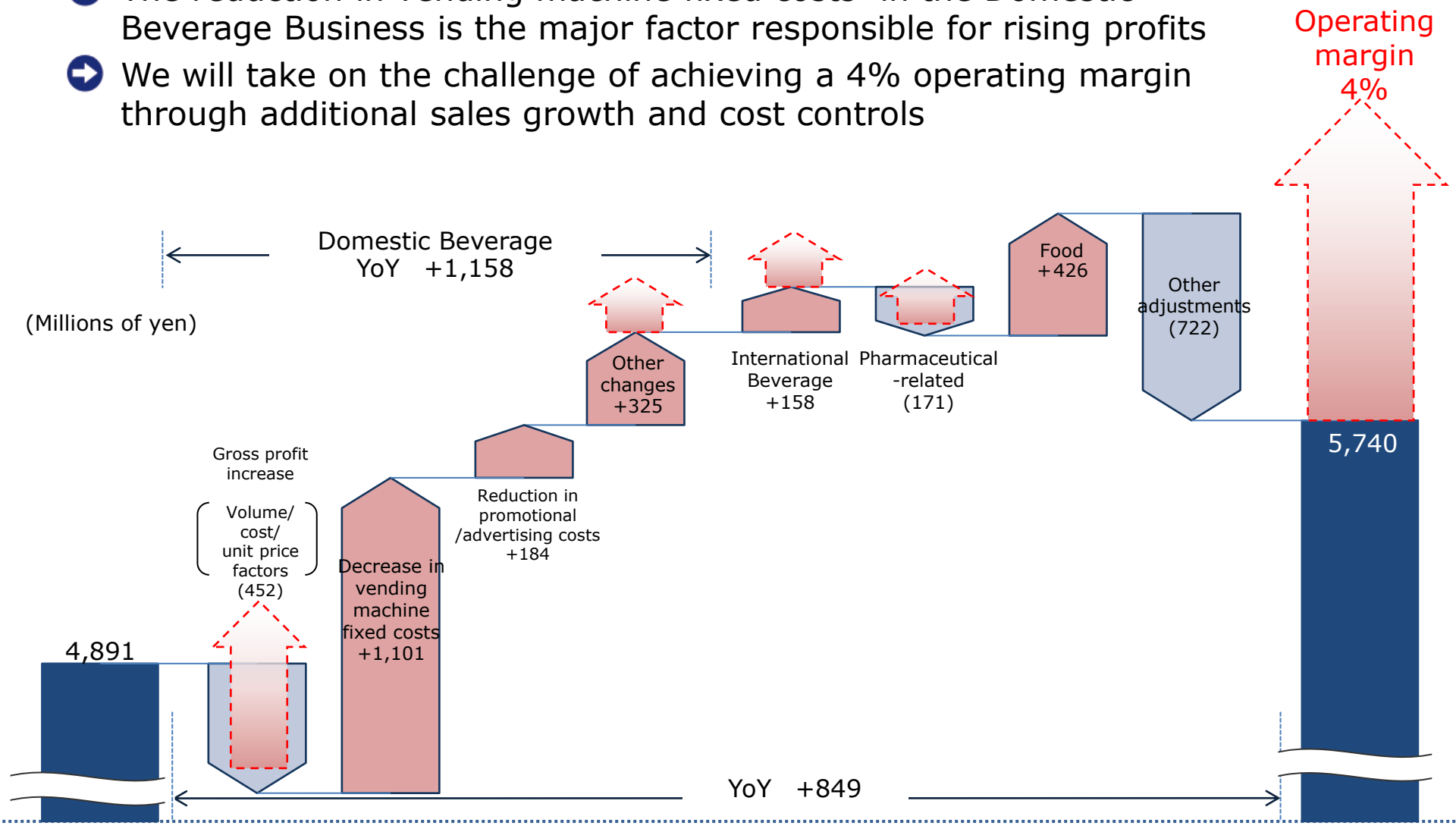
(Millions of yen)

	FY2017 Results	FY2018 Full-year forecast	FY2018 Percent change	FY2018 Change
Domestic Beverage Business	126,712	127,070	0.3%	358
International Beverage Business	18,547	19,410	4.7%	863
Pharmaceutical-related Business	10,536	10,500	(0.3%)	(36)
Food Business	17,560	18,850	7.3%	1,290
Adjustment	(673)	(610)	–	63
Total net sales	172,684	175,220	1.5%	2,536
Domestic Beverage Business	5,542	6,700	20.9%	1,158
International Beverage Business	(838)	(680)	–	158
Pharmaceutical-related Business	1,271	1,100	(13.5%)	(171)
Food Business	219	645	194.5%	426
Adjustment	(1,303)	(2,025)	–	(722)
Total operating income	4,891	5,740	17.4%	849

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Factors Driving Increases/Decreases in Operating Income for FY2018 - Vs. Initial Forecast -

- The reduction in vending machine fixed costs in the Domestic Beverage Business is the major factor responsible for rising profits
- We will take on the challenge of achieving a 4% operating margin through additional sales growth and cost controls



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3. Challenge of Creating New Corporate Value for the Next Generation

Entering the Orphan Drug Business

Entering the Orphan Drug Market

Entering the orphan drug market (with a planned start of business in July 2019)

(1) Helping solve a social problem

Due to the comparatively small number of patients suffering from rare diseases, there has been inadequate development of orphan drug to date, leaving many patients without access to effective drugs to treat their conditions.

(2) Putting the Group Philosophy into practice

We will work to resolve a social problem through our business by providing value in the form of pharmaceuticals to patients suffering from rare diseases.

Conditions for designation as an orphan drug

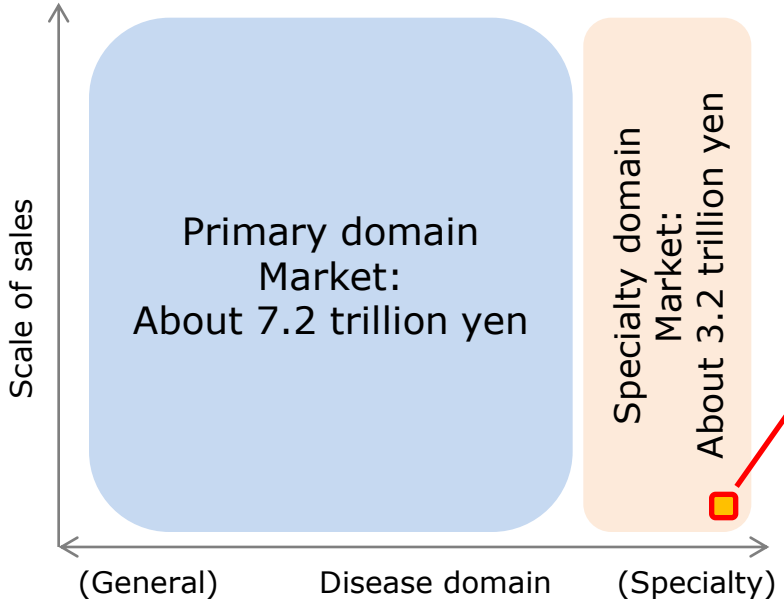
Target patient population	Less than 50,000 in Japan Alternatively, a disease may be designated as a difficult-to-treat disease by regulatory authorities.
Need for treatment	No appropriate alternative pharmaceuticals or treatment methods Alternatively, the pharmaceutical must offer potential in the form of significantly superior efficacy or safety compared to existing pharmaceuticals.
Development viability	There must be evidence supporting use of the pharmaceutical in question to treat the target disease, and the manufacturer's development plan must be reasonable.

Article 77 Paragraph 2 of the Law on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical devices

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Size of the Orphan Drug Market

Positioning of orphan drug in the context of the larger pharmaceutical market

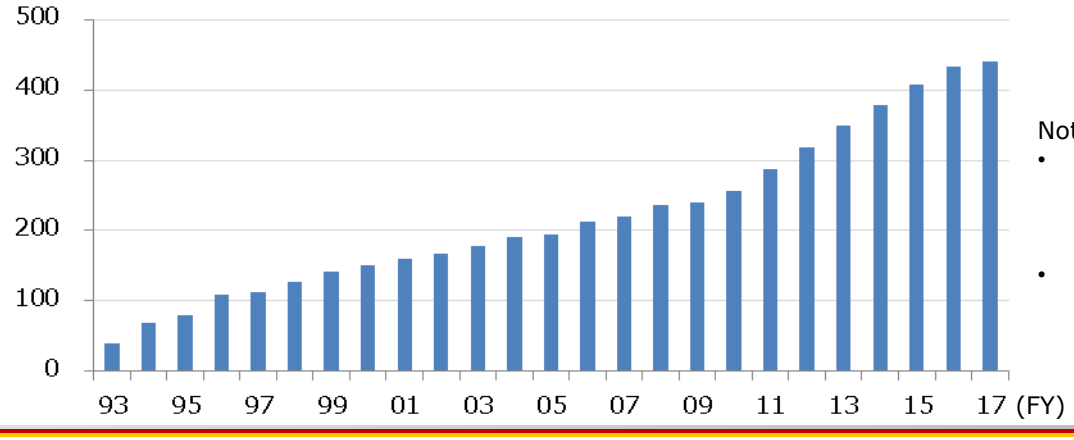


Rare-disease domain
Market: Several billion yen

Support from the national government

- Priority in treatment consultation and examination
- Reduced application costs
- Grants to subsidize trial research
- Tax incentives
- Guidance and advice in research and development

Number of drugs designated as orphan drug



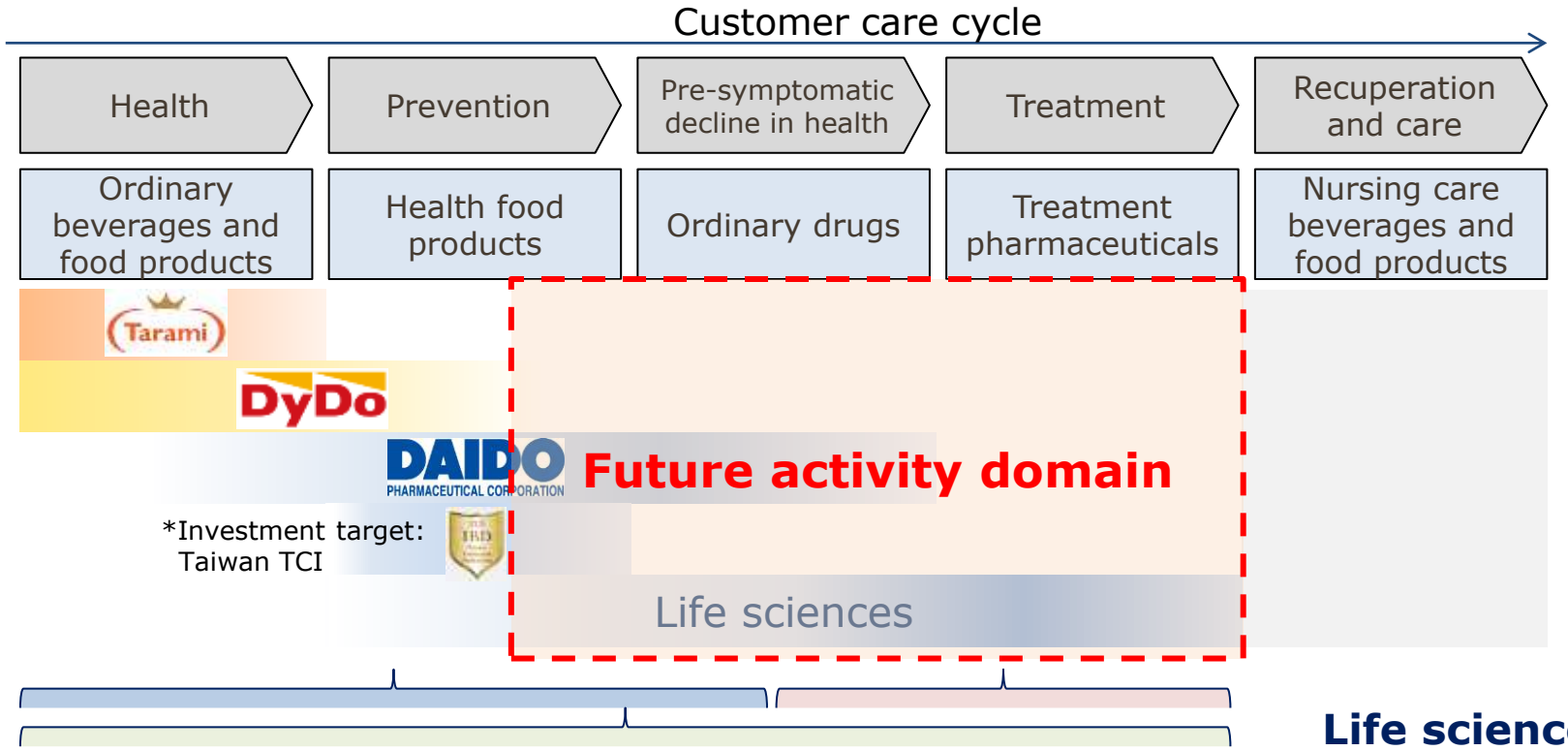
Notes

- Graph depicts the number of drugs that have been designated as orphan drug as of December 21, 2017, including those that subsequently lost that designation.
- Compiled by DyDo based on the "List of Designated Orphan Drugs" (published by the National Institute of Biomedical Innovation, Health and Nutrition).

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Illustration of Business Domains and Workforce Investment in the Future

We will give shape to our corporate philosophy of achieving happiness and prosperity together with people and society by becoming an essential partner to customers in treatment, signaling our move deeper into the care cycle.



A workforce that helps create cash flows from existing businesses	A diverse workforce that innovates	A workforce with specialized knowledge, skills, expertise, etc.

Workforce investment as the source of competitiveness

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Growth Strategy

Offering delicious products for the sound mind and body

Growth in the healthcare market, which is our target market

Opportunities

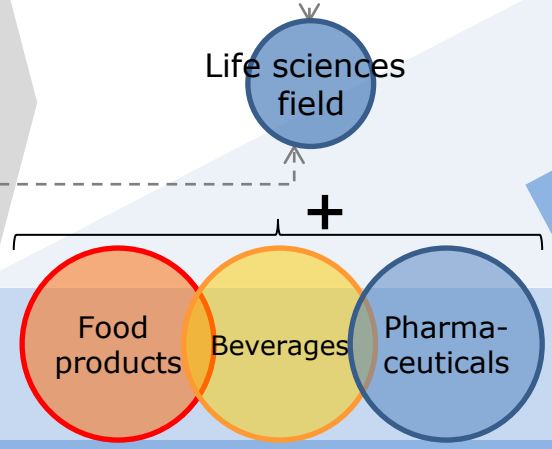
Changes in the external environment

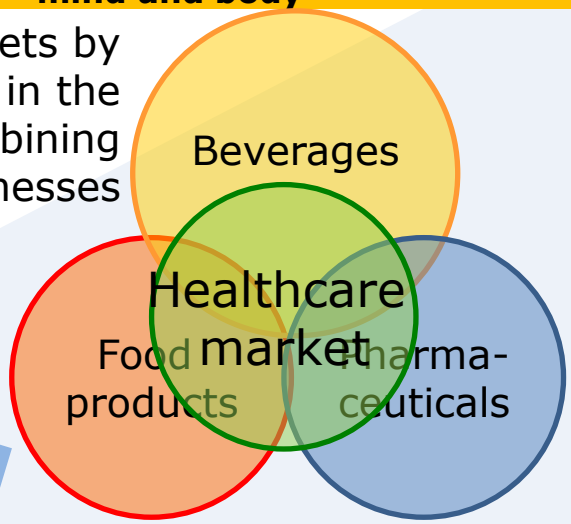
- Changes in the demographics of Japan's population
- Rising healthy lifespan
- Major trend toward interest in health worldwide

Risks

Loss of core vending machine users
Inadequate labor population

Creating new markets by establishing operations in the healthcare domain and combining all businesses





- Technologies for creating authentic flavor
- High quality rooted in pharmaceuticals
- Unique product development capabilities

Accumulating invisible assets by investing in our workforce

Group Philosophy

Cultivating a corporate culture that embraces challenges

Embracing the customer's perspective (achieving happiness and prosperity together with people and society)

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■ APPENDIX

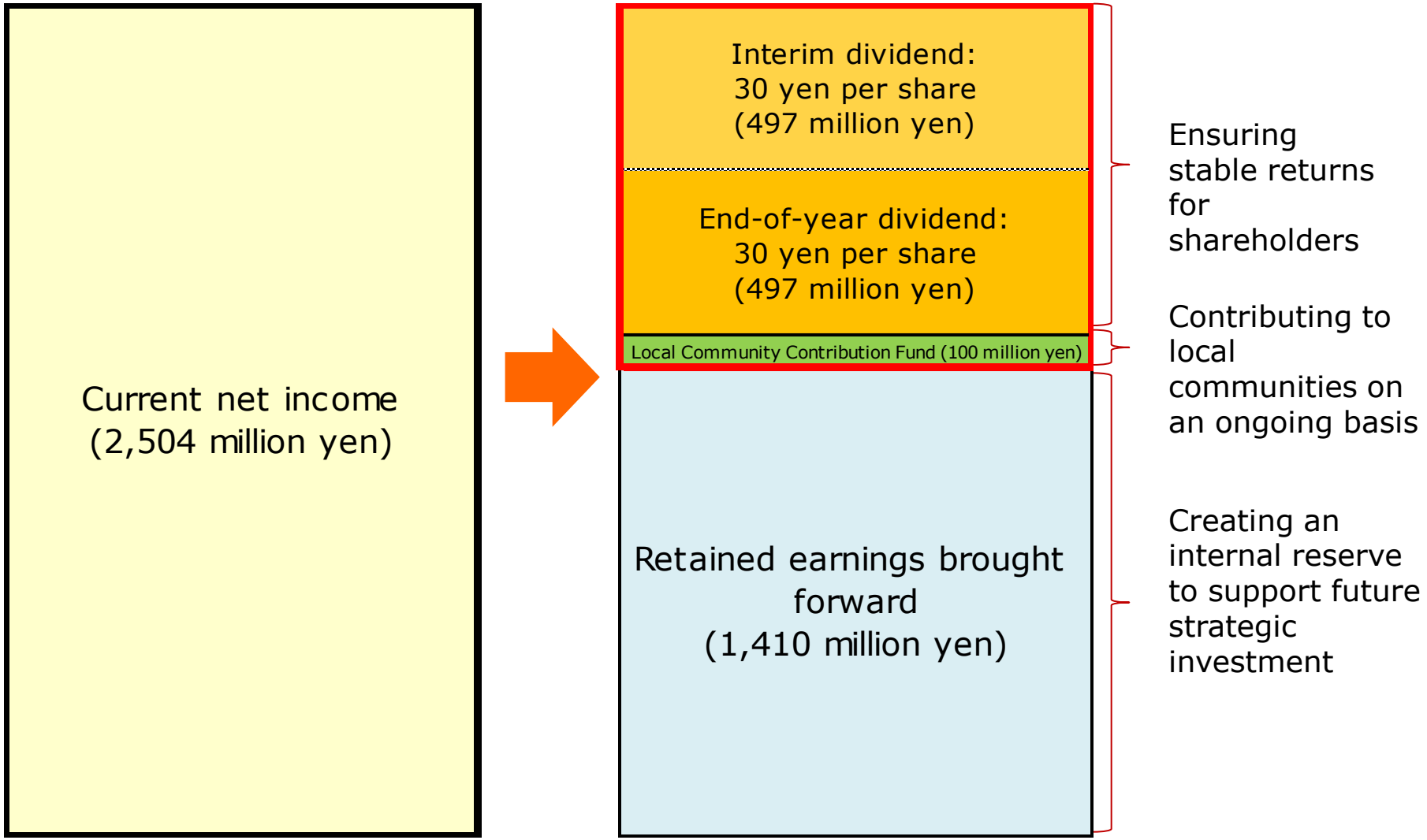
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■ Reference Materials for the 43rd General Meeting of Shareholders

Allocation of Retained Earnings

Ensuring stable returns for shareholders



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Utilizing Retained Earnings: Local Community Contribution Fund

Contributing to society using the Local Community Support Fund

- Ongoing support for reconstruction following the Great East Japan Earthquake

10 million yen



- Support through “Kizuna” vending machines that aid reconstruction in the Tohoku region by donating a share of profits



- Support for cultural programs such as street dance in primary education



- Hands-on vending machine programs to let schoolchildren experience what it’s like to work in the industry



- Loaner umbrella program to contribute to society through vending machines





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Changes to Articles of Incorporation

Overview of changes

1. Change in existing items and addition of new items to facilitate the development of the company and its subsidiaries' businesses
2. Change in the method of public notice to take advantage of widespread adoption of Internet-based communication, make notices more convenient to view, and streamline the notification process (before change: Nihon Keizai Shimbun → after change: electronic notice)
3. Revisions to other language and standardization of expressions

Current Articles of Incorporation	After amendment
Article 2. Purpose	Article 2. Purpose
1. The purpose of the Company shall be to control and manage through share capital or equity holdings the business activities of companies (including foreign companies), associations (including entities which correspond to associations in foreign countries), and other corresponding enterprises, respectively engaged in the following businesses.	1: (unchanged)
(1) Manufacture and marketing of soft drinks	(1): (unchanged)
(2) Manufacture and marketing of various kinds of food products	(2): (unchanged)
(3) Manufacture and marketing of pharmaceuticals, quasi-drug products, and cosmetics	(3) Research, development, manufacture, and marketing of pharmaceuticals, quasi-drug products, cosmetics, and related products
(newly established)	(4) Research and development, manufacture, marketing, leasing, and maintenance of medical devices, healthcare devices, and related products
(4) Sales of soft drinks, various kinds of food products, and various kinds of merchandise through vending machines	(5) Sales of soft drinks, various kinds of food products, and various kinds of merchandise through vending machines
(5) Provision of various kinds of services through vending machines	(6) Provision of various kinds of services through vending machines
(6) Sales of cigarettes and alcoholic beverages	(7) Sales of cigarettes and alcoholic beverages
(7) Management of restaurants	(8) Management of restaurants
(8) Marketing and maintenance of various kinds of vending machines	(9) Marketing and maintenance of various kinds of vending machines
(newly established)	(10) Shipping of freight
(newly established)	(11) Maintenance, management, and licensing of intellectual property rights
(9) Any and all business operations incidental or related to the foregoing items	(12) Any and all business operations incidental or related to the foregoing items
2. The Company shall be able to engage in the business operations stated in the foregoing items and any and all business operations incidental or related thereto.	2: (unchanged)
Article 5. Method of public notice The Company shall publish public notices in the Nihon Keizai Shimbun newspaper.	Article 5. Method of public notice The Company shall publish public notices electronically. if it is not possible to publish a notice electronically for an unavoidable reason such as an accident, the Company shall publish that notice in the Nihon Keizai Shimbun newspaper.

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Nomination of Directors

Director candidates who will be put before the 43rd annual shareholders meeting

Name	Profile (top) and reason for nomination (bottom)	
 Currently: President and representative director Tomiya Takamatsu (Date of birth: June 26, 1976) Company shares owned: 495,000	April 2004: Joined the Company. April 2008: Appointed Director at the Company. April 2009: Appointed Managing Director at the Company. March 2010: Appointed Executive Director at the Company. April 2012: Appointed Vice President and Director at the Company. April 2014: Appointed President and Representative director at the Company (his current position) .	Board of Directors meetings attended: 17 of 17
	Since his appointment to the position of president in April 2014, Mr. Takamatsu has demonstrated strong leadership by managing the company with rapid, decisive decision-making in line with its medium- and long-term management posture based on the perspective of all stakeholders and in keeping with the newly formulated Group Philosophy and Group Vision. Mr. Takamatsu has worked steadily to strengthen the Group's management by transitioning to a holding company structure, implement significant reforms in its vending machine business model, establish new strategic bases overseas, and achieve dramatic growth in the future. Based on this proven track record, he has been put forward as a candidate for continued service on the Board of Directors.	
 Currently: Chairman and director Tomihiro Takamatsu (Date of birth: January 16, 1948) Company shares owned: 495,000	March 1971: Jointed DyDo PHARMACEUTICAL CORPORATION. January 1975: Appointed Managing Director following the Company's establishment. May 1984: Appointed Executive Director at the Company. June 1990: Appointed Vice President and Director at the Company. April 1992: Appointed Vice President and Representative Director at the Company. April 1994: Appointed President and Representative director at the Company. April 2014: Appointed Chairman and Director at the Company (his current position).	Board of Directors meetings attended: 17 of 17
	Having guided the company as its president for 20 years, Mr. Takamatsu brings a wealth of experience as well as a proven track record to the table. In his current position as chairman and director, he fulfills a range of roles as appropriate, including strengthening the foundation of the group's management in areas such as governance, deciding important issues, and overseeing execution of business operations. In addition, he has worked tirelessly to revitalize the local communities in which the company does business by orchestrating its community service activities over many years. Based on this proven track record, he has been put forward as a candidate for continued service on the Board of Directors.	

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Nomination of Directors

Director candidates who will be put before the 43rd annual shareholders meeting

Name	Profile (top) and reason for nomination (bottom)	
 Currently: Director, Executive Officer **Naoki Tonokatsu** Executive Officer and General Manager, Finance Department (Date of birth: November 4, 1963) Company shares owned: 3,100	March 1986: Joined the Company. January 2011: Appointed General Manager of the Financial Affairs Department. March 2013: Appointed Executive Officer and Division Director of the Administrative Division. January 2014: Appointed Executive Officer and Division Director of the Finance Division. January 2017: Appointed Executive Officer and General Manager of the Finance Department (his current position). Appointed Director, Executive Officer, and Division Director of the Finance Division at the Company., (his current position). April 2017: Appointed Director, Executive Officer, and Division Director of the Finance Division (his current position).	Board of Directors meetings attended: 13 of 13
	Mr. Tonokatsu has many years of experience and a proven track record in finance. He has played a central role in such aspects of the company's operations as securing funding in order to achieve the goals set forth in the Medium-term Business Plan, and he is working to ensure that the company operates in a healthy and robust manner, including by building stable structures to anchor the Group's overall finances in his current role as general manager of the Finance Department. He was identified as a director candidate based on this track record.	
 Currently: Director, Executive Officer **Naoyuki Nishiyama** Executive Officer and General Manager, Corporate Strategy Department (Date of birth: July 30, 1965) Company shares owned: 200	March 1988: Joined the company. January 2014: Appointed General Manager of the Corporate Strategy Department. February 2014: Appointed General Manager of the Corporate Strategy Department and General Manager of the International Business Department. March 2015: Appointed Executive Officer, General Manager of the Corporate Strategy Department, and General Manager of the International Business Department. January 2016: Appointed Executive Officer, General Manager of the Corporate Strategy Department, and General Manager of the Strategic Investment Department. January 2017: Appointed Executive Officer and General Manager of the Corporate Strategy Department. April 2017: Appointed Director, Executive Officer, and General Manager of the Corporate Strategy Department (his current position).	Board of Directors meetings attended: 13 of 13
	Mr. Nishiyama has broad experience and a proven track record across a wide range of operational areas encompassing the company's overall management, including corporate strategy, strategic investment, and international business. Currently, he offers key leadership to group companies as an executive officer and general manager of the Corporate Strategy Department, in which capacity he is working to develop new businesses and boost profitability. He was identified as a director candidate based on this track record.	

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Nomination of Directors

Director candidates who will be put before the 43rd annual shareholders meeting

Name	Profile (top) and reason for nomination (bottom)	
Independent director  Currently: External director Shinji Mori (Date of birth: May 22, 1946) Company shares owned: 100	April 1972: Joined the Supreme Court Legal Training and Research Institute. April 1974: Appointed to serve as a judge on the Yokohama District Court. April 1986: Became a judge on the Kyoto District Court. April 1989: Registered as a member of the Osaka Bar Association. April 2001: Appointed External Auditor of the Company. April 2014: Appointed External Director of the Company (his current position).	Board of Directors meetings attended: 17 of 17
	Mr. Mori has extensive experience and an advanced level of specialized knowledge as an attorney, and he has served the company for 13 years as an external auditor and for 4 years as an external director. He has taken advantage of that experience to play an appropriate role in further strengthening the oversight function of the Board of Directors by offering advice and suggestions as to the company's management from an independent perspective. Based on this proven track record, he has been put forward as a candidate for continued service as an external director on the Board of Directors. Based on this proven track record, he has been put forward as a candidate for continued service as an external director on the Board of Directors. While Mr. Mori has not participated in corporate management except as an external director at the company and other companies, it has been determined that he can effectively fulfill the responsibilities of the position of external director for the reasons offered above.	
Independent director  Currently: External director Masataka Inoue (Date of birth: October 12, 1954) Company shares owned: None	April 1978: Joined Nakano Sumise Co., Ltd. July 2005: Appointed Director at Mizkan Holdings Co., Ltd. May 2007: Appointed Managing Director at Mizkan Holdings Co., Ltd. October 2009: Appointed Standing Auditor at Mizkan Holdings Co., Ltd. March 2011: Appointed Divisional manager in charge of the Management Auditing Office at Mizkan Holdings Co., Ltd. March 2014: Appointed Divisional Manager in charge of the Business Planning Division at Mizkan Holdings Co., Ltd. April 2016: Appointed External Director of the Company (his current position).	Board of Directors meetings attended: 17 of 17
	Mr. Inoue has a wealth of knowledge and experience in the food industry. He has taken advantage of his experience in business development through overseas M&As and his experience auditing overseas subsidiaries to play an appropriate role in further strengthening the functions of the Board of Directors by offering advice and suggestions as to the company's management from an independent perspective concerning such issues as accelerating the development of the company's business overseas and expanding its business domain. Based on this proven track record, he has been put forward as a candidate for service as an external director on the Board of Directors.	

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Nomination of Auditor

Auditor candidates who will be put before the 43rd annual shareholders meeting

Name	Profile (top) and reason for nomination (bottom)	
 Currently: Auditor Sachie Kato (Date of birth: November 11, 1946) Company shares owned: 100	April 1969: Joined the Supreme Court Legal Training and Research Institute. April 1971: Appointed to serve as a public prosecutor on the Tokyo District Public Prosecutors Office. May 1974: Registered as a member of the Osaka Bar Association. April 2014: Appointed External Auditor of the Company (her current position	Board of Directors meetings attended: 17 of 17
	Ms. Kato oversees auditing at the company with a high degree of independence and from a broad perspective by utilizing her long experience as an attorney, her high level of discernment as an expert in the law, and deep insights into corporate management that come from having contributed to the resolution of multiple corporate legal problems. Based on this proven track record, she has been put forward as a candidate for continued service as an outside auditor. While Ms. Kato has not participated in corporate management except as an external auditor at the company and other companies, it has been determined that she can effectively fulfill the responsibilities of the position of external auditor for the reasons offered above.	

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DyDo

□ The Business Model of DyDo Group

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DyDo Group History

(100 million yen)

◆ New business

◆ 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

2,000
1,000
0

1950s 1970s 1990s 2010s 2018

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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

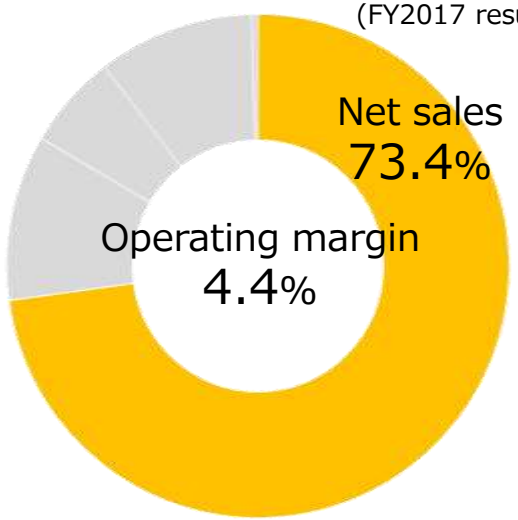
At the core of the DyDo Group: Domestic Beverage Business

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

Others

Domestic Beverage Business as a percentage of overall performance

(FY2017 results)





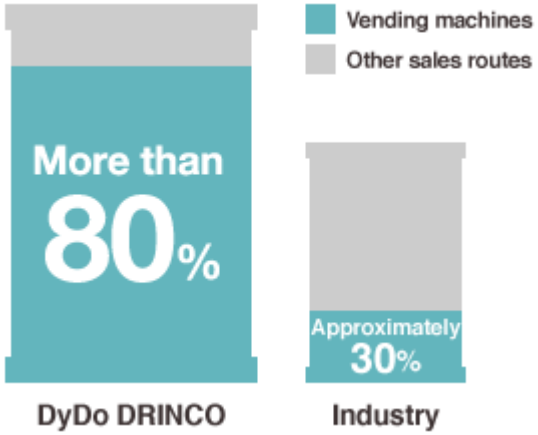


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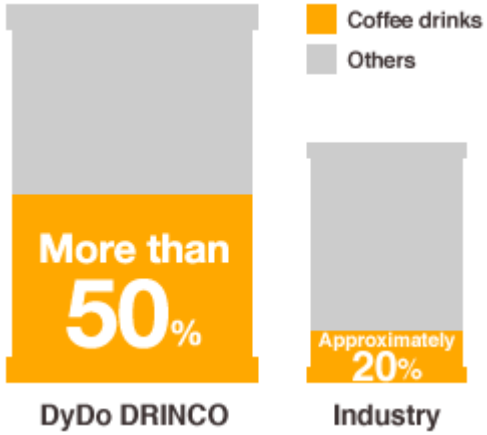
Key Features / Strengths of Domestic Beverage Business

Securing steady profit with sales of coffee from vending machines

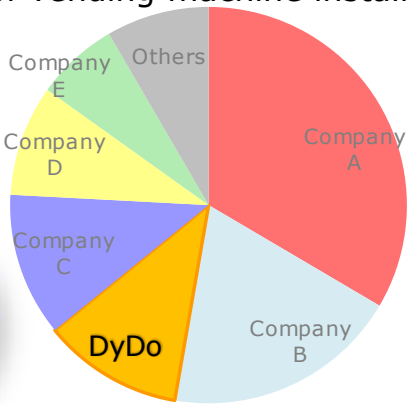
Vending Machine Sales account for more than 80%



Coffee sales account for more than 50%

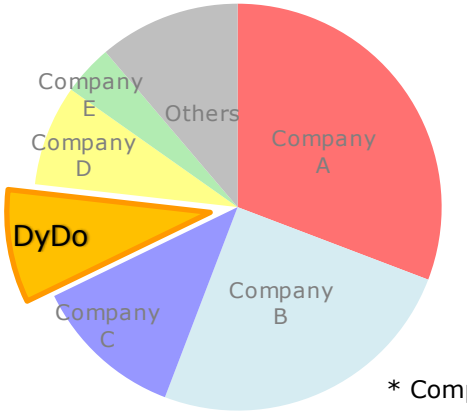


Share of vending machine installed base



nationwide network of approximately 280,000 vending machines

Share of coffee drink sales



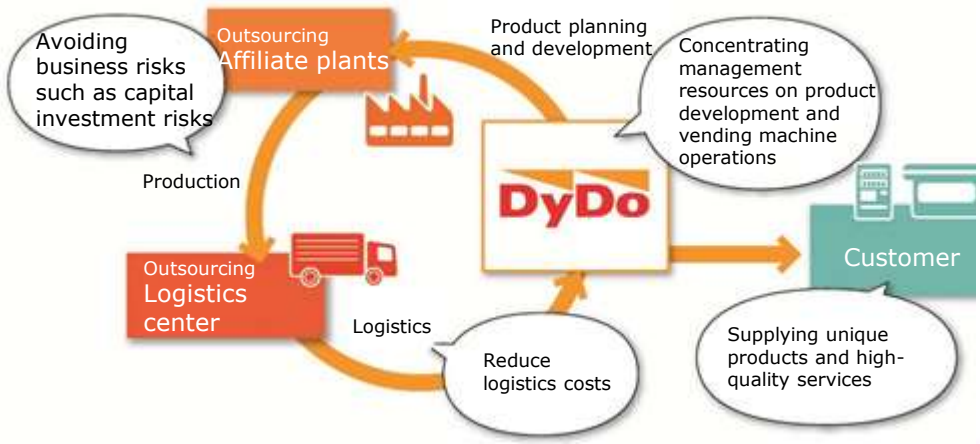
* Compiled by DyDo

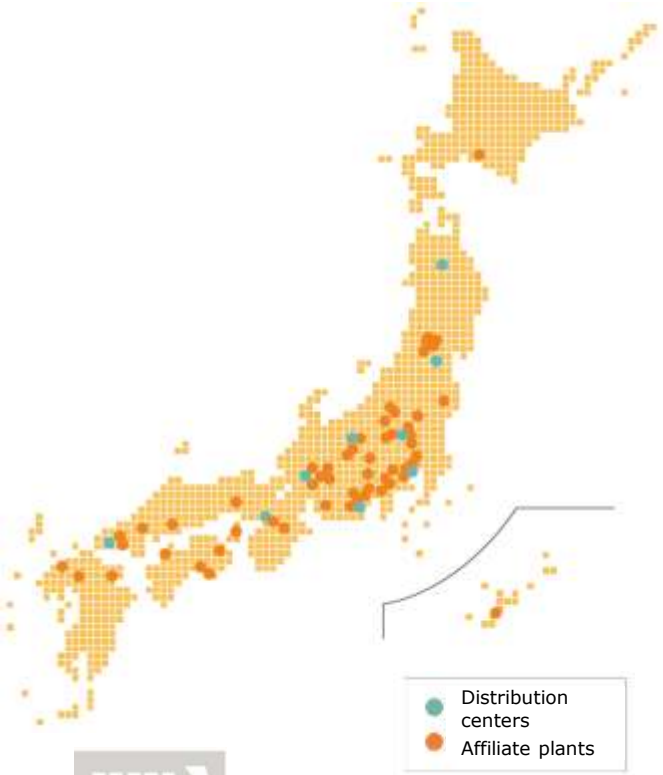
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Key Features / Strengths of Domestic Beverage Business

Streamlining operations through “fabless” management

- Effective use of management resources





- Ensuring product safety with a “double-check” system

Check 1 — Affiliate plants

Ingredient and equipment inspections, product inspections, inspections of constant-temperature equipment, inspections to check for microbes, etc.

Products that pass inspections

Check 2 — DyDo

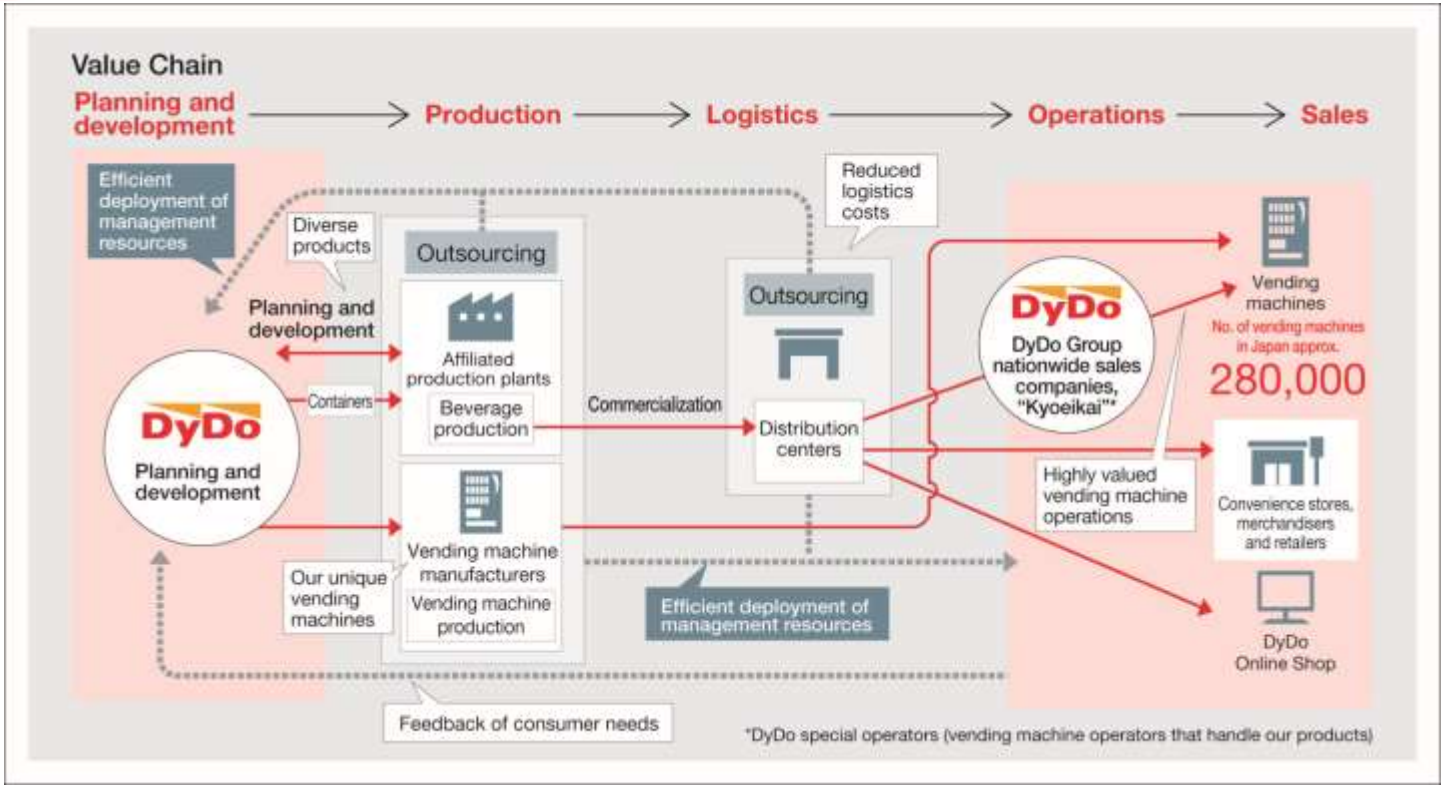
Ingredient inspections, product inspections, inspections of constant-temperature equipment, inspections to check for radioactive substances, etc.

Products that pass inspections

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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.

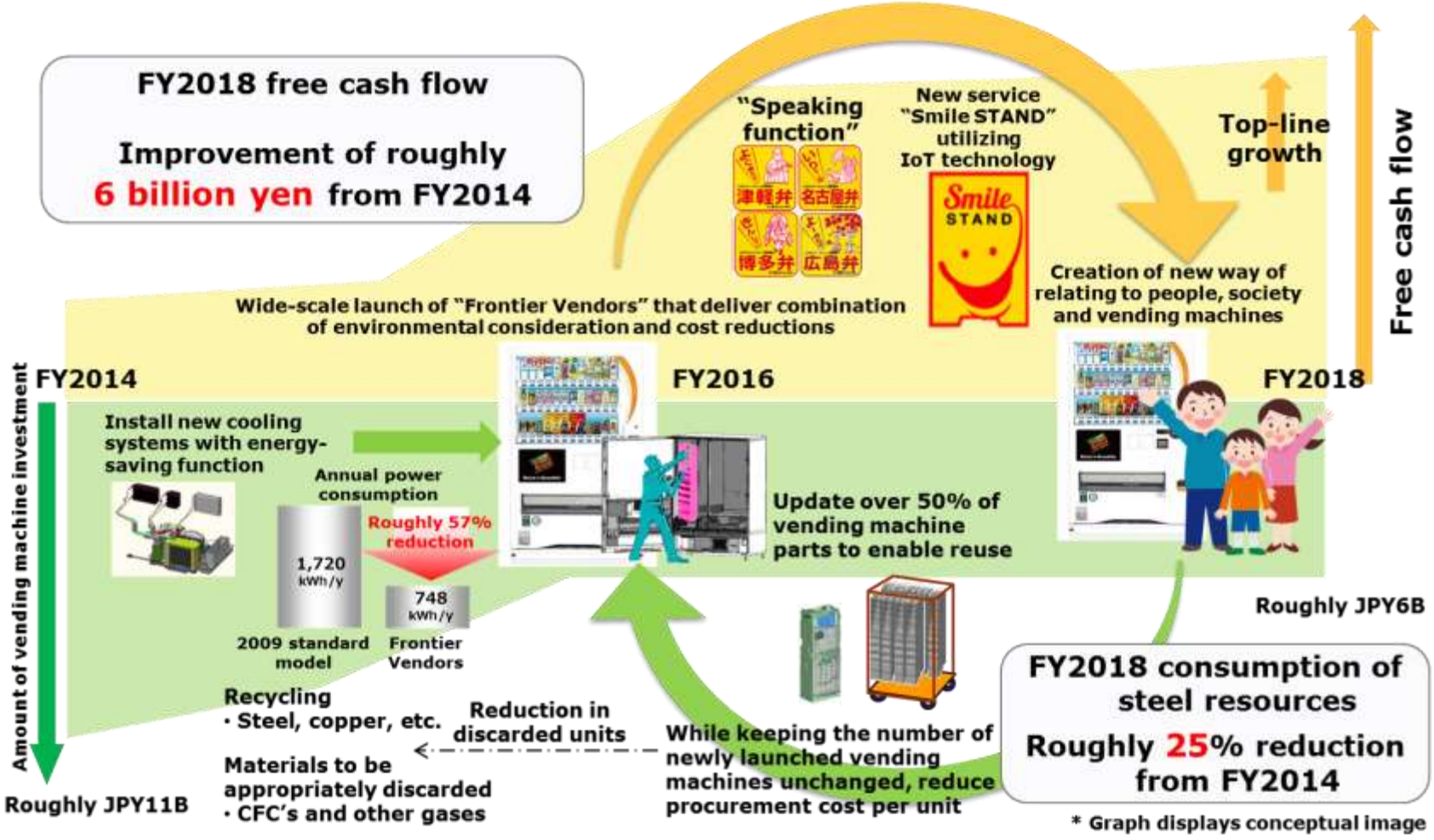
The business climate for vending machine-based business continues to be severe due to current trends such as the increasing frugality of consumers and the increasing level of competition with convenience stores. However, at DyDo DRINCO, we are raising the percentage of vending machines installed at in-office 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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Cyclical Business Model for Vending Machines

①Achieve resource and energy efficiency, ②generate added value through ideas and technology



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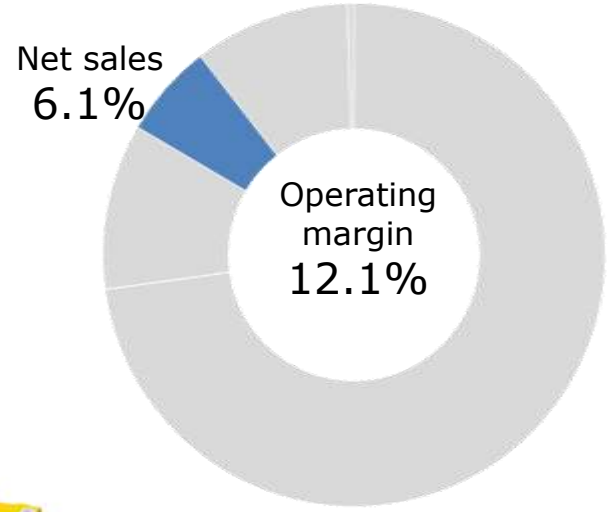
Pharmaceutical-related Business

- 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 2017 results)







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Key Features / Strengths of the Pharmaceutical-related Business

Exceptional development capabilities and a quality control structure backed up by the best performance in the industry

- Production structures designed for safety and reliability
- Quality control and quality assurance structures that assure high product quality



Leading performance in the industry

Joint development with more than 100 manufacturers

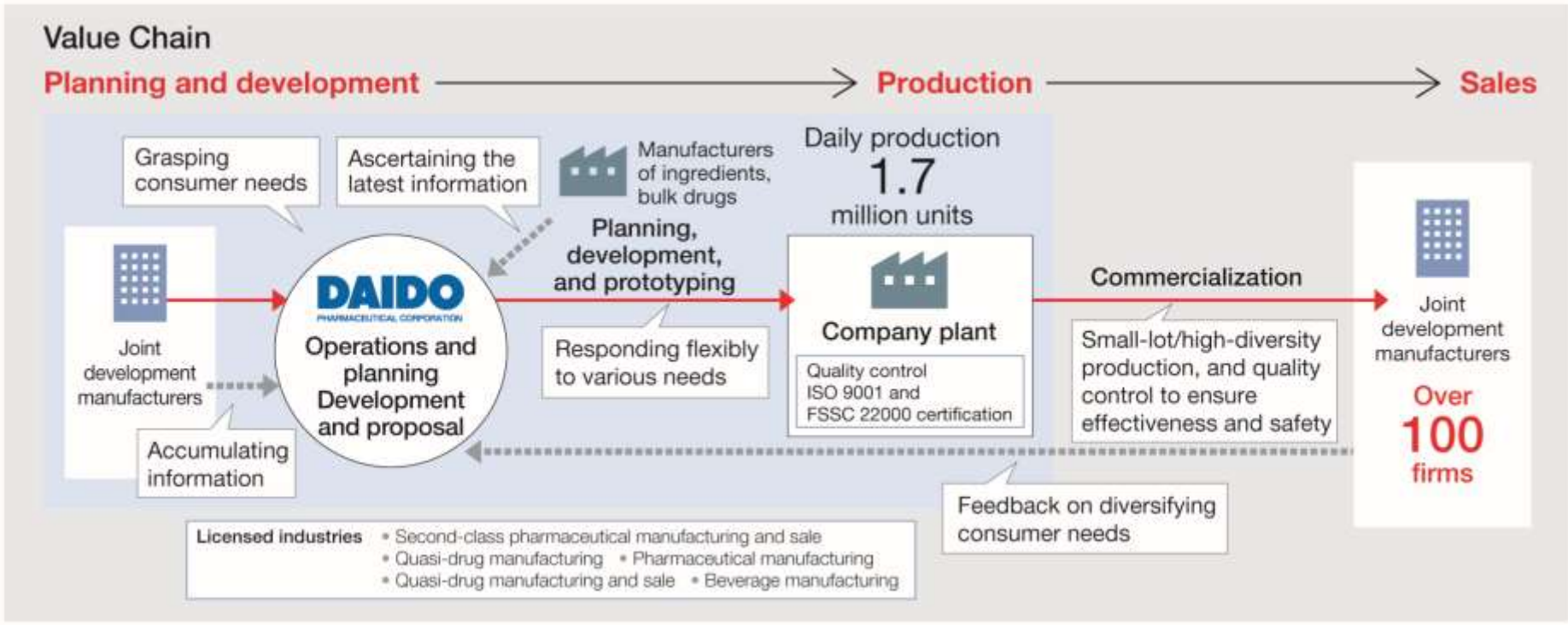
Operating margin of greater than 10%



- Product development capabilities that align with customer needs and brand concepts
- Unique proposal capabilities deriving from many years of experience

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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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Pharmaceutical-related Business Plans for Building a New Factory in the Greater Tokyo Area

We will open a new plant in the Greater Tokyo Area in 2020

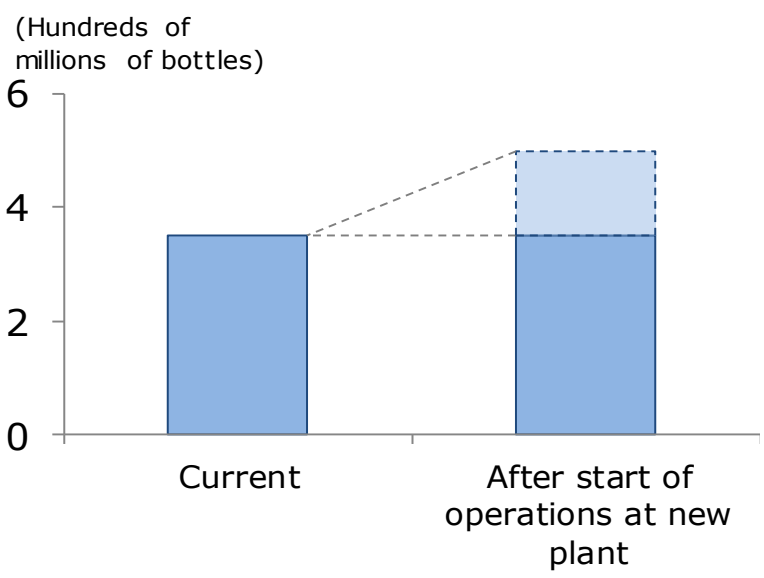
Objectives

- To respond quickly to customer needs
- To put in places structures to facilitate high manufacturing quality and stable supply
- To put in place structures to facilitate stable supply, including business continuity measures

Overview of the new factory

Name	Kanto Plant
Tentative site	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

Plant production capacity
(2 plants)



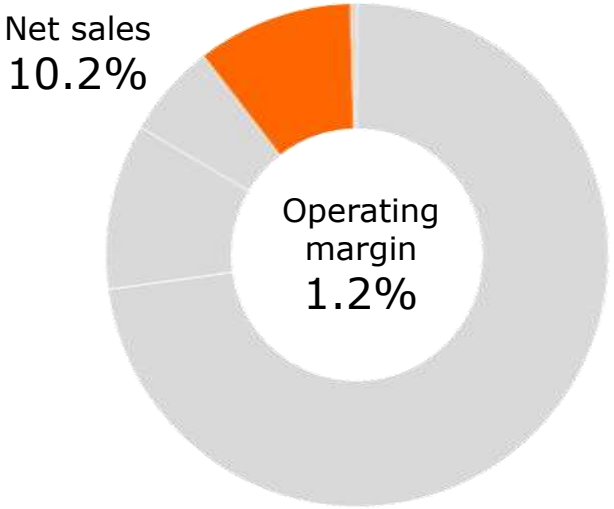
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Food Business

- Manufacture and sale of fruit dessert jellies

- Tarami (Nagasaki, Nagasaki Prefecture)

- Food Business as a percentage of overall performance (FY 2017 results)







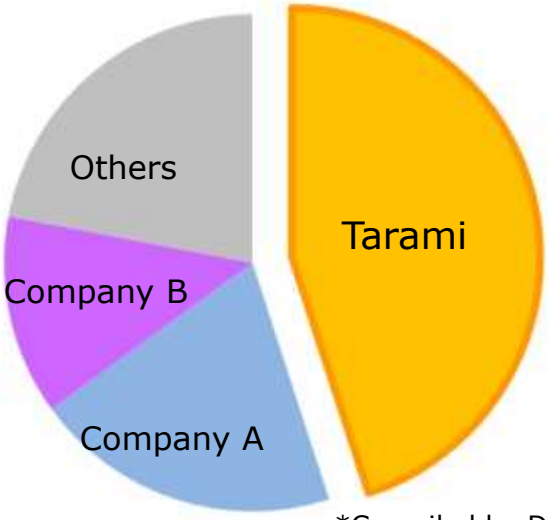
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Key Features / Strengths of the Food Business

- Manufacturing technologies that we've refined as a leading company in the industry so we can maximize the delicious flavor of fruit

- Providing new products that exceed customer expectations
- Manufacturing technologies that maximize the delicious flavor of fruit
- Procuring fruit from carefully selected vendors around the world
- Searching for new ingredients and food textures

- Dry jelly market share



*Compiled by DyDo

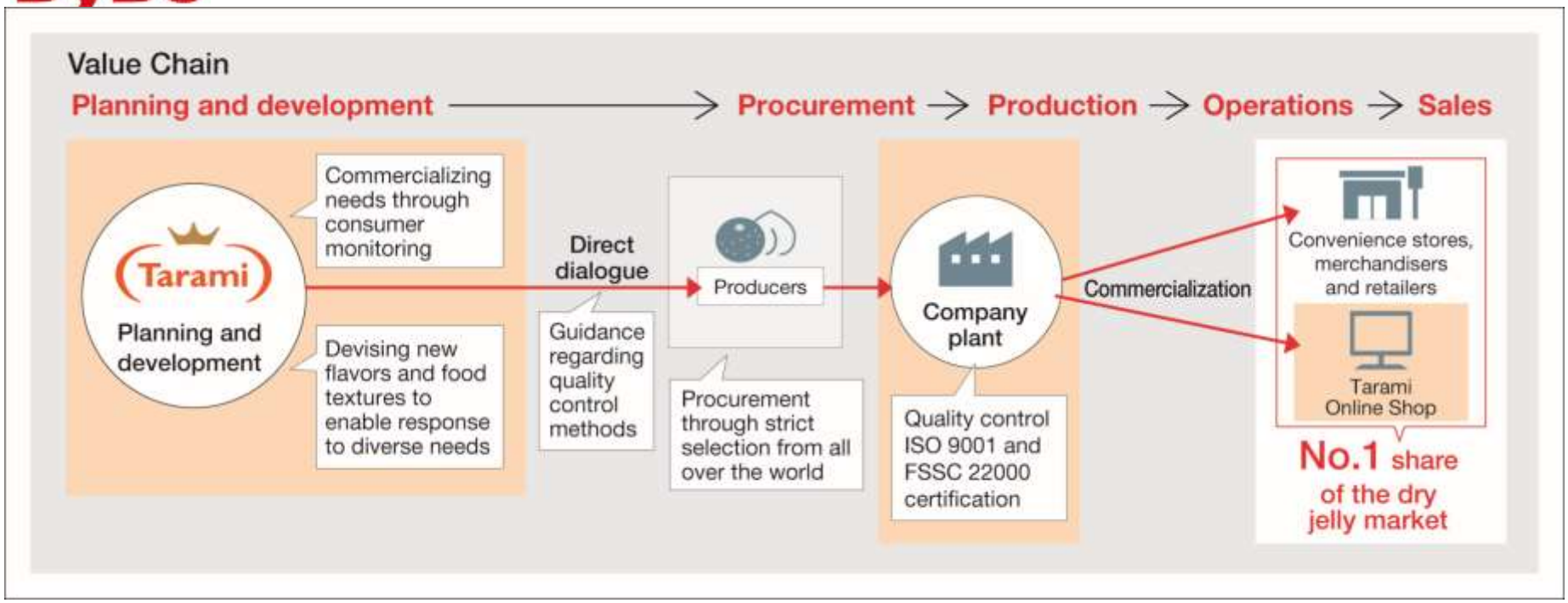
- Going forward, we will work to provide higher-value-added products while pioneering new markets and sales channels



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Food Business: Business Model



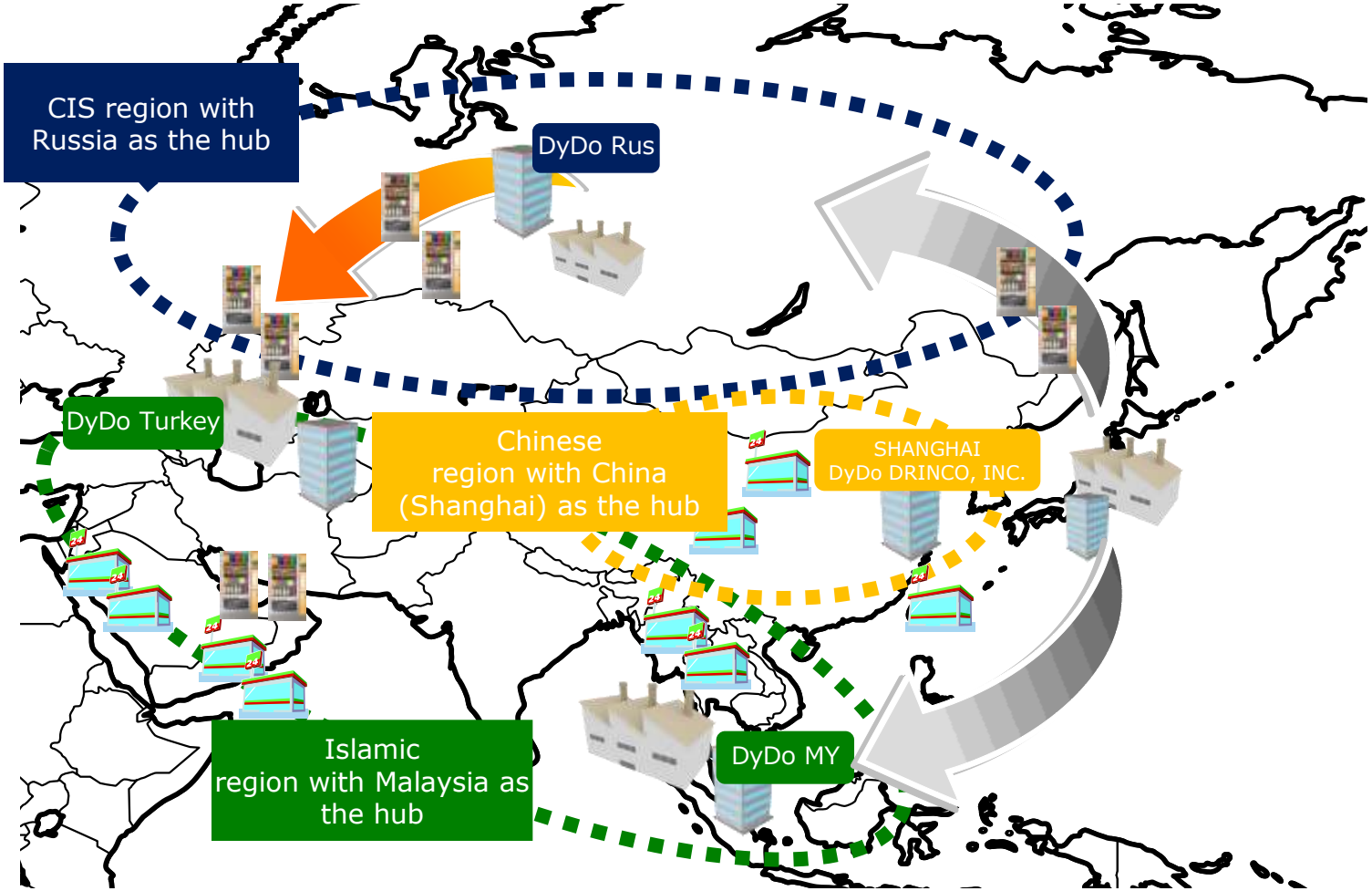
Issues and Future Strategy

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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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, 2018)

(Millions of yen)

Financial assets	82,230	Interest-bearing debt	36,191
		Accounts payable	19,899
		Accrued liabilities	11,149
		Other liabilities	12,978
Receivables	18,733	Net assets	90,927
Inventory assets	8,861		
Other assets	61,322		

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On Capital Policy and Returns to Shareholders

Returns to shareholders
Realizing sustainable, profitable growth

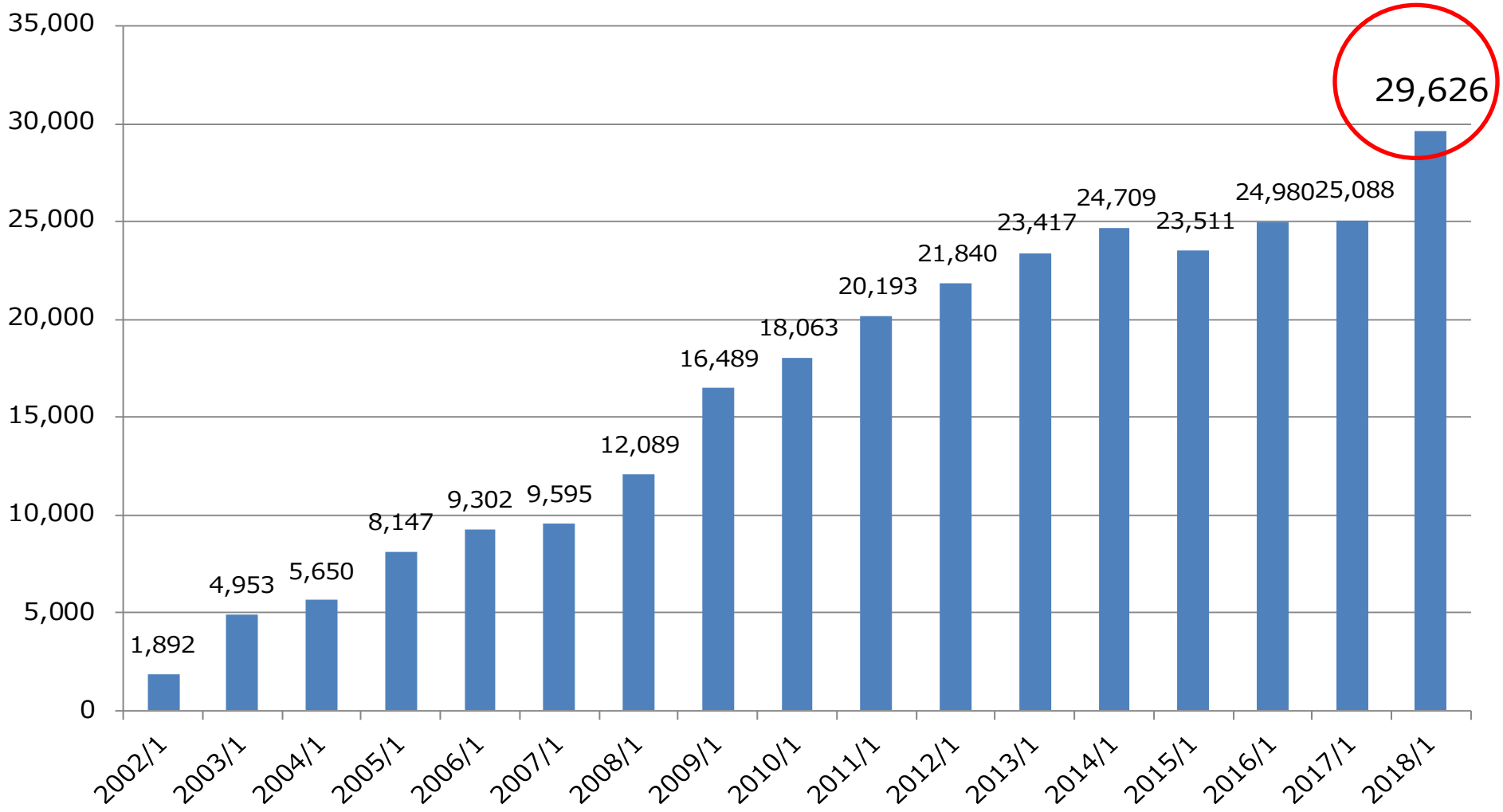
Effective use of capital
Establishing a new business foundation via strategic investment

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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Number of Shareholders



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The plans, future projections and strategies for the DyDo Group stated in this document, with the exception of past or current facts, are projections of our future performance, and are based on the judgment and postulations of our management team based on the information available at the present time. Accordingly, the actual performance may differ greatly from these due to unforeseen factors, the economic situation and other risks. This document is not intended to solicit any investment. Please use your own judgment when making investment decisions.