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DyDo

FY2018 (Year Ending January 20, 2019)
1st Quarter Financial Highlights

DyDo Group Holdings Inc.

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

May 28, 2018

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DyDo

1. FY2018 1st Quarter Financial Highlights / Full-year Earnings Forecast

Overview of Consolidated Financial Information for FY2018 1st Quarter

- Net sales during the first quarter rose 2.6% year on year, and operating profit rose 770 million yen from the previous year
- The International Beverage Business, Pharmaceutical-related Business, and Food Business all posted double-digit sales
- Lower selling expenses in the Domestic Beverage Business and improved profitability in the International Beverage Business contributed to rising profits

(Millions of yen)

	1st Quarter (Jan 21 - Apr 20)						Full-year					
	FY2017 results		FY2018 results				FY2017 results		FY2018 earnings forecasts			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	38,940	100.0%	39,966	100.0%	2.6%	1,025	172,684	100.0%	175,220	100.0%	1.5%	2,535
Operating profit	(53)	–	724	1.8%	–	778	4,891	2.8%	5,740	3.3%	17.4%	848
Ordinary profit	(50)	–	716	1.8%	–	767	5,382	3.1%	5,725	3.3%	6.4%	342
Profit attributable to owners of parent	(403)	–	73	0.2%	–	477	2,504	1.5%	3,640	2.1%	45.4%	1,135
EPS	(24.37 yen)		4.46 yen		–	28.83 yen	151.73 yen		220.99 yen		45.6%	69.26 yen
Dividend per share	–		–		–	–	60 yen		60 yen		–	–

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FY2018 1st Quarter Consolidated Earnings / FY2018 Full-year Consolidated Earnings Forecast - Details -

(Millions of yen)

	FY2017 1st quater results	FY2018 1st quater results			FY2017 full-year results	FY2018 full-year earnings forecast		
			% (YoY)	Amount (YoY)			% (YoY)	Amount (YoY)
Domestic Beverage Business	29,698	29,510	(0.6%)	(187)	126,712	127,070	0.3%	358
International Beverage Business	3,331	3,788	13.7%	457	18,547	19,410	4.7%	863
Pharmaceutical-related Business	2,408	2,694	11.9%	285	10,536	10,500	(0.3%)	(36)
Food Business	3,697	4,112	11.2%	415	17,560	18,850	7.3%	1,290
Adjustment	(195)	(140)	–	54	(673)	(610)	–	63
Total net sales	38,940	39,966	2.6%	1,025	172,684	175,220	1.5%	2,536
Domestic Beverage Business	354	970	173.5%	615	5,542	6,700	20.9%	1,158
International Beverage Business	(366)	(235)	–	131	(838)	(680)	–	158
Pharmaceutical-related Business	354	356	0.6%	2	1,271	1,100	(13.5%)	(171)
Food Business	(71)	(75)	–	(4)	219	645	194.5%	426
Adjustment	(324)	(291)	–	33	(1,303)	(2,025)	–	(722)
Total operating profit	(53)	724	–	778	4,891	5,740	17.4%	849

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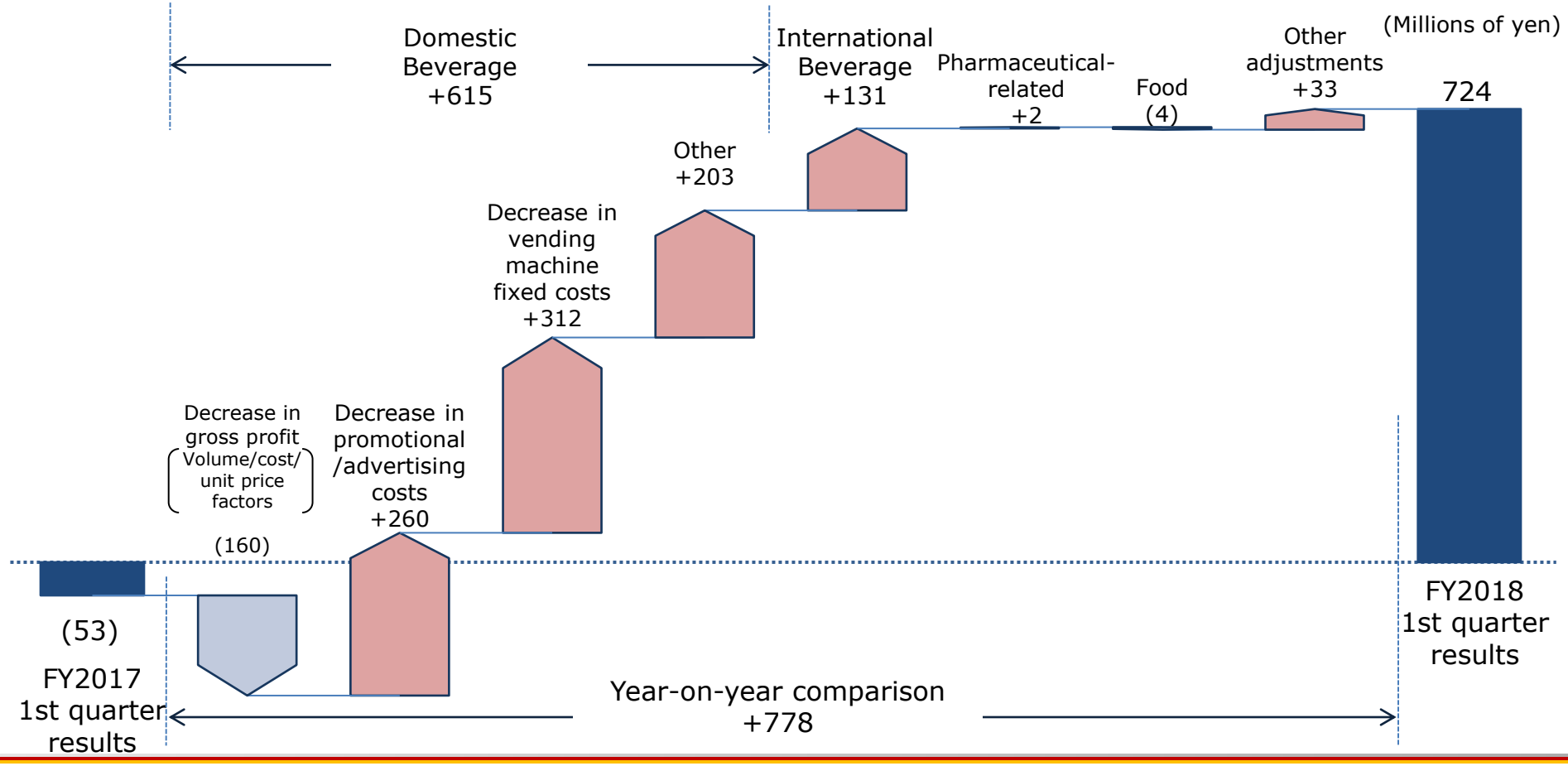
Causes Driving Increases/Decreases in Operating Profit for FY2018 1st Quarter - Year-on-year Comparison -

- Lower sales volume in the Domestic Beverage Business was offset by decreases in SG&A expenses, particularly in fixed costs associated with vending machines
- Strong performance by our Turkish beverage business contributed to improved profitability in the International Beverage Business



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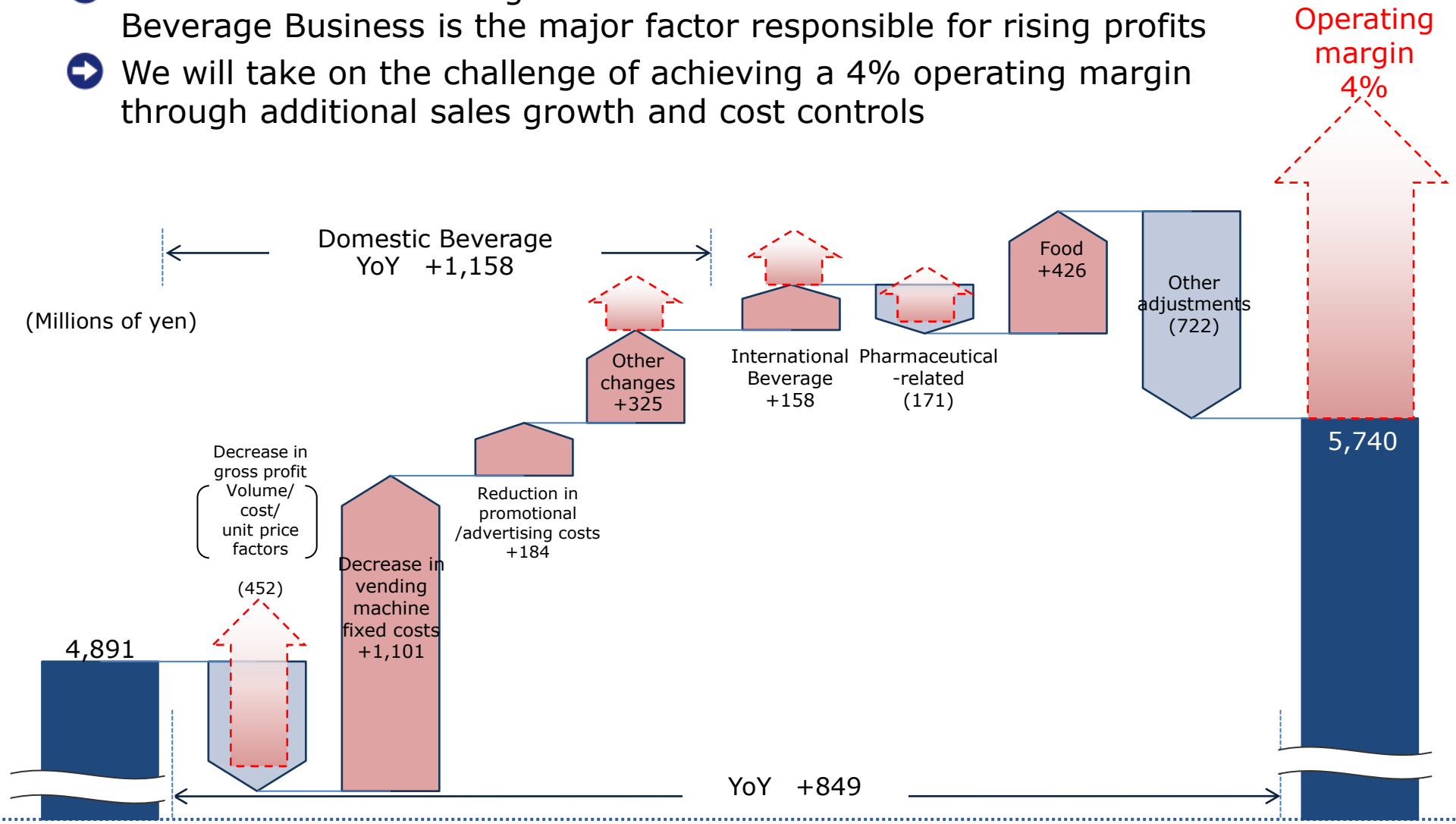
<Reference> Factors Driving Increases/Decreases in Operating Profit for FY2018

- 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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Seasonal Fluctuations – Net sales –

(Millions of yen)

Consolidated

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	38,940	47,862	47,101	38,779	172,684
Ratio of full year (%)	22.5%	27.7%	27.3%	22.5%	100.0%
FY2018	39,966	–	–	–	–

Domestic Beverage Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	29,698	34,331	33,437	29,245	126,712
Ratio of full year (%)	23.4%	27.1%	26.4%	23.1%	100.0%
FY2018	29,510	–	–	–	–

International Beverage Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	3,331	5,124	5,660	4,430	18,547
Ratio of full year (%)	18.0%	27.6%	30.5%	23.9%	100.0%
FY2018	3,788	–	–	–	–

Pharmaceutical-related Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	2,408	2,745	2,936	2,445	10,536
Ratio of full year (%)	22.9%	26.0%	27.9%	23.2%	100.0%
FY2018	2,694	–	–	–	–

Food Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	3,697	5,839	5,256	2,767	17,560
Ratio of full year (%)	21.1%	33.2%	29.9%	15.8%	100.0%
FY2018	4,112	–	–	–	–

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Seasonal Fluctuations – Operating profit –

(Millions of yen)

Consolidated

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	(53)	2,211	2,653	78	4,891
Ratio of full year (%)	–	45.2%	54.3%	1.6%	100.0%
FY2018	724	–	–	–	–

Domestic Beverage Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	354	2,029	2,295	862	5,542
Ratio of full year (%)	6.4%	36.6%	41.4%	15.6%	100.0%
FY2018	970	–	–	–	–

International Beverage Business

(Before amortization of goodwill)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	(278)	(111)	151	(243)	(482)
Ratio of full year (%)	–	–	–	–	100.0%
FY2018	(158)	–	–	–	–

Pharmaceutical-related Business

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	354	344	353	219	1,271
Ratio of full year (%)	27.9%	27.1%	27.8%	17.2%	100.0%
FY2018	356	–	–	–	–

Food Business

(Before amortization of goodwill)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	16	440	314	(199)	571
Ratio of full year (%)	2.9%	77.1%	55.0%	–	100.0%
FY2018	12	–	–	–	–

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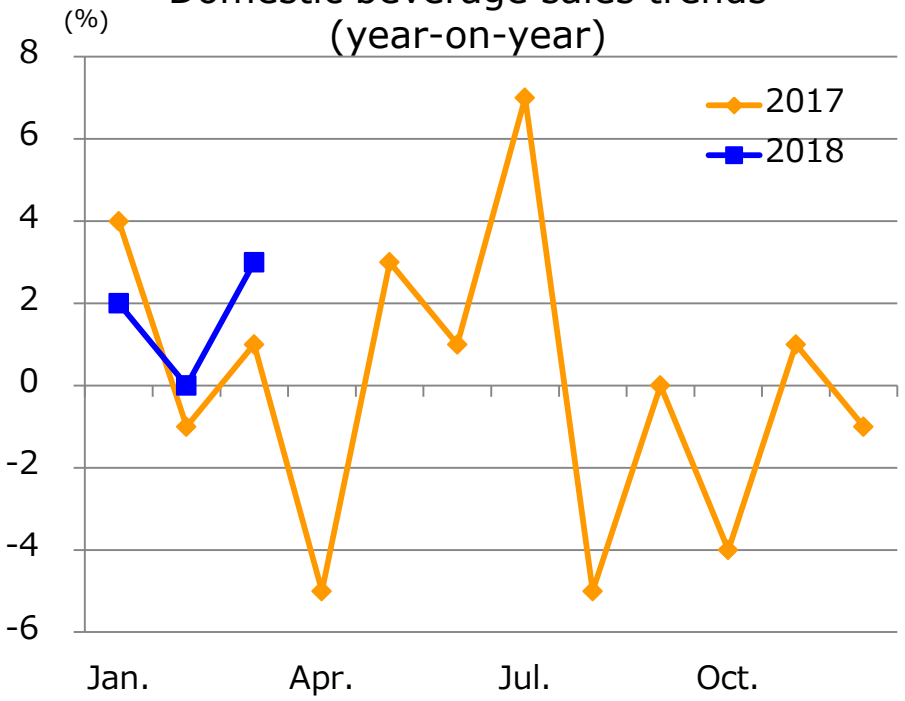
Trends in the Beverages Industry

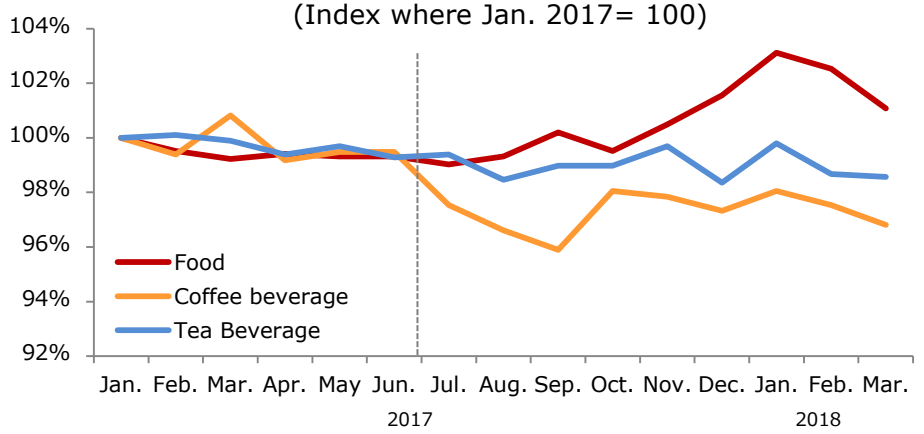
- Despite the adverse effects of heavy snowfall during January and February, active efforts by competitors to roll out new products led to solid sales volume during the first quarter
- The decline in market prices that began during the second half of 2017 continued
- The transition to plastic containers for coffee drinks progressed as market prices continued to decline

Domestic beverage sales trends (year-on-year)



* Compiled by DyDo

Change in consumer price index (beverages)
(Index where Jan. 2017= 100)



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

Fixed-location survey of coffee drink product availability at convenience stores

(Number of products)

	Jun. 2017	Sep.	Dec.	Apr. 2018
Stay-on-tab cans	84	75	74	81
Bottle-shaped cans	86	95	88	64
Plastic bottles	19	19	28	43

*Survey by DyDo DRINCO targeting one branch of each of three large convenience store chains in Tokyo's Chuo City

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<Domestic Beverage Business> Overview

Overview of the Domestic Beverage Business

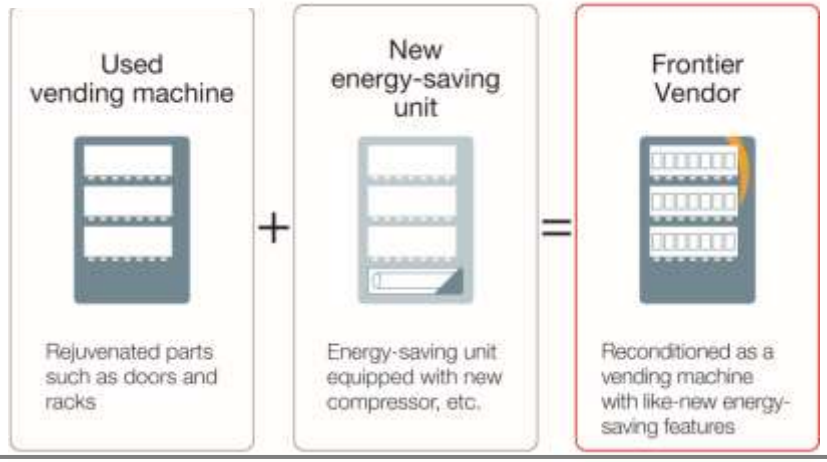
(Millions of yen)

	FY2017 1Q results	Component ratio	FY2018 1Q results	Component ratio	% (YoY)	Amount (YoY)	FY2017 full-year results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	29,698	100.0%	29,510	100.0%	(0.6%)	(187)	126,712	100.0%	127,070	100.0%	0.3%	358
Operating profit	354	1.2%	970	3.3%	173.5%	615	5,542	4.4%	6,700	5.3%	20.9%	1,158

- Sales in the Domestic Beverage Business fell 0.6% year on year (including a decline of 0.1% in the vending machine channel)
- The year-on-year decline in promotional costs and advertising costs reflects disparities in when those costs were incurred
- The company continues to work steadily to lower vending machine fixed costs

Concept of vending machine reconditioning

– Reducing environmental impact while simultaneously lowering costs –



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Trends in Monthly Sales Volume for the Domestic Beverage Business

- Sales volume during the first quarter fell 1.1% year on year
- Coffee drink performance reflects the impact of active roll-outs of new products, including those sold in plastic bottles, by competitors
- March saw a reduction in the impact on initial sales of a change made last year in the product line for Kirin Beverage

	Jan. 21 - Feb. 20	Feb. 21 - Mar. 20	Mar. 21 - Apr. 20	Total, Jan. 21 - Apr. 20	
	Change (%)	Change (%)	Change (%)	Sales volume (thousands of cases)	Change (%)
Coffee beverages	1.2%	(7.9%)	(3.8%)	8,043	(3.6%)
Other beverages	(6.2%)	1.7%	10.7%	5,116	3.1%
Total	(1.5%)	(4.5%)	1.9%	13,159	(1.1%)
Change in days of operation compared to previous month	+1 day	±0 days	±0 days	+1 day	

Sales volume by channel, Jan. 21 - Apr. 20			
Vending machines		Other	
Sales volume (thousands of cases)	Change (%)	Sales volume (thousands of cases)	Change (%)
6,493	(1.9%)	1,549	(10.4%)
4,470	2.7%	646	6.2%
10,963	(0.1%)	2,195	(6.1%)

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<Domestic Beverage Business> Strengthening the Product Line

- April 2　DyDo enhances its product line to accommodate growing demand for healthy products! Foods with a functional claim from the "DyDo Blend" and "miu" brands



Left:　"DyDo Blend Smart Blend Black Supervised by the World's Top Barista*1"
Right:　"miu Sparkling Water Plus"

*1　Pete Licata, 14th World Barista Championship Winner (Submitted labeling on foods with functional claims is not included in the scope of his supervision.)

- February 26　A new type of carbonated drink combining sparkling jelly and nata de coco that you shake before drinking "PuruSsh! Jelly × Sparkling" series



- **Measures to enhance the line of products sold in vending machines**
  Asahi Soft Drinks Co., Ltd. (starting late March 2018)
  Mitsuya Cider in 430 mL plastic bottles (124 yen [excluding tax])
  Calpis Water in 430 mL plastic bottles (124 yen [excluding tax])
  Kirin Beverage Co., Ltd. (continued from last year)
  Kirin "Gogo-no-Kocha" Milk Tea in 280 mL plastic bottles (120 yen [excluding tax])
  Kirin "Gogo-no-Kocha" Lemon Tea in 280 mL plastic bottles (120 yen [excluding tax])

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<International Beverage Business> Overview

Overview of the International Beverage Business

(Millions of yen)

	FY2017 1Q results	Component ratio	FY2018 1Q result	Component ratio	% (YoY)	Amount (YoY)	FY2017 full-year results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	3,331	100.0%	3,788	100.0%	13.7%	457	18,547	100.0%	19,410	100.0%	4.7%	863
Operating profit	(278)	–	(158)	–	–	119	(482)	–	(352)	–	–	130
Amortization of goodwill, etc.	88	2.7%	76	2.0%	(14.0%)	(12)	356	1.9%	328	1.7%	(7.9%)	(28)
Operating profit after subtracting amortization of goodwill	(366)	–	(235)	–	–	131	(838)	–	(680)	–	–	158

JPY per TRY	30.67 yen	27.98 yen	(2.69 yen)	30.78 yen	30.00 yen	(0.78 yen)
JPY per MYR	25.48 yen	27.61 yen	2.13 yen	26.21 yen	25.00 yen	(1.21 yen)

- Solid performance in the Turkish beverage business drove the overall performance of the International Beverage Business
- Seasonal variations in the International Beverage Business are more pronounced than in the Domestic Beverage Business, with the result that the second and third quarters account for a greater percentage of total annual sales



Mineral water brand: Saka

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<International Beverage Business> Overview of Performance in Major Geographical Areas

Turkish beverage business

- First-quarter sales rose 28% year on year on a local currency basis
- Strong sales of highly profitable mineral water products drove overall performance
- A special consumption tax[*1] took effect starting at the beginning of the year, but the impact on first-quarter performance was minor since a certain amount of the product line was exempt from taxation

Local-currency-basis results			1st quarter	2nd quarter	3rd quarter	4th quatrter	Year
FY2018	Sales, YoY	Overall	+28%				
	Exchange rate (JPY per TRY)	Cumulative results	27.98 yen			Assumption→	30.00 yen
FY2017	Sales, YoY	Overall	+2%	+10%	+25%	+44%	+18%
	Exchange rate (JPY per TRY)	Cumulative results	30.67 yen	31.05 yen	31.24 yen	30.78 yen	30.78 yen

*1: Special consumption tax: Carbonated beverage, juice-flavored drinks, and other drink products have been taxed at a rate of 10% since January 2018.

Malaysian beverage business

In May, we launched Yobick, a new, high-quality product for the Malaysian market modeled on similar offerings in Japan[*2].

→We are rebuilding our product portfolio.

*2: The product was launched first in China in 2017.



Yobick

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<Pharmaceutical-related Business> <Food Business> Overview

Overview of the Pharmaceutical-related Business

(Millions of yen)

	FY2017 1Q results		FY2018 1Q results				FY2017 full-year results		FY2018 full-year earnings forecast			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	2,408	100.0%	2,694	100.0%	11.9%	285	10,536	100.0%	10,500	100.0%	(0.3%)	(36)
Operating profit	354	14.7%	356	13.2%	0.6%	2	1,271	12.1%	1,100	10.5%	(13.5%)	(171)

- Strong numbers for both new and existing orders contributed to improved performance
- We put in place structures to prepare for the start of operations at our new Kanto Plant in 2020

Overview of the Food Business

(Millions of yen)

	FY2017 1Q results		FY2018 1Q results				FY2017 full-year results		FY2018 full-year earnings forecast			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	3,697	100.0%	4,112	100.0%	11.2%	415	17,560	100.0%	18,850	100.0%	7.3%	1,290
Operating profit	16	0.4%	12	0.3%	(26.7%)	(4)	571	3.3%	997	5.3%	74.6%	426

- The successful launch of a series of products based on new concepts led to a significant improvement in performance
- We made marketing investments to improve the value of the Tarami brand

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2. Striving to Achieve Sustained Growth

ESG Initiatives and Future Growth Strategies

Environment
Social
Governance

Guidance for Collaborative Value Creation

This section, which has been compiled with reference to "Guidance for Collaborative Value Creation," provides a brief overview of initiatives to increase corporate value over the medium and long term in order to provide a comprehensive understanding of the interrelated nature of DyDo's group philosophy, business model, ESG (environment, social, and governance) issues, strategies, and governance.

On May 30, 2018, DyDo will hold a small-scale meeting to be attended by the president, external directors, and representative executive officers using content from this section. In the spirit of fair disclosure, DyDo is sharing that content with all stakeholders.

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DyDo Group History

(Billions of 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 2nd 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

200
100
0

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 sound mind and body

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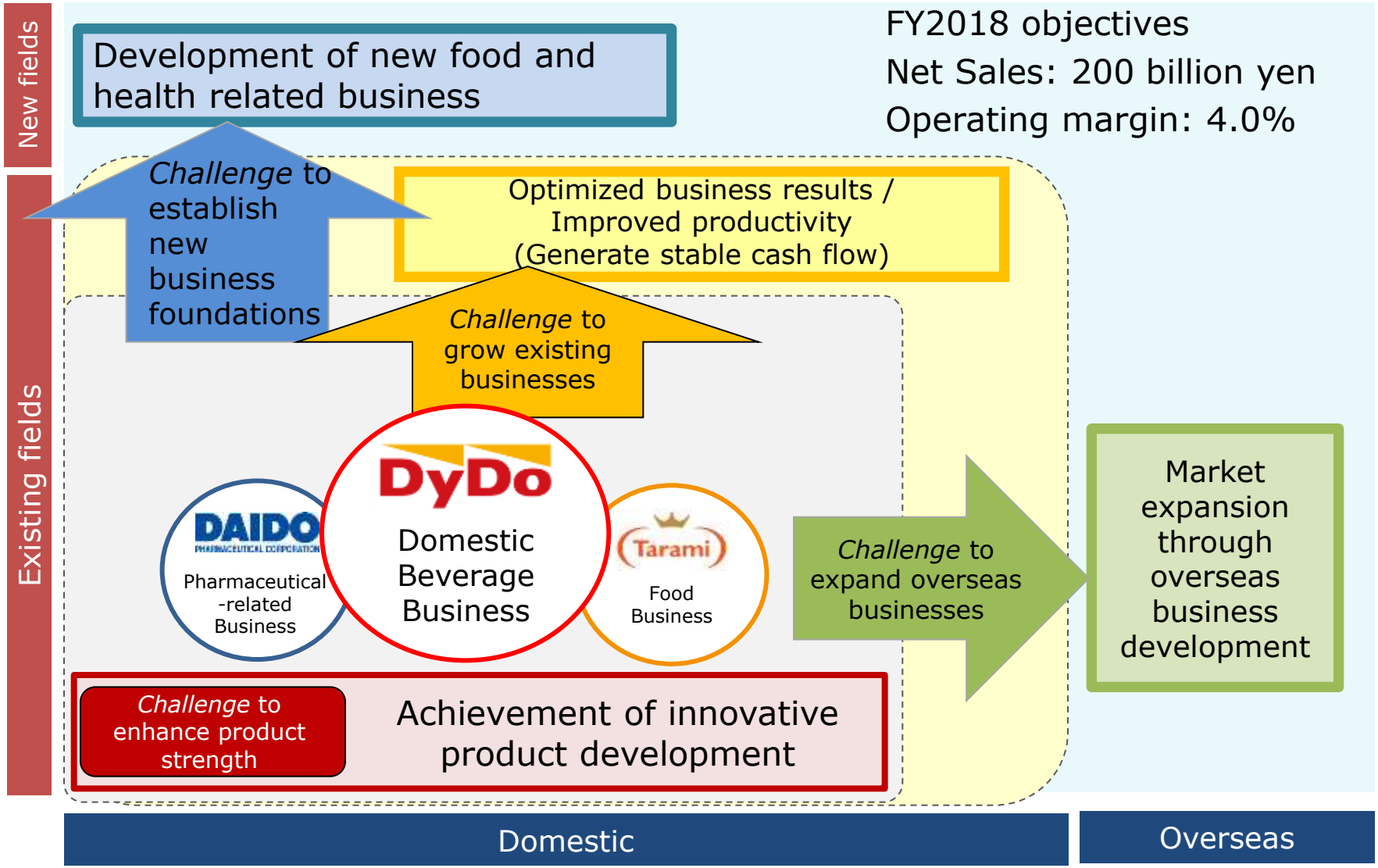
Mid-term Business Plan: "Challenge the Next Stage" - Four Challenges to the Next Stage -



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Spreading the Group Philosophy: Cultivating a Corporate Culture that Embraces Challenges

Visiting facilities around Japan

During the year after the current president assumed his position in 2014, he visited 116 facilities around Japan to engage in dialog with employees. He shared the Group Philosophy and Vision and discussed current issues that need to be overcome and future initiatives as part of the effort to put them into practice.

DyDo off-site meetings

The company held a series of off-site meetings with participation by the management team. Attendees shared examples of successes and failures in the effort to put the philosophy and vision into practice as well as lessons learned and future goals as they participated in a deeper discussion about the Group's future.



An off-site meeting

Phase for fostering understanding and awareness (FY2014: Current president assumes position in March)	Phase for putting goals into practice (FY2015)	
Establishment of the DyDo Group Philosophy and Vision (Initiatives) • Holding management policy briefings for all employees • Having top management visit all facilities (to engage in dialog with employees) • Publishing an internal newsletter	Employee willingness to undertake challenges based on the Group Philosophy (Initiatives) • Implementing programs to encourage employees to embrace challenges • Applying those programs to employee performance evaluations • Holding regular meetings where management and employees can exchange views (off-site meetings)	Increasing corporate value by implementing the DyDo Group Vision

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Spreading the Group Philosophy: Cultivating a Corporate Culture that Embraces Challenges

- We launched the DyDo Challenge Awards in FY2017 to foster a corporate culture that encourages employees to embrace challenges

  We're working to broaden the scope of employees' efforts in order to achieve sustained growth of the Group by communicating information about those efforts to stakeholders inside and outside the company.

FY2015	FY2016	FY2017 and beyond
Accomplishing Four Shared Goals	Challenge Report Meetings	DyDo Challenge Awards
Helping employees embrace challenges	Recognizing employee efforts to embrace challenges	(1) Recognizing employee efforts to embrace challenges (2) Implementing employees' ideas
Activities commemorating the 40th anniversary of DyDo's founding Employees proposed ideas they'd like to implement and then worked to put them into practice. Implemented ideas (partial list): • "Talking vending machines" that communicate in four languages to meet demand from inbound tourists • Rental umbrellas	Each department chose exceptional challenges undertaken by employees during the last year. The results of those efforts were shared, and the employees recognized, at report meetings. Recognized ideas (partial list): • Utilization of "neuro survey" results in marketing • Entry into the supplement server business (→ investment in Dricos)	(1) DyDo Challenge Awards An award recognizing employee efforts during the past year that made a particularly significant contribution to improved corporate value (2) DyDo Challenge Idea Awards An award recognizing ideas submitted by employees that have been chosen to be implemented during or after the next fiscal year

Award ceremony held in March 2018





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Spreading the Group Philosophy: Cultivating a Corporate Culture that Embraces Challenges

- 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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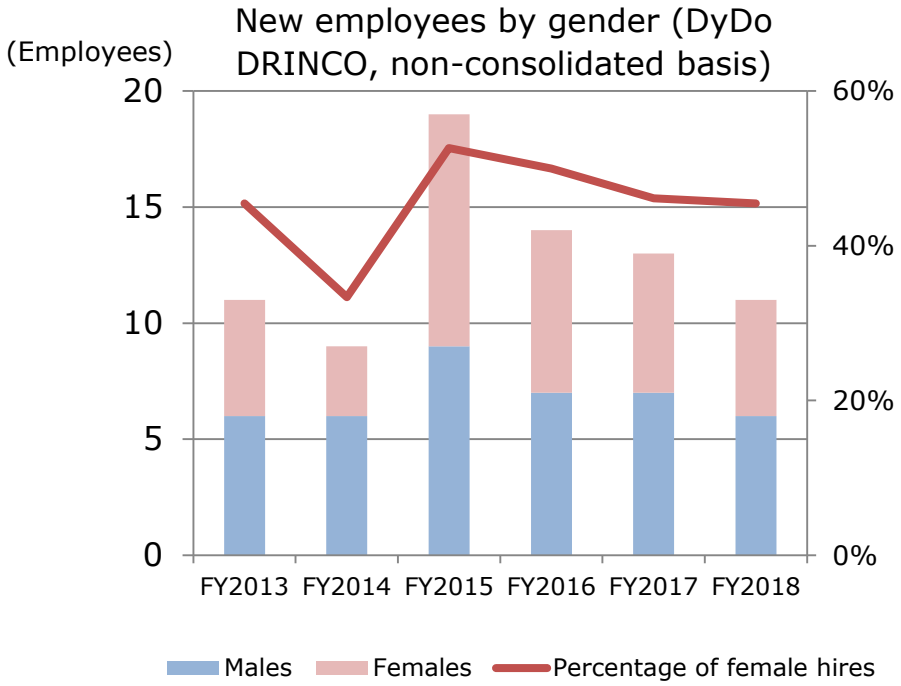
Initiatives to Utilize Employees Effectively: Together with People

Promoting female employees' careers

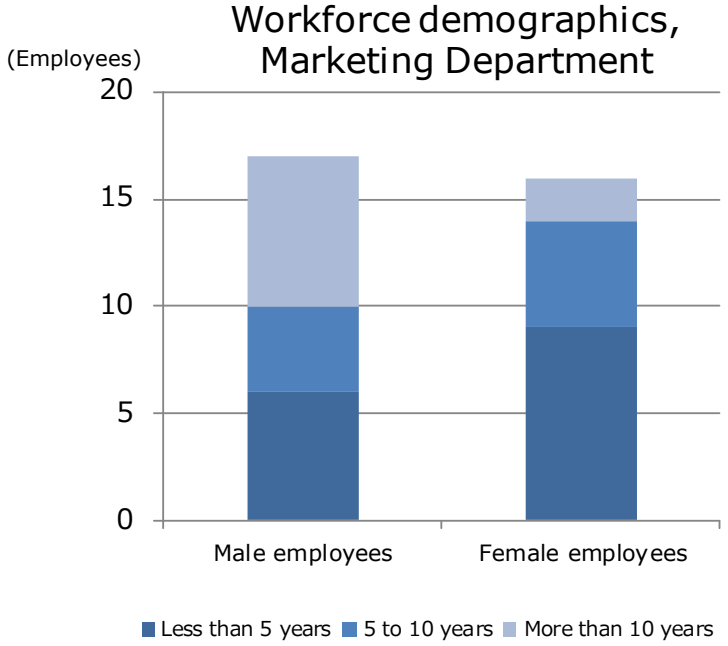
- As one initiative to hire and retain a diverse workforce, we actively hire and train female employees
- Female employees accounted for 53% of new hires by the DyDo Group* during FY2017

*DyDo DRINCO, DyDo Beverage Service, DyDo Pharmaceutical, Tarami



Promoting outside personnel

- To accommodate changes in the business environment, we actively promote outside personnel with expertise primarily in the fields of marketing and international business



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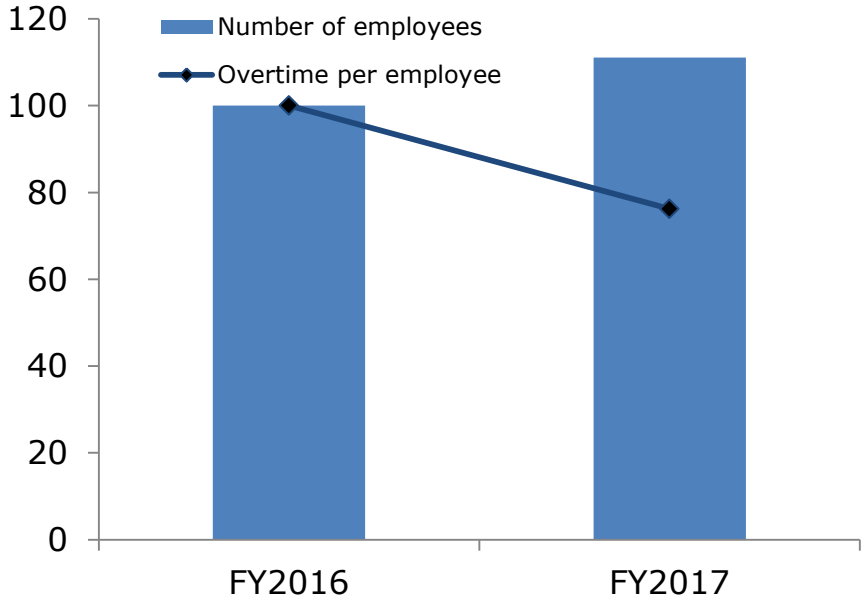
Workstyle Reform Initiatives: Together with People

Domestic Beverage Business initiatives

- Increasing productivity by improving operational efficiency
- Reallocating some facilities and optimizing personnel assignments in order to optimize vending machine operations

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.

Pharmaceutical-related Business initiatives

- Increasing productivity by automating packaging processes and simultaneously reducing employee workload



Before automation

Employees: 12
Hours of work: 12
Total hours of work: 144 per lot

Savings of 141 hours



After automation

Employees: 1
Hours of work: 3
Total hours of work: 3 per lot

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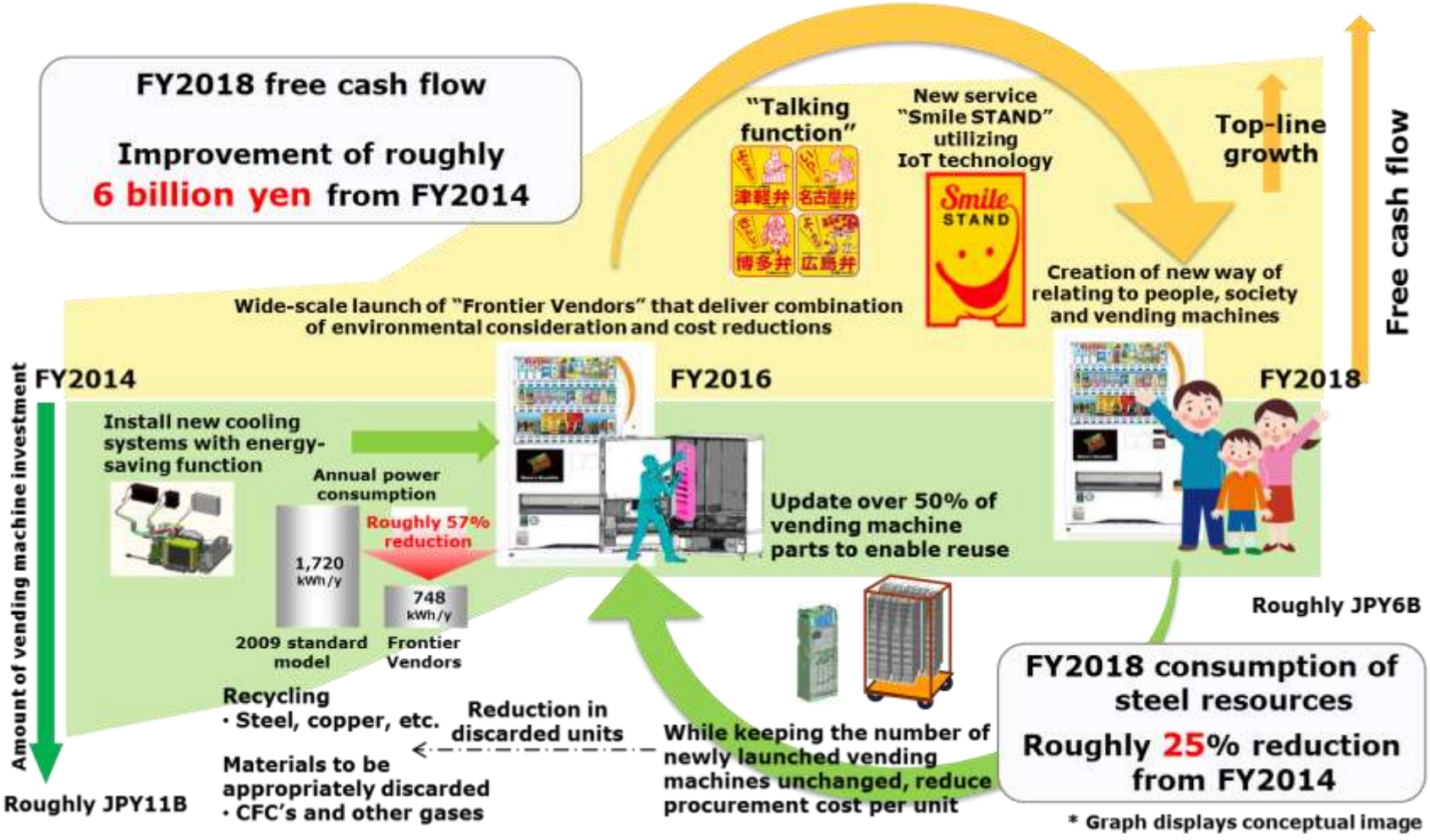
Cyclical Business Model for Vending Machines: Together with Society

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



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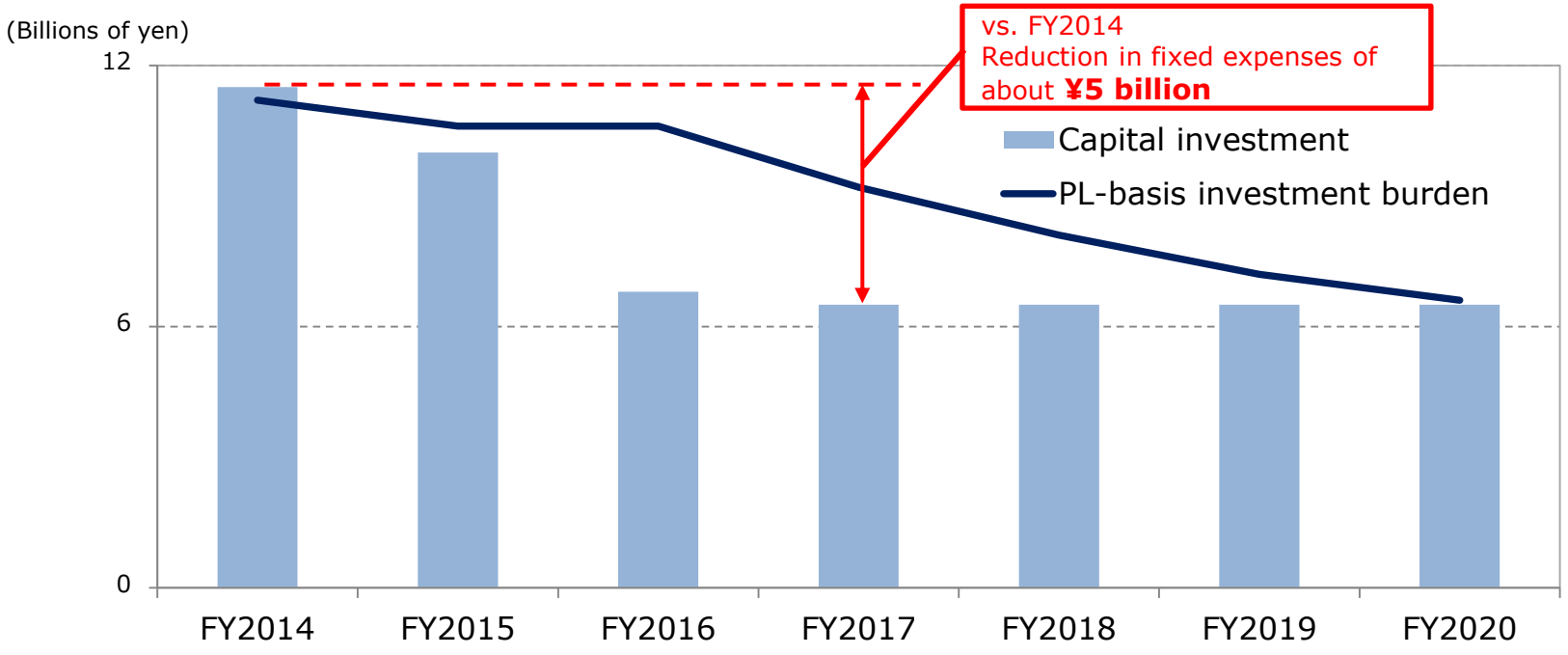
Radically Reforming Fixed Cost Structure in the Vending Machine Channel: Together with Society

Simultaneously reducing environmental impact and lowering costs

- Reducing the purchase cost per vending machine by reviewing how we procure vending machines
- Taking into account environmental factors, for example by increasing the number of years for which vending machines are used

Illustration of how we plan to reduce capital investment and PL-basis investment burden in the Domestic Beverage Business



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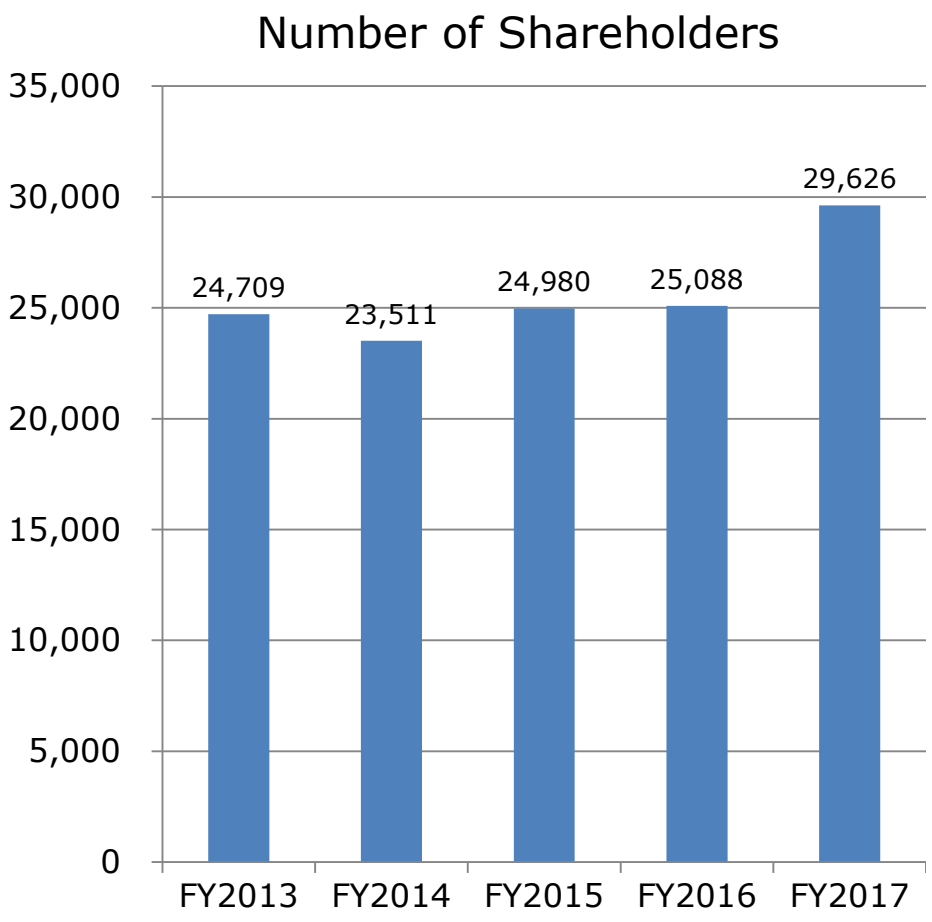
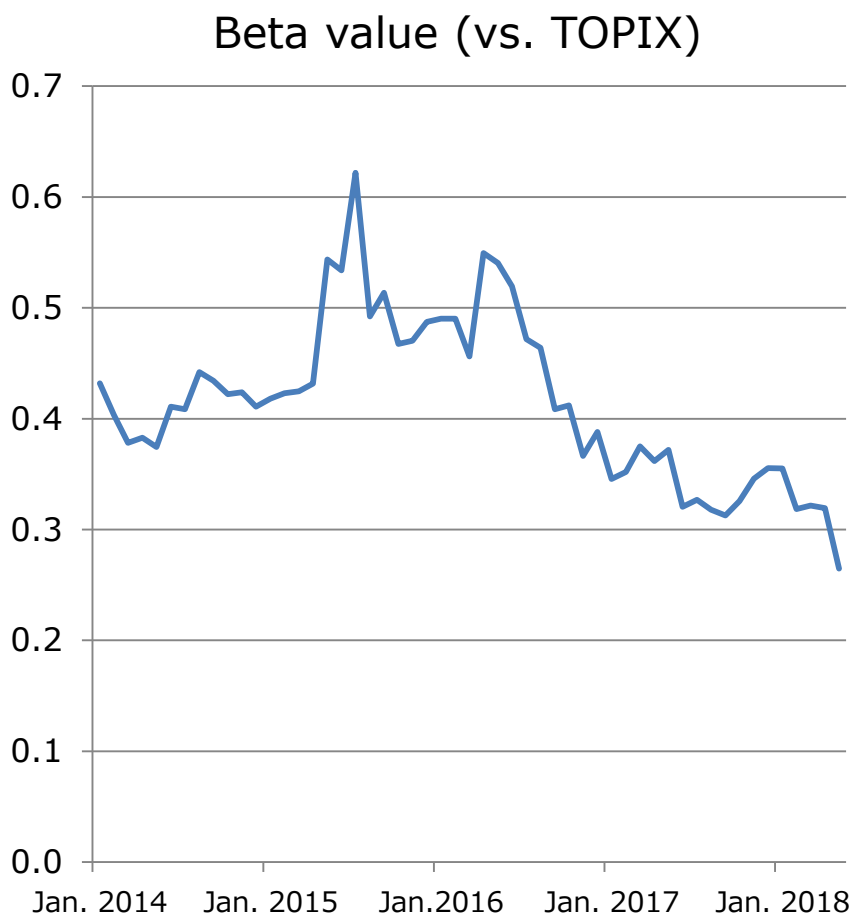
Constructive Dialog with Stakeholders

- Increasing the number of shareholders by promoting two-way communication
- Promoting active disclosure of information and constructive dialog





Calculated on a monthly basis for the last three years.

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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 FY2017	**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 FY2017	• 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 FY2017	**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 sound mind and body in a way that goes beyond the boundaries of beverages, foods, and pharmaceuticals

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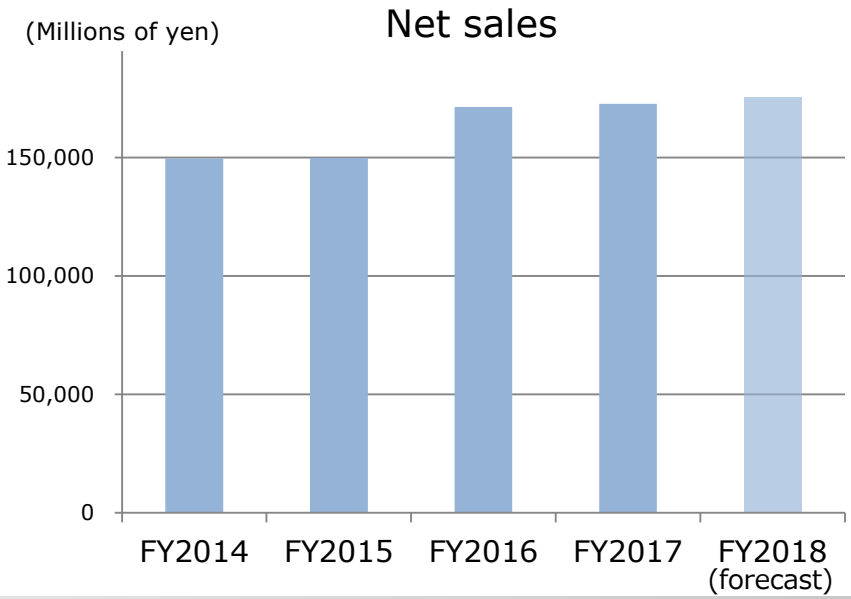
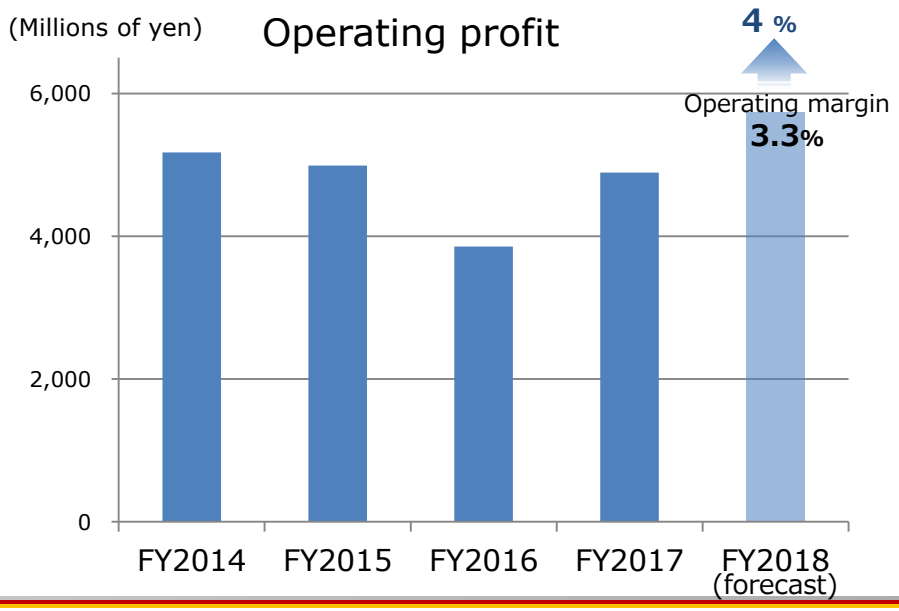
Performance under the Current Mid-term Business Plan

(Millions of yen)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018 forecast
Net sales	149,526	149,856	171,401	172,684	175,220
Operating profit	5,174	4,988	3,857	4,891	5,740
Operating margin	3.5%	3.3%	2.3%	2.8%	3.3%
ROA (ratio of operating profit to total assets)	3.5%	3.2%	2.4%	2.9%	–
ROE (ratio of net profit to equity)	2.8%	2.8%	3.9%	2.9%	–
FCF*	3,535	4,806	6,862	5,395	–

*FCF = Cash flows from operating activities - Purchase of property, plant and equipment and intangible assets





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Issues with Increasing Corporate Value: Together with Future Generations

- [Issue] Because the "Challenge the Next Stage" Mid-term Business Plan is intended to serve as a milestone on our journey to achieving sustained growth, we are currently focusing on building a foundation for future growth. Thus we have not yet achieved profitability in excess of capital costs or efficiency.
- [Future measures] We continue to study new management strategies, management targets, KPIs, and other tools in order to achieve increased corporate value over the medium and long term.

	FY2017 results	Issues and measures
[Profitability] Net profit margin	1.5%	• Continually expanding cash flows in the Domestic Beverage Business • Improving the operating margin in each business segment • Strengthening and enhancing our business portfolio • Fostering the development of healthcare-related markets into a source of profit
[Asset efficiency] Total asset turnover	1.0×	• Improving asset efficiency through effective strategic business investment • Continually improving asset turnover in the Domestic Beverage Business by increasing net sales and shrinking vending machine assets
[Financial leverage] Total assets/ owned capital	1.9×	• Taking the balance among financial soundness, growth investment, and shareholder returns into consideration as we manage our balance sheet

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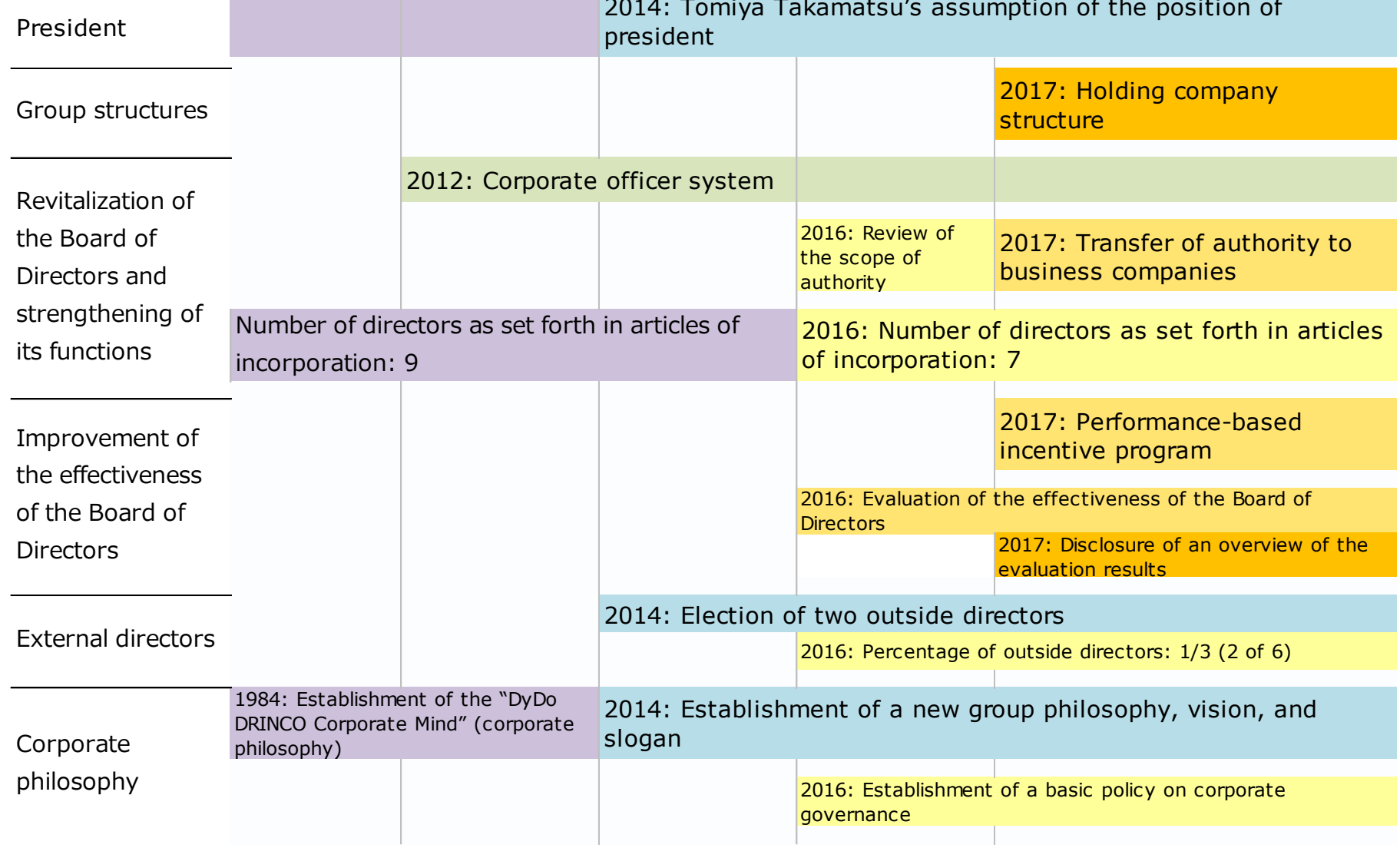
Governance Reform Initiatives: A Foundation for Continuing to Embrace Dynamic Challenges



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Continuous Improvement of Governance: Evaluating the Board of Directors

Analysis evaluation methods

Self-evaluation by all directors and auditors using survey forms → Individual interviews by the Board of Directors Secretariat → Sharing of analysis of self-evaluation results and current issues; discussions concerning future initiatives

December 2017 to March 2018

At the Board of Directors meeting held on March 15, 2018

Question categories on the self-evaluation survey form

The form groups questions into categories designed to confirm the state of discussion as the holding company's Board of Directors and of its handling of issues during the previous year.

1. Agenda management and operations of the Board of Directors following the transition to a holding company structure
2. Makeup of the Board of Directors in light of the development of the Company's overseas business and the expansion of its business domain
3. Future issues based on the Corporate Governance Code

Issues identified previous year

1. With regard to the composition of the Board of Directors, we will appoint an even more diverse range of personnel as we push forward with our management strategy to accelerate business development overseas and expand our fields of business.
2. With regard to the agenda of the meeting of the Board of Directors, we will refine discussion items and further deepen constructive discussion regarding the major directions of our corporate strategy as part of our group management, and decide how best to handle risk amidst the increasing requirements of our overseas business operations.
3. With regard to the operation of the Board of Directors, there is room for improvement in the way in which information is provided to external directors, the way in which time is allocated for discussion of matters according to their relative importance, and the way in which information is selected and explained.

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Continuous Improvement of Governance: Evaluating the Board of Directors

Status of improvements to agenda management and operations of the Board of Directors

Directors indicated that the agenda brought before the Board of Directors was sufficiently selective and narrow given the Company's status as a holding company. In particular, they noted that the Board worked to address the following:

1) Deliberation related to the expansion of a new business domain
2) Monitoring of the International Beverage Business
3) Reports on dialog with shareholders and investors

Number of times above reports were discussed at Board of Directors meetings

Content	FY2016	FY2017
New businesses	6	11
International Beverage Business	18	13
IR activities	6	13

Number of Board of Directors meetings	17	17

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Continuous Improvement of Governance: Evaluating the Board of Directors

Future issues

1. With regard to the makeup of the Board, we will find members with expertise in the healthcare domain in accordance with the Company's management strategy.
2. With regard to the provision of information to external directors and auditors, we will work to provide more information sooner.
3. With regard to deliberations involving investments, we will push for enhanced explanation of associated risks and returns and clarification of the criteria that would prompt the Company to pull the investment in question.
4. With regard to risk management in the International Beverage Business, we will undertake additional initiatives, for example to raise awareness of local employees.

Future efforts

The Board of Directors will deepen discussions related to the overall direction of the Company's management strategy while working to address the following topics in order to achieve sustained growth of the Group:

1. Important issues related to the sustainability of the vending machine business model
2. Vision for the Group's overall business portfolio
3. Approach to human resources investment to facilitate implementation of the Company's growth strategy

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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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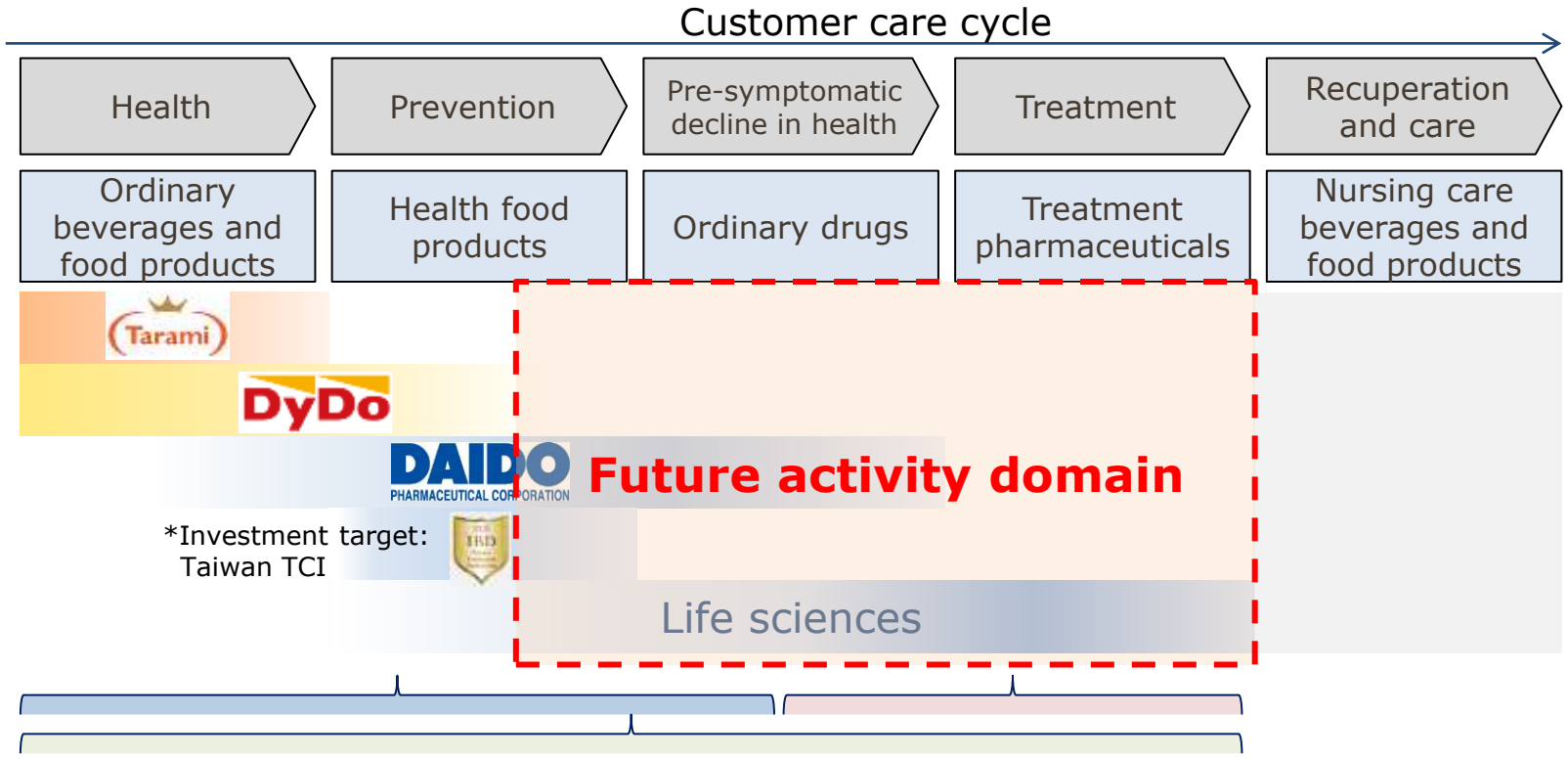
Illustration of Business Domains and Workforce Investment in the Future: Together with Customers

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: Helping Build a Rich and Healthy Society

Offering delicious products for sound mind and body

Growth in the healthcare market, which is our target market

Opportunities

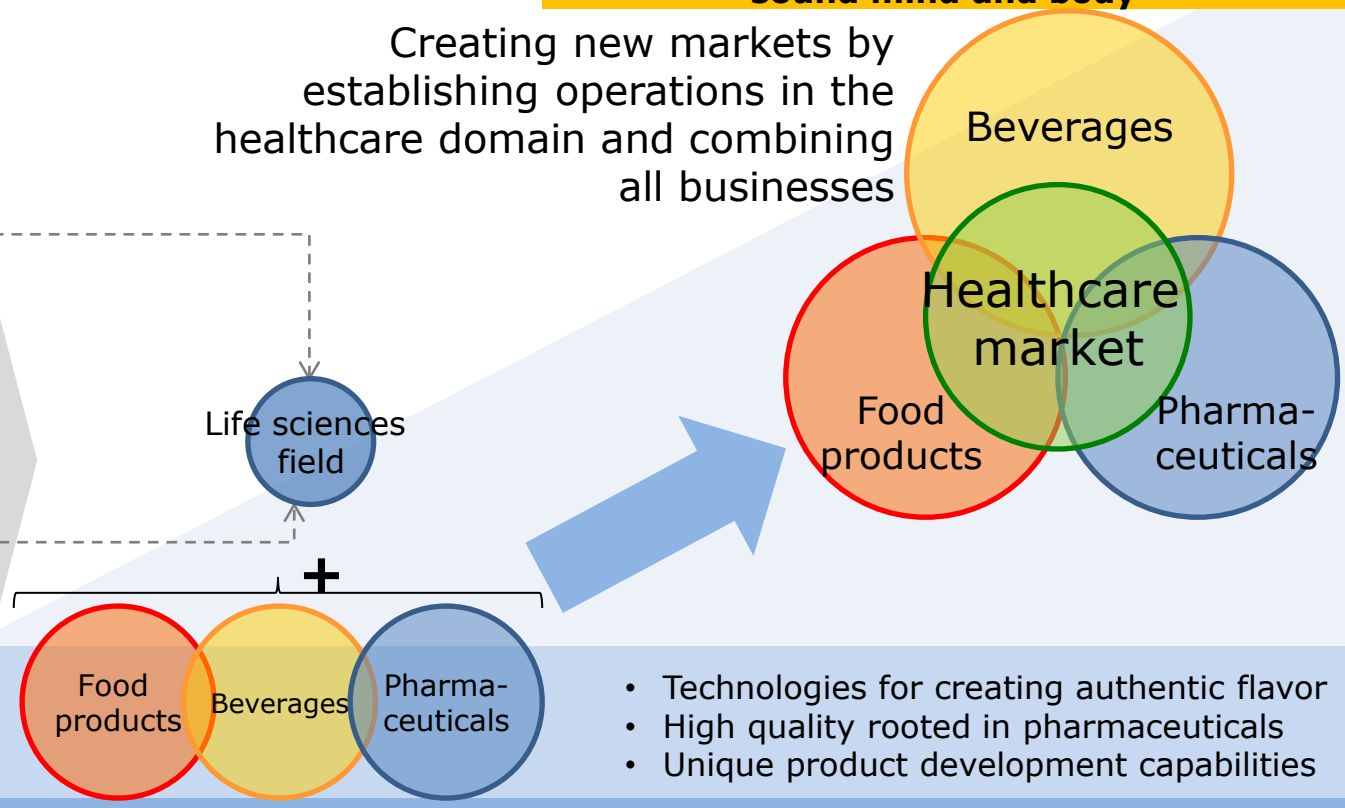
Changes in the external environment

- 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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DyDo

☐ 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

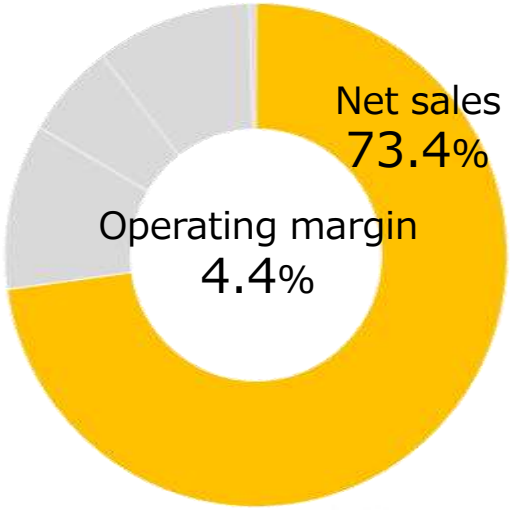






Domestic Beverage Business as a percentage of overall performance

(FY 2017 results, breakdown of net sales to external customers)



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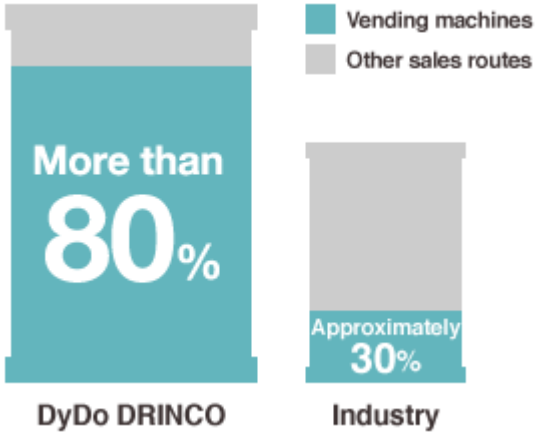
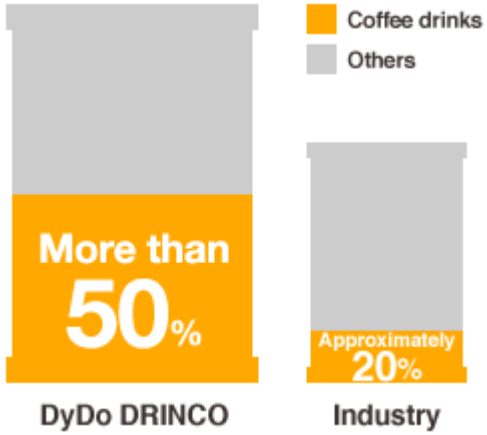
Key Features / Strengths of Domestic Beverage Business

Securing steady profit with sales of coffee from vending machines

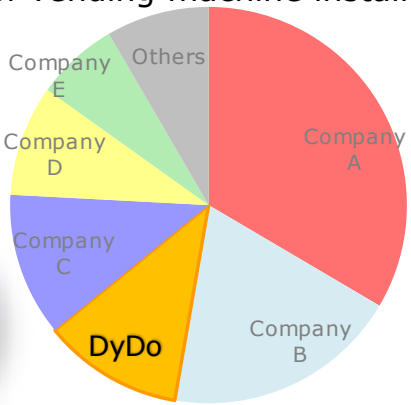
Vending Machine Sales account for more than 80%



Coffee sales account for more than 50%

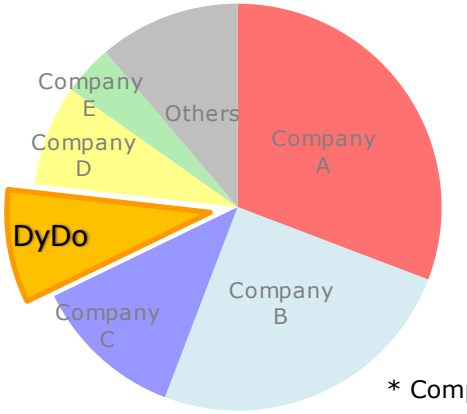


Share of vending machine installed base



nationwide network of approximately 280,000 vending machines

Share of coffee drink sales



* Compiled by DyDo

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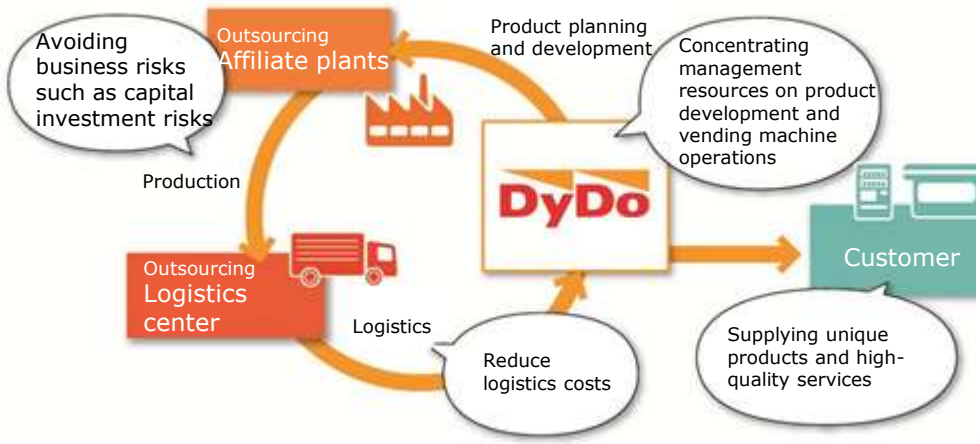
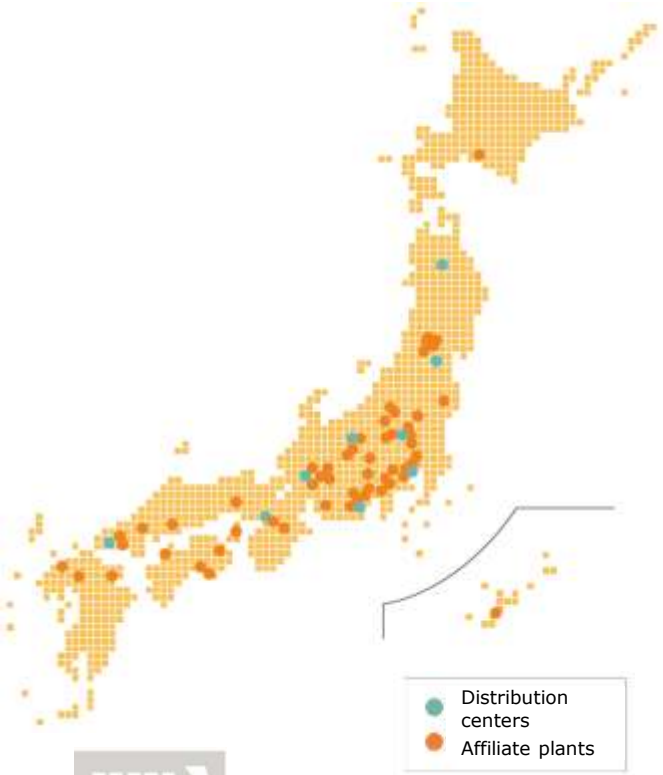
Key Features / Strengths of Domestic Beverage Business

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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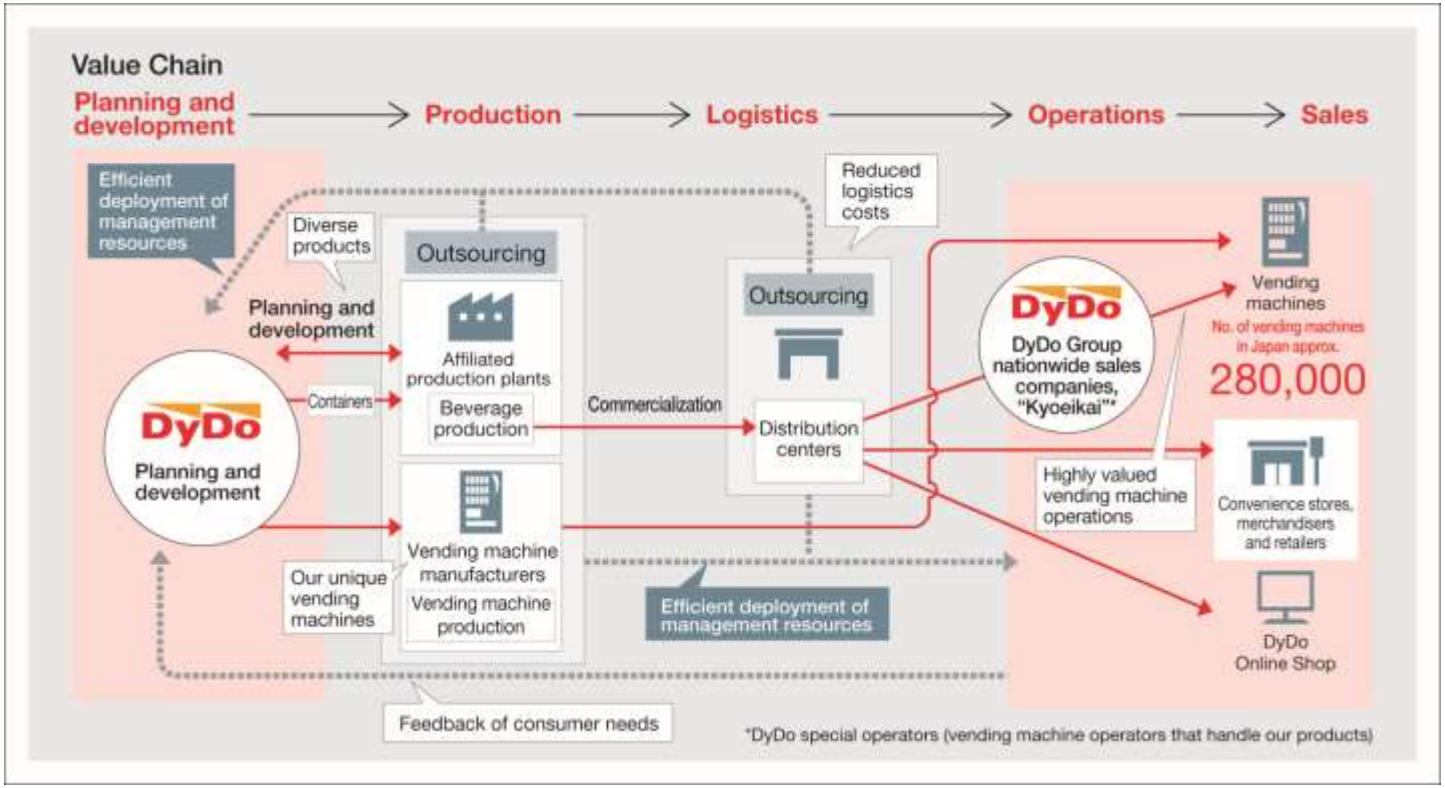
Domestic Beverage Business: Business Model



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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Overview by Segment - Turkey -

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

Current business conditions

S	W
• 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[*1] channel	• Relatively low market share • High level of dependence on Yildiz in the traditional sales channel
O	**T**
• 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	• Special consumption tax introduced in 2018 (10% tax on carbonated beverages, juice-flavored drinks, etc.) • Inflation rate, exchange rate fluctuations • Geopolitical risk

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

*1: HOD: Home Office Delivery
*2: Excluding impact of special consumption tax

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Overview by Segment - 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 - 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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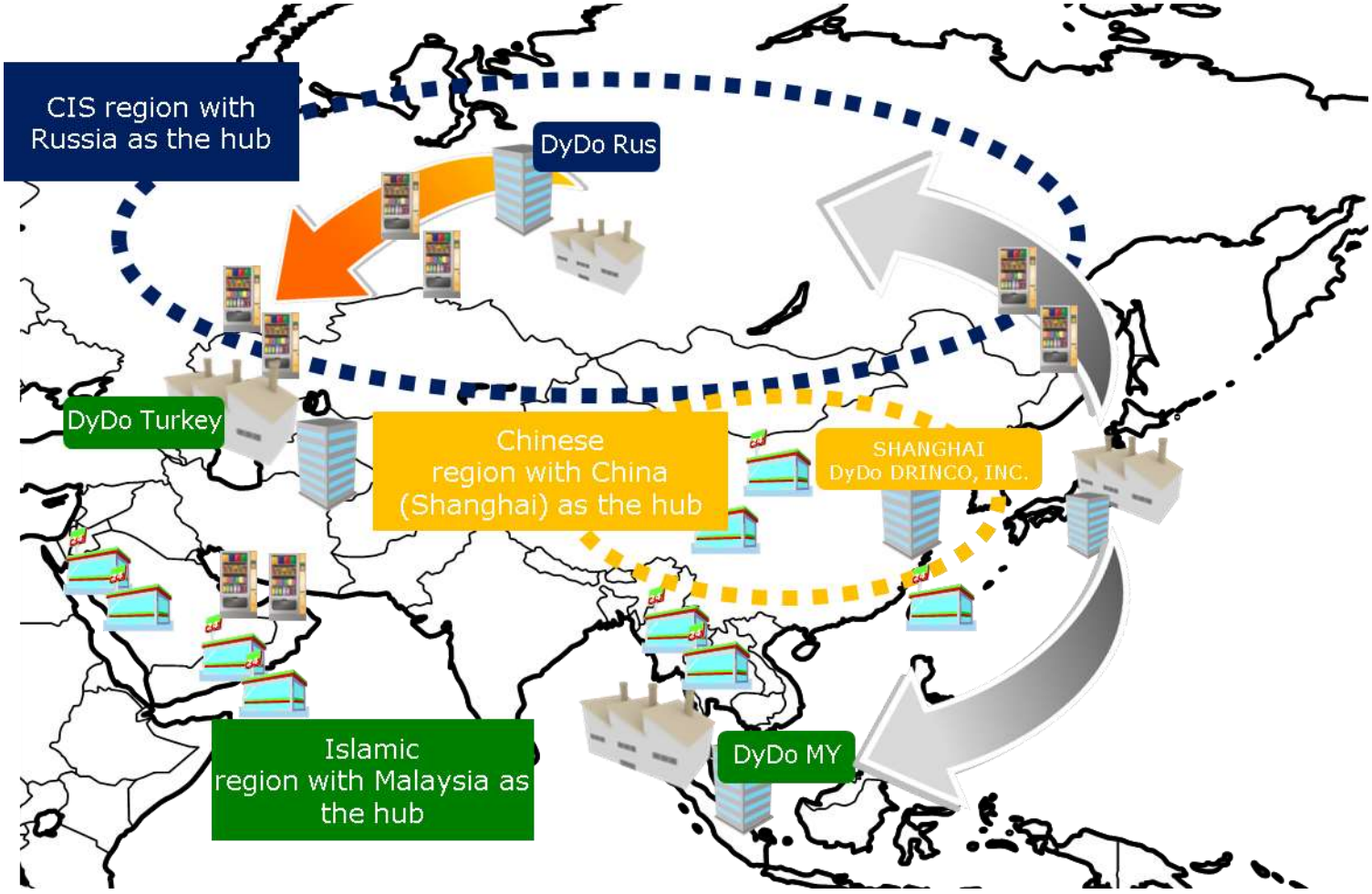
Future vision for the International Beverage Business

- 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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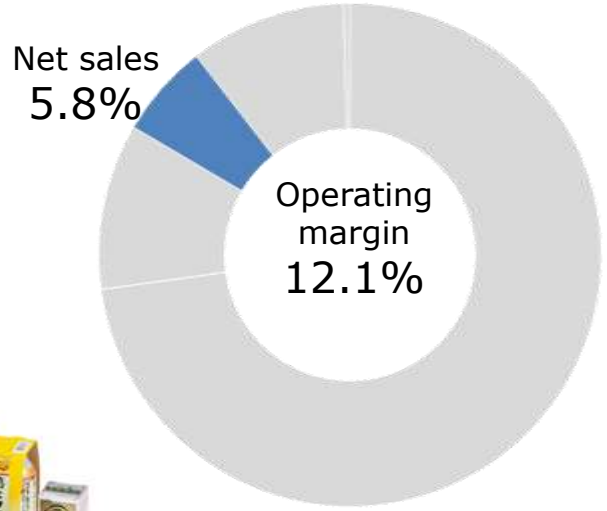
Pharmaceutical-related Business

- 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, breakdown of net sales to external customers)







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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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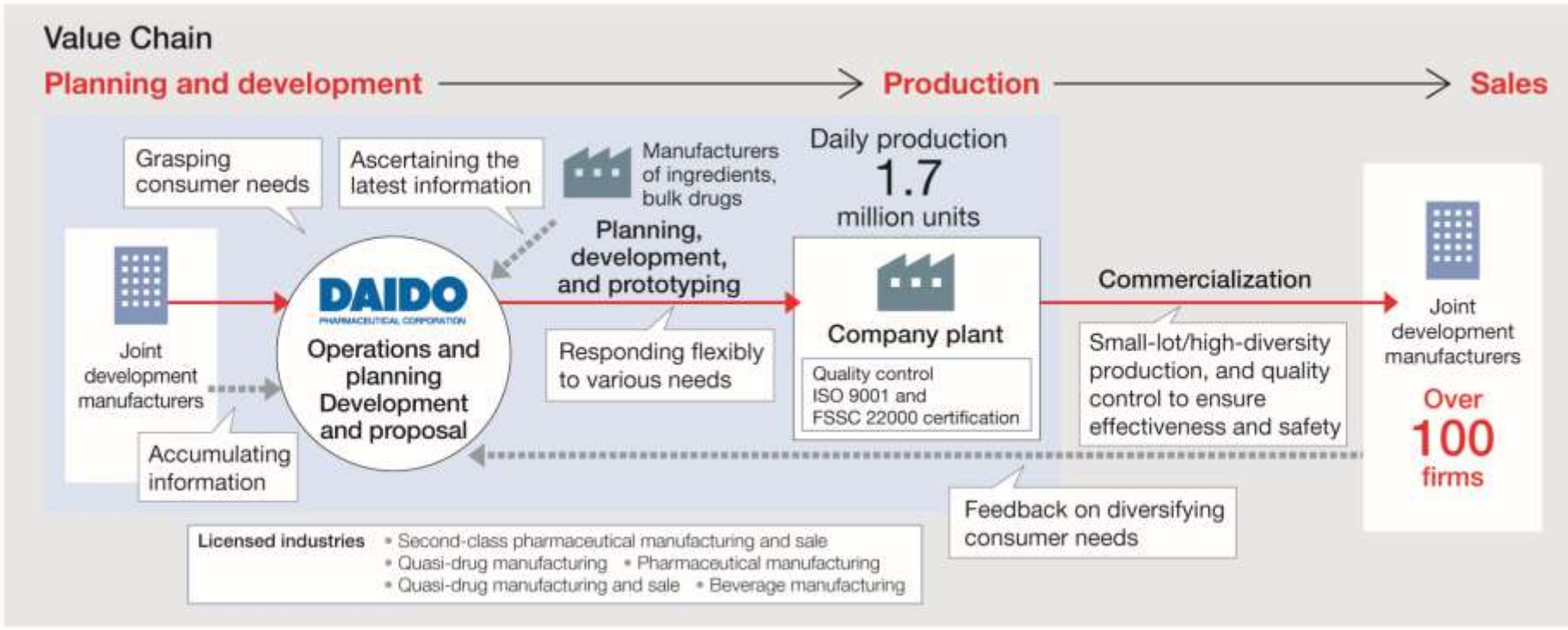
Pharmaceutical-related Business: Business Model



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

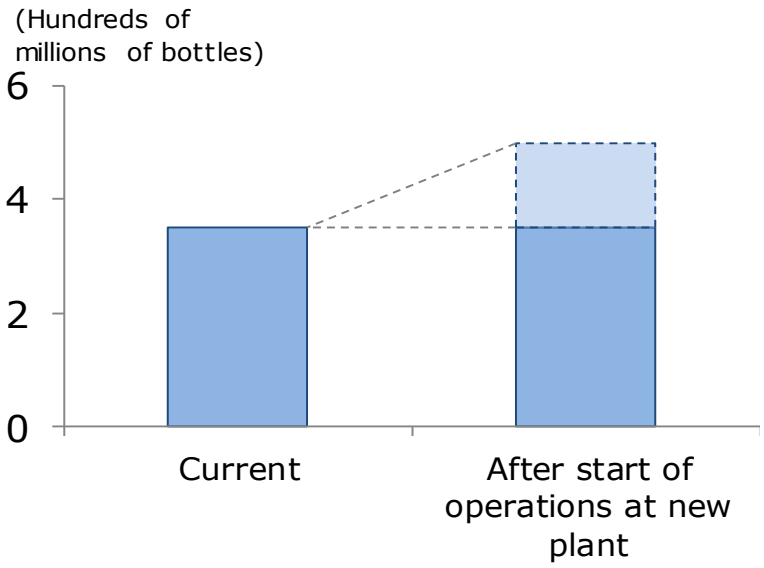
Objectives

- 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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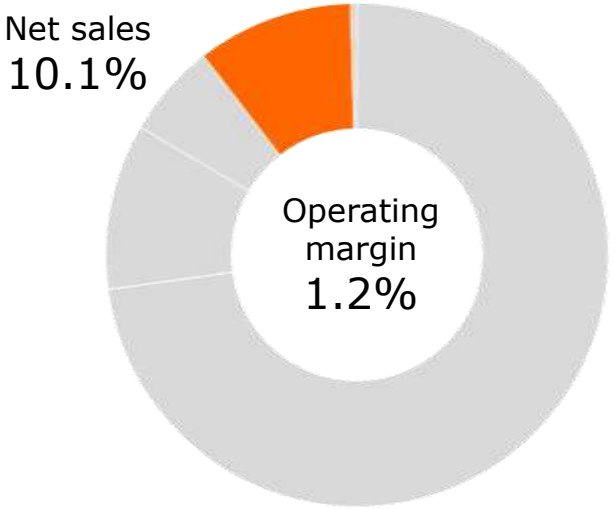
Food Business

- Manufacture and sale of fruit dessert jellies

Tarami

- Tarami (Nagasaki, Nagasaki Prefecture)

- Food Business as a percentage of overall performance (FY 2017 results, breakdown of net sales to external customers)





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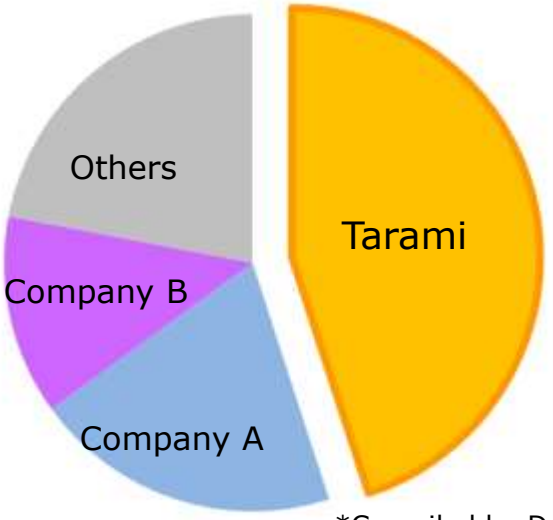
Key Features / Strengths of the Food Business

- 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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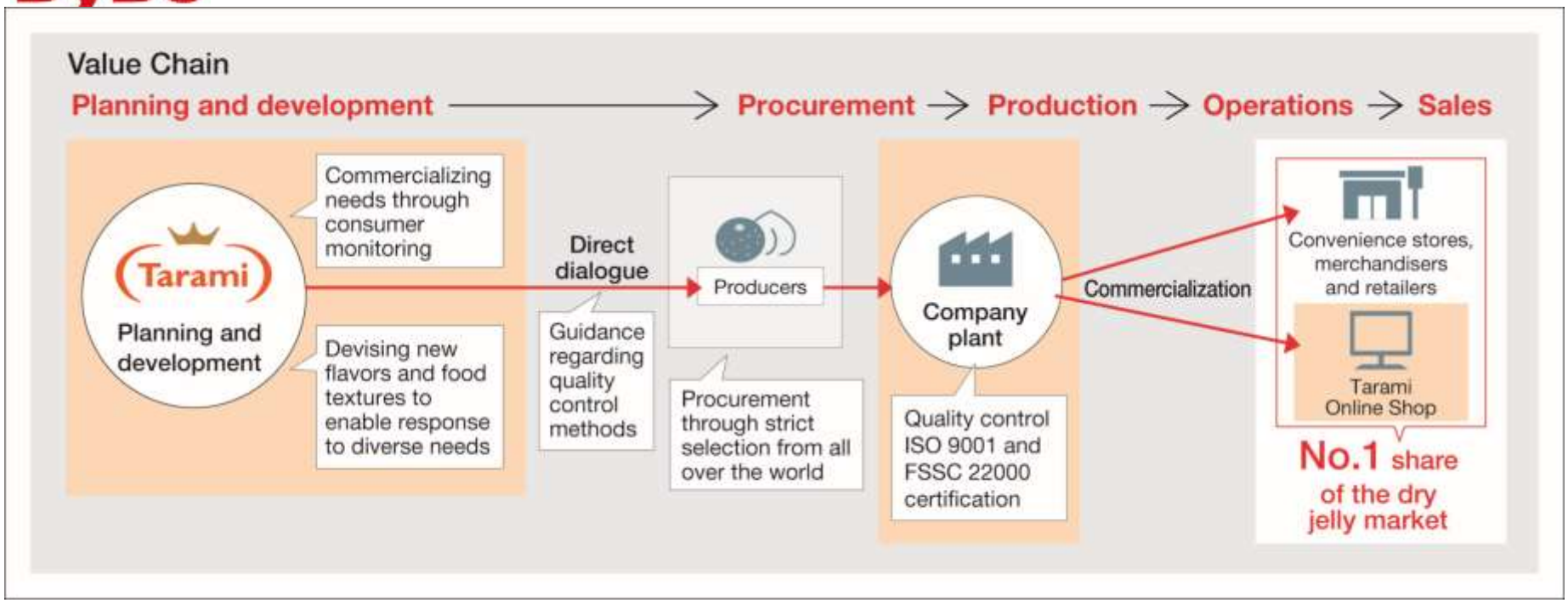
Food Business: Business Model



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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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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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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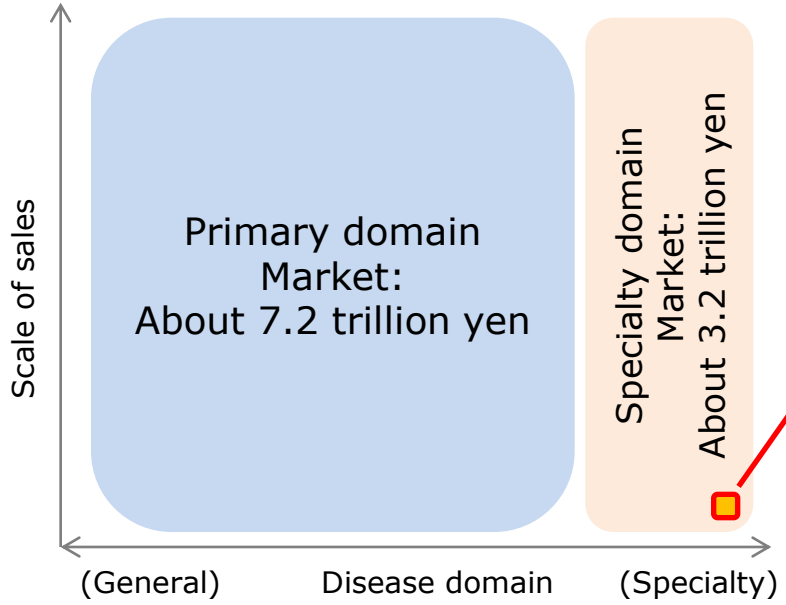
Size of the Orphan Drug Market

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

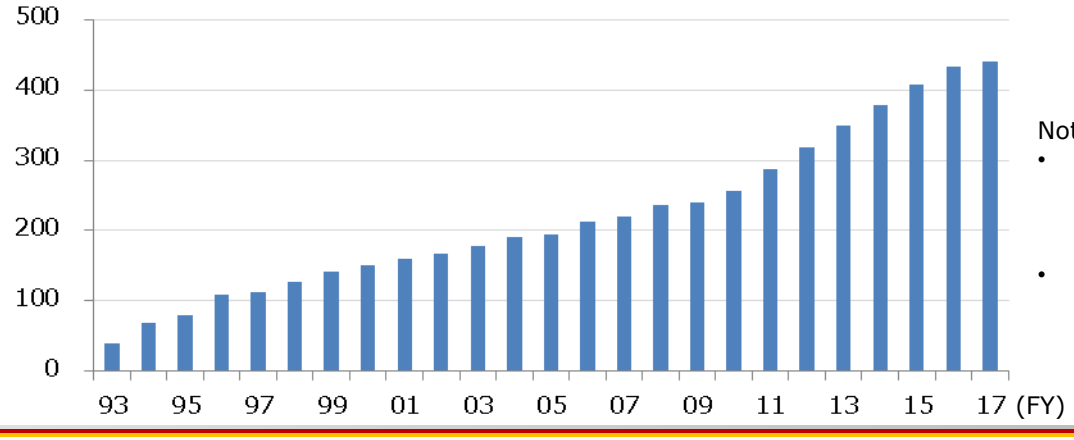


Rare-disease domain
Market: Several hundred billion yen

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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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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DyDo

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.