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DyDo

FY2018 (Year Ending January 20, 2019)
2nd Quarter Financial Highlights

DyDo Group Holdings Inc.

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

August 27, 2018

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1. FY2018 2nd Quarter Financial Highlights / Full-year Earnings Forecast

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Overview of Consolidated Financial Information for FY2018 1st Half

- Net sales during the 1st half rose 0.2%, and operating profit rose 1.12 billion yen year on year
- The International Beverage Business, Pharmaceutical-related Business, and Food Business posted strong sales
- Profits rose thanks to higher revenue in the Domestic Beverage Business and the International Beverage Business

(Millions of yen)

	1st Half (Jan 21 - July 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	86,803	100.0%	86,990	100.0%	0.2%	187	172,684	100.0%	175,220	100.0%	1.5%	2,536
Operating profit	2,158	2.5%	3,279	3.8%	52.0%	1,121	4,891	2.8%	5,740	3.3%	17.4%	849
Ordinary profit	2,357	2.7%	3,243	3.7%	37.6%	886	5,382	3.1%	5,725	3.3%	6.4%	343
Profit attributable to owners of parent	1,133	1.3%	1,849	2.1%	63.1%	715	2,504	1.5%	3,640	2.1%	45.4%	1,136
EPS	68.55 yen		112.28 yen		63.8%	43.73 yen	151.73 yen		220.99 yen		45.6%	69.26 yen
Dividend per share	30 yen		30 yen		–	—	60 yen		60 yen		–	—

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

(Millions of yen)

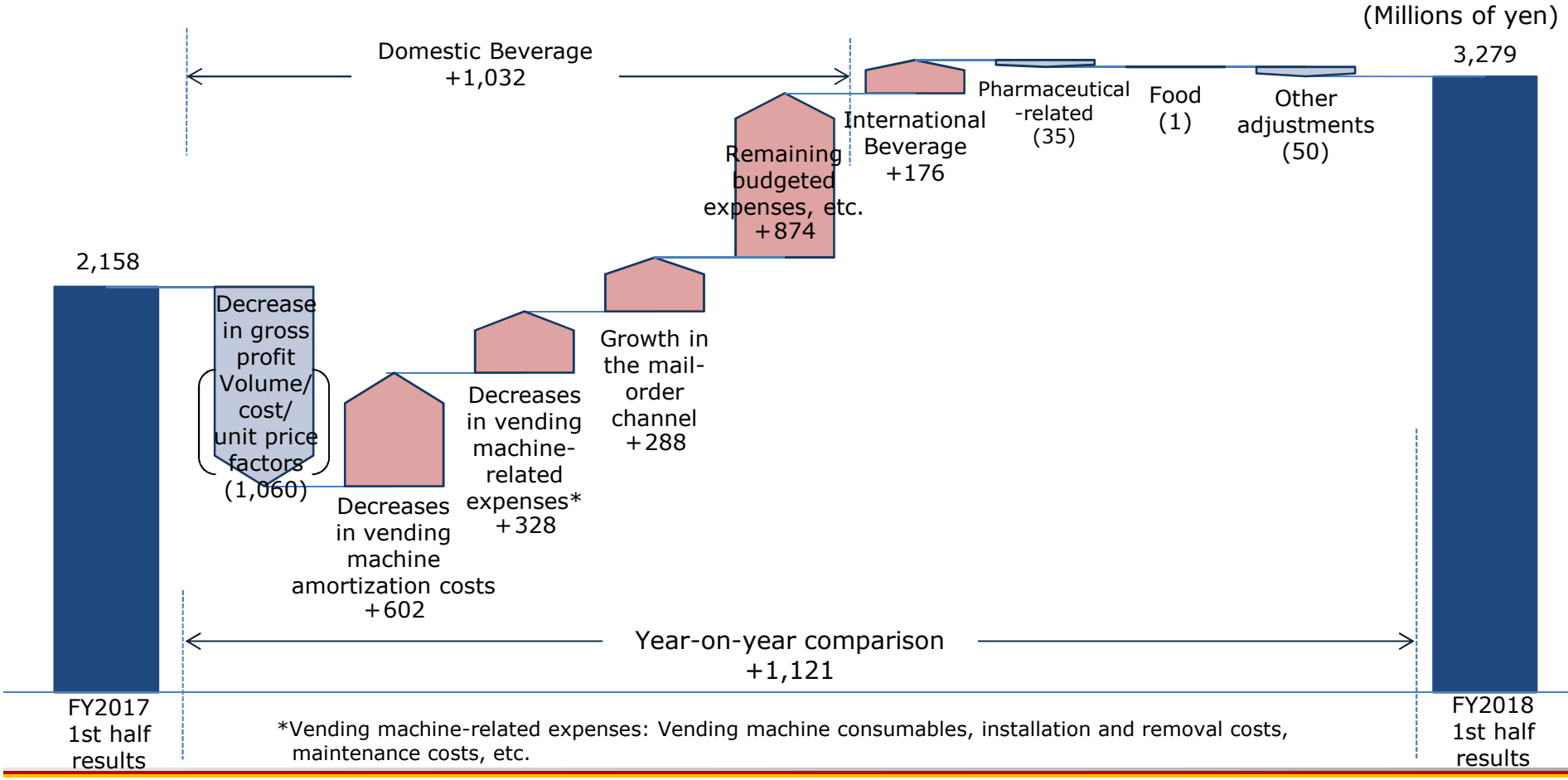
	FY2017 1st half results	FY2018 1st half results		FY2017 full-year results	FY2018 full-year earnings forecast		
			% (YoY)			% (YoY)	Amount (YoY)
Domestic Beverage Business	64,029	62,373	(2.6%)	(1,656)	126,712	127,070	0.3%	358
International Beverage Business	8,456	8,988	6.3%	531	18,547	19,410	4.7%	863
Pharmaceutical-related Business	5,154	5,561	7.9%	406	10,536	10,500	(0.3%)	(36)
Food Business	9,536	10,387	8.9%	851	17,560	18,850	7.3%	1,290
Adjustment	(373)	(320)	–	52	(673)	(610)	–	63
Total net sales	86,803	86,990	0.2%	187	172,684	175,220	1.5%	2,536
Domestic Beverage Business	2,384	3,417	43.3%	1,032	5,542	6,700	20.9%	1,158
International Beverage Business	(569)	(393)	–	176	(838)	(680)	–	158
Pharmaceutical-related Business	698	663	(5.1%)	(35)	1,271	1,100	(13.5%)	(171)
Food Business	280	279	(0.5%)	(1)	219	645	194.5%	426
Adjustment	(636)	(686)	–	(50)	(1,303)	(2,025)	–	(722)
Total operating profit	2,158	3,279	52.0%	1,121	4,891	5,740	17.4%	849

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

- Lower sales volume in the Domestic Beverage Business was offset by decreases in SG&A expenses, particularly in costs associated with vending machines
- Growth in the mail-order business also contributed to the results



*Vending machine-related expenses: Vending machine consumables, installation and removal costs, maintenance costs, etc.

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Together with Society

Delicious products for sound mind and body





Helping build a rich and vibrant society



Domestic Beverage Business

Miu Deep-ocean Mineral Water
Adult Calolimit® tea
Foods with functional claims
Supplements

International Beverage Business

Saka Mineral Water
Healthy brand image



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Food Business

Fruits Healthy
Triple-zero sugar-free flavor
Products based on the theme of health and beauty





Pharmaceutical-related Business

Beauty drinks
Growing overseas trend to emphasize health and beauty

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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

- Changes in the demographic Japan's population
- Major trend toward 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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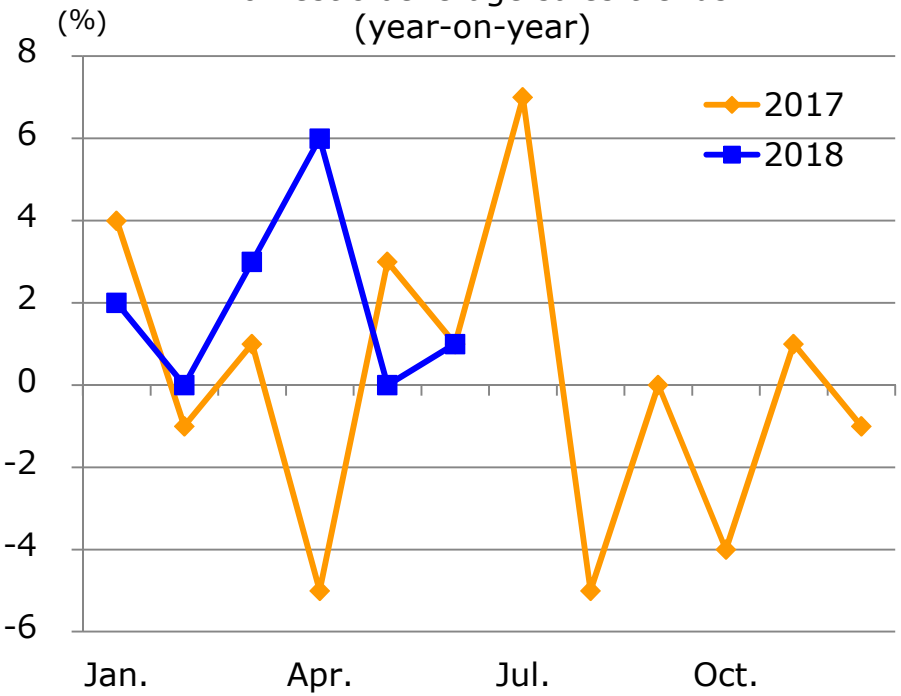
2. Overview of FY2018 (Year Ending January 20, 2019) 2nd Quarter Results by Segment

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<Domestic Beverage Business>
Trends in the Beverages Industry

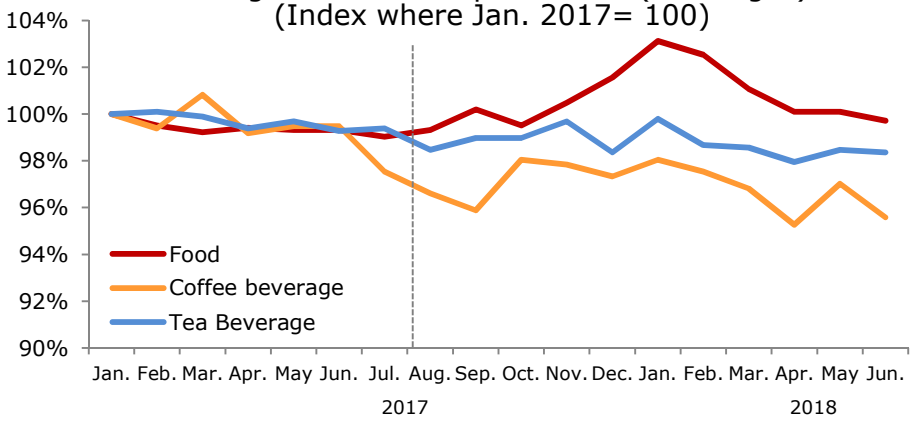
- Active efforts to roll out new products by Group companies during the first half of FY2018 led to solid sales volume
- The decline in market prices that began during the second half of 2017 continued
- The transition to plastic bottles for coffee drinks progressed

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

Coffee drink sales mix at convenience stores and mass retailers

	2016	2017	1st half of 2018
Cans	45%	39%	34% ↘
Bottle-shaped cans	33%	33%	27% ↘
Plastic bottles	22%	28%	40% ↗

* Compiled by DyDo

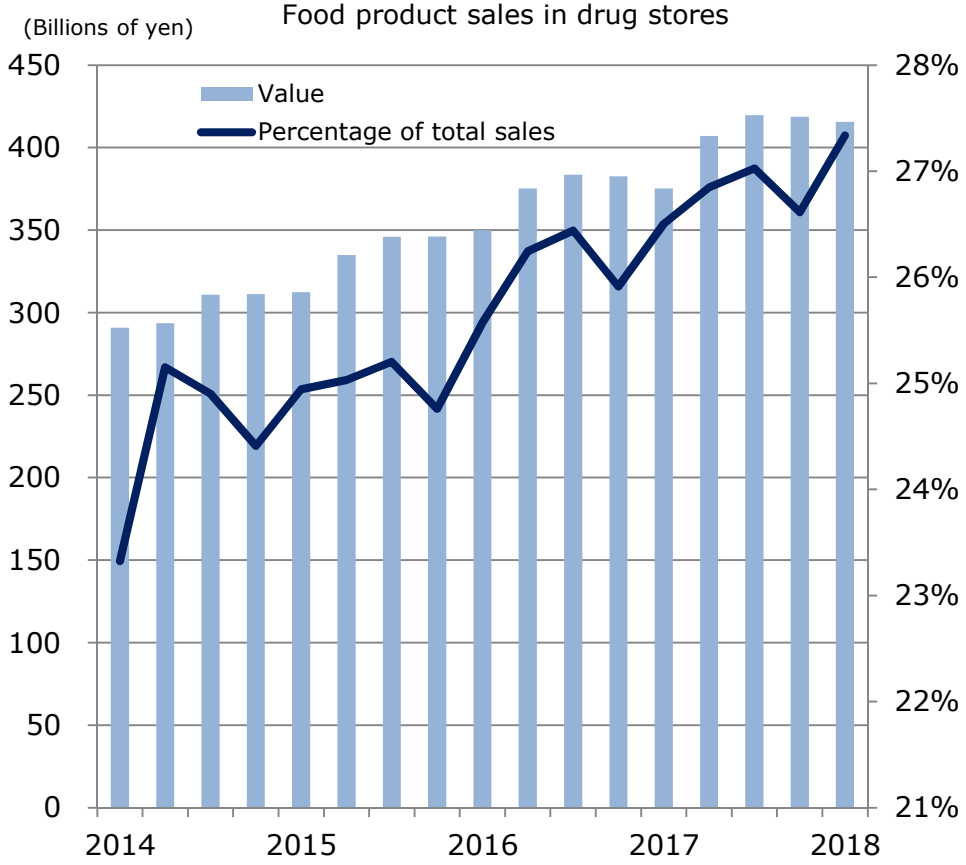
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<Domestic Beverage Business>
Trends in the Beverages Industry

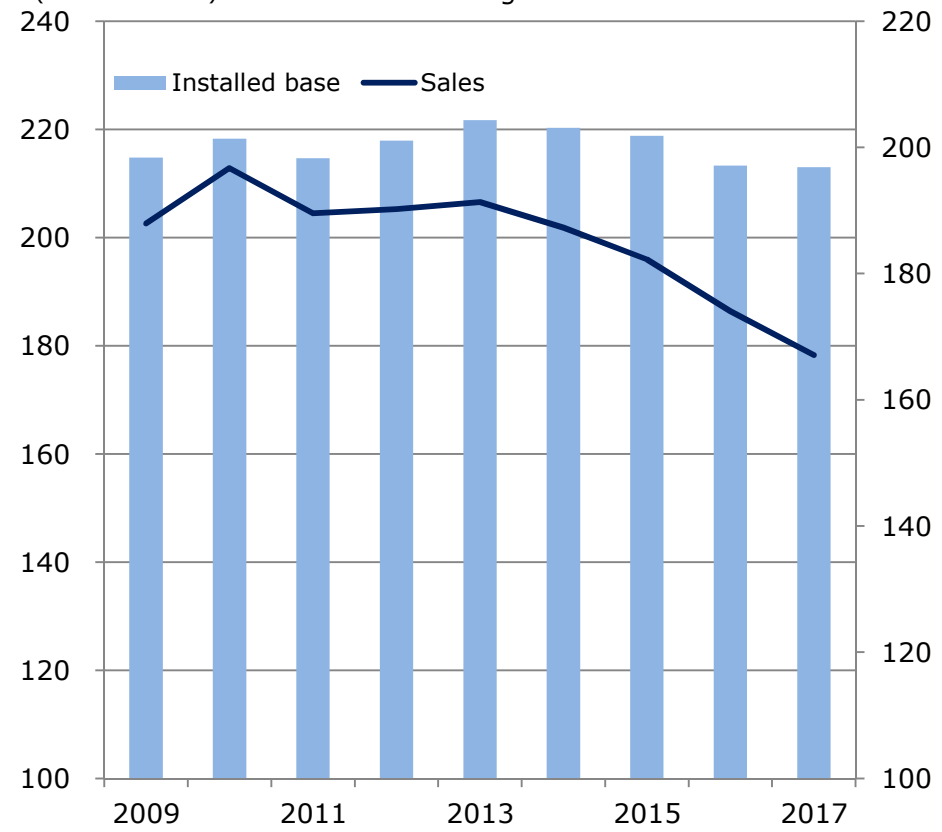
- Food sales continued to rise in drug stores
- The beverage industry continued to grapple with challenging conditions in the vending machine channel

Food product sales in drug stores



* Compiled by DyDo based on "Current Survey of Commerce" (as published by the Ministry of Economy, Trade and Industry).

Beverage vending machine installed base and annual vending machine sales



Compiled by DyDo based on data publicized by the Japan Vending System Manufacturers Association.
*Vending machine sales in 2017 have been estimated as the association ceased publishing the data in 2017.

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<Domestic Beverage Business> Overview

(Millions of yen)

	FY2017 1st half results	Component ratio	FY2018 1st half results	Component ratio	% (YoY)	Amount (YoY)	FY2017 full-year results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	64,029	100.0%	62,373	100.0%	(2.6%)	(1,656)	126,712	100.0%	127,070	100.0%	0.3%	358
Operating profit	2,384	3.7%	3,417	5.5%	43.3%	1,032	5,542	4.4%	6,700	5.3%	20.9%	1,158

(Note) Figures prior to consolidated adjustment.

Summary of the 1st half of FY2018

- Sales in the Domestic Beverage Business fell 2.6% year on year (including a decline of 2.4% in the vending machine channel)
- Results were significantly affected by growth in channels that compete with vending machines due to changes in the retail industry and by a shift to plastic bottles for coffee drinks
- Initiatives to reduce vending machine fixed costs and related costs are making steady progress

Issues and future actions

- Redesign the packaging of "DyDo Blend Coffee ORIGINAL" and launch "DyDo Blend GINREI," a product that is designed to become the new standard, in order to revitalize the canned coffee segment
- Strengthen solutions-based sales in order to secure new favorable locations
- Systematically roll out IoT devices to vending machines



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<Domestic Beverage Business>
Trends in Sales Volume

- Sales volume during the 1st half fell 3.8% year on year
- Coffee drink performance reflected the impact of aggressive efforts by competing coffee drink manufacturers to introduce new products sold in plastic bottles and reduced-price sales of canned coffee
- Channels other than vending machines were particularly affected by declining sales of the "DyDo Blend Supervised by the World's Top Barista*" series of bottled coffee products, which enjoyed wider availability at major convenience stores and other locations last year

	1st quarter	2nd quarter	1st half total		1st half breakdown by sales channel			
					Vending machines		Other	
	Change (%)	Change (%)	Sales volume (thousands of cases)	Change (%)	Sales volume (thousands of cases)	Change (%)	Sales volume (thousands of cases)	Change (%)
Coffee beverages	(3.6%)	(7.1%)	15,660	(5.3%)	12,452	(5.0%)	3,207	(6.8%)
Other beverages	3.1%	(5.0%)	12,301	(1.8%)	10,919	(1.3%)	1,382	(5.6%)
Total	(1.1%)	(6.1%)	27,962	(3.8%)	23,372	(3.3%)	4,589	(6.5%)
Change in days of operation compared to previous quarter	+1 day	±0 days	+1 day					

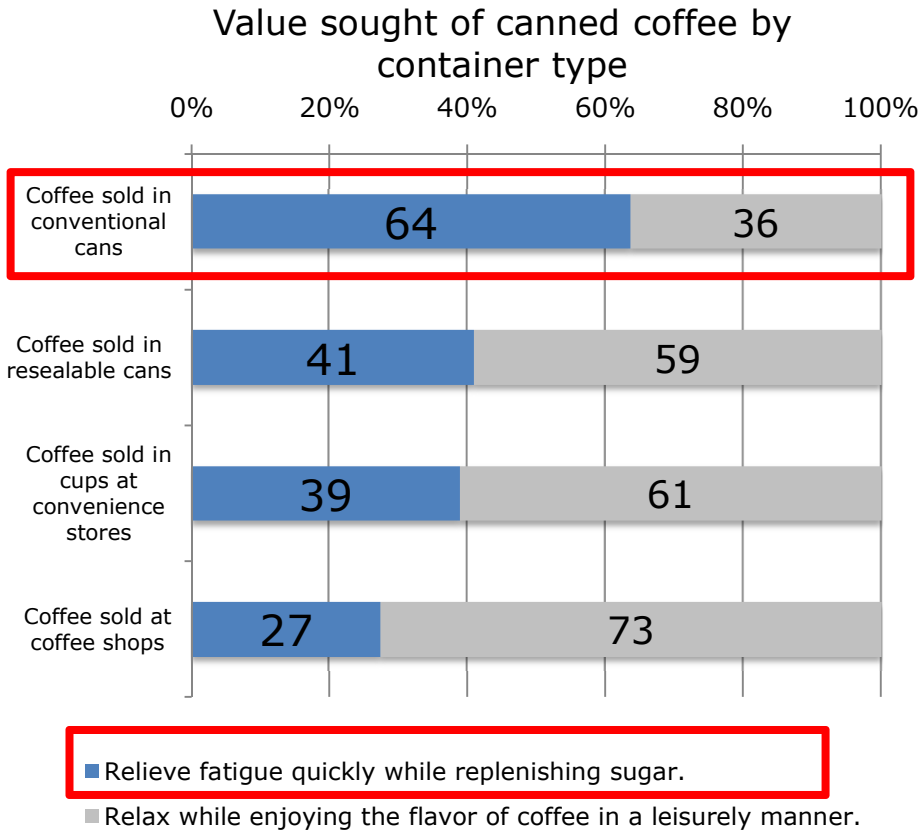
*Pete Licata, 14th World Barista Championship winner

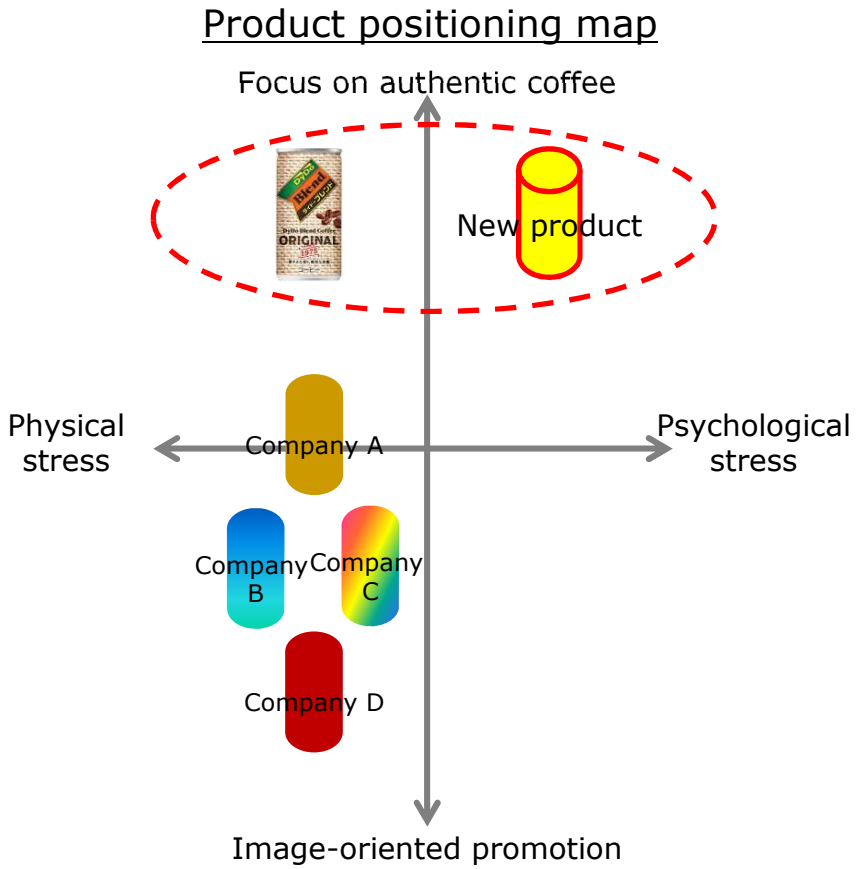
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<Domestic Beverage Business>
Revitalizing the Conventional Canned Coffee Segment

- Canned coffee is a great way to provide fast-acting fatigue relief and refreshment to consumers
- In addition to redoubling efforts to promote these products to consumers seeking relief from physical stress, satisfy consumers experiencing psychological stress, who embody a new market that should be targeted





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<Domestic Beverage Business>
“DyDo Blend Coffee GINREI”

- DyDo launched “DyDo Blend Coffee GINREI” as a new product

  This new canned coffee carries on the legacy of DyDo Blend while adding even more refined beans and technology.

Available August 27



Creating a new standard: GINREI

DyDo chose the name “GINREI,” which evokes refreshing, high-quality flavor in Japanese, to capture how the product is made with carefully crafted ingredients like premium, highly aromatic coffee beans.

Design that captures a new worldview to inspire high expectations

GINREI features an uncluttered design that creates a feeling of openness and freedom while still communicating the essence of the product as a coffee drink. Its simple, high-quality worldview is complemented by a champagne-gold color that befits the name “GINREI.”

Painstaking manufacturing method designed to deliver rich, refined flavor

GINREI delivers a refined, pronounced richness that’s the result of a painstaking manufacturing process: beans are polished, and roasted slowly, and then only the most delicious flavor components are extracted.

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<Domestic Beverage Business>
"DyDo Blend Coffee ORIGINAL"

DyDo launched "DyDo Blend Coffee ORIGINAL" as a redesigned product

Loved by consumers for 43 years
"Carrying on ageless, unchanging flavor, now and into the future"

Available August 27



A long-selling product that was launched 43 years ago

DyDo Blend Coffee



1973
Original product launch

1975
Renamed "Blend Coffee"

1985
Redesigned to incorporate new DyDo branding

2005
Redesigned

2010
Redesigned

2012
Rebranded

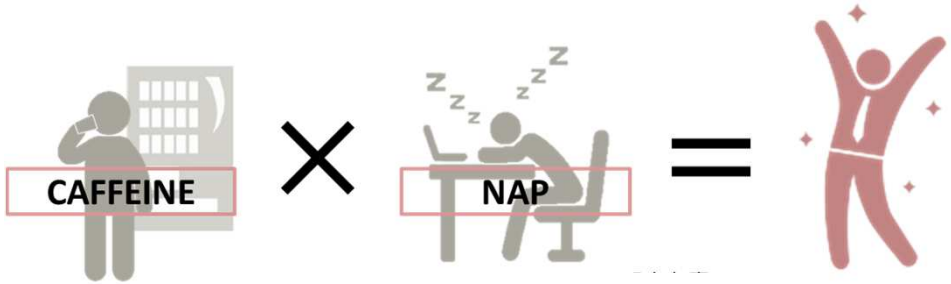
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<Domestic Beverage Business>
Securing Vending Machine Locations

- DyDo is working to secure locations like offices that are closer to consumers by pursuing solution-based sales targeting health management

✓ "Caffeine naps" as a facilitator of business discussions





✓ Health Server as a proposal tool



✓ Offering seminars for customer companies on avoiding heat stroke and ensuring adequate hydration



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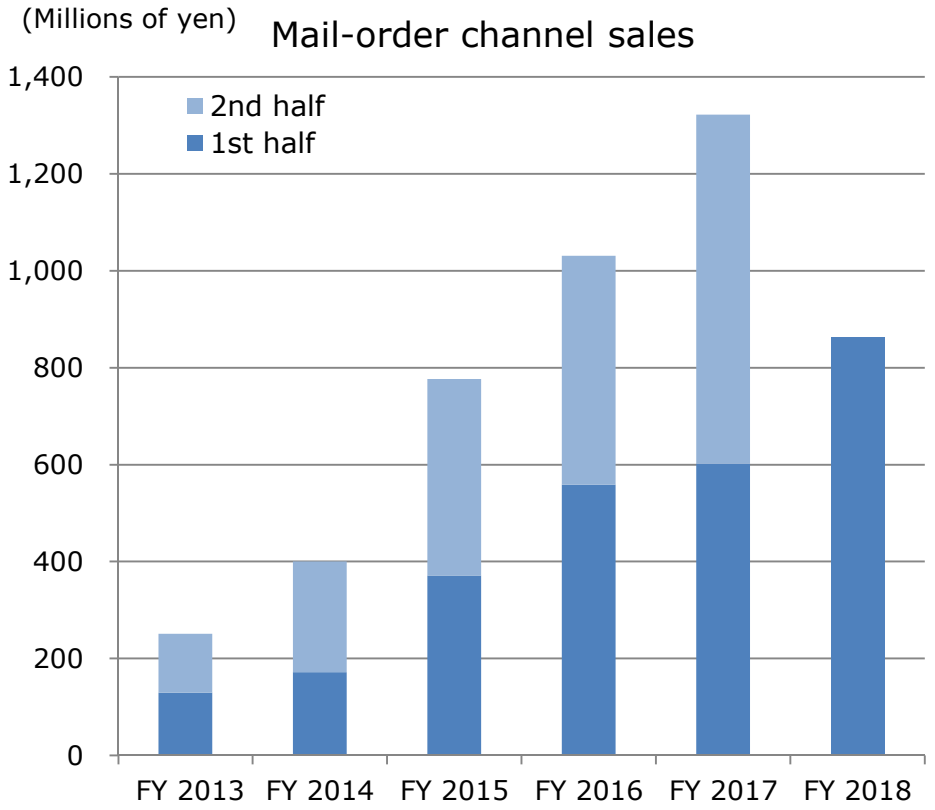
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<Domestic Beverage Business> Mail-order Channel

- DyDo will launch “Memory Pro” in September as a new product in its DyDo Healthcare series
- The product is the first food with a functional claim of its kind in Japan* to facilitate blood flow to the brain, maintain memory, and ease stress

*Of foods with a functional claim whose filings have been accepted by the Consumer Affairs Agency, “Memory Pro” is the first to contain flavonoid glycosides from gingko leaves, terpene lactone from gingko leaves, and gamma-aminobutyric acid (GABA) as functional ingredients (as of June 15, 2018).





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<International Beverage Business> Overview

(Millions of yen)

	FY2017 1st half results	Component ratio	FY2018 1st half result	Component ratio	% (YoY)	Amount (YoY)	FY2017 full-year results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	8,456	100.0%	8,988	100.0%	6.3%	531	18,547	100.0%	19,410	100.0%	4.7%	863
Operating profit	(390)	–	(248)	–	–	141	(482)	–	(352)	–	–	130
Amortization of goodwill, etc.	179	2.1%	144	1.6%	(19.4%)	(34)	356	1.9%	328	1.7%	(7.9%)	(28)
Operating profit after subtracting amortization of goodwill	(569)	–	(393)	–	–	176	(838)	–	(680)	–	–	158

JPY per TRY	31.05 yen	26.53 yen	(4.52 yen)	30.78 yen	30.00 yen	(0.78 yen)
JPY per MYR	25.68 yen	27.56 yen	1.88 yen	26.21 yen	25.00 yen	(1.21 yen)

(Note) Figures prior to consolidated adjustment.

Summary of the 1st half of FY2018

- Sales in the Turkish beverage business grew rapidly on a local currency basis
- DyDo reviewed its portfolio of healthy products in its Malaysia beverage business
- Efforts to comply with the requirement that vending machines be online in the Russia beverage business proceeded according to plan

Issues and future actions

- Accelerate reforms in Malaysia, Russia, and China
- Develop high-quality products that take advantage of Japanese expertise

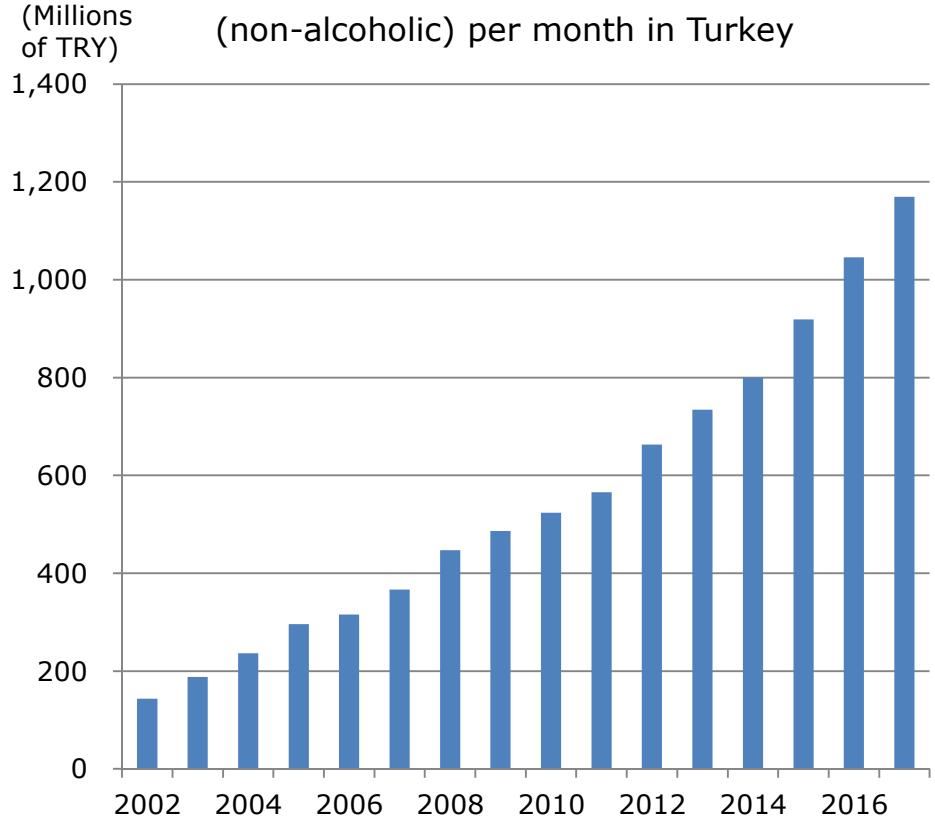
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<International Beverage Business>
Overview of the Turkish Business

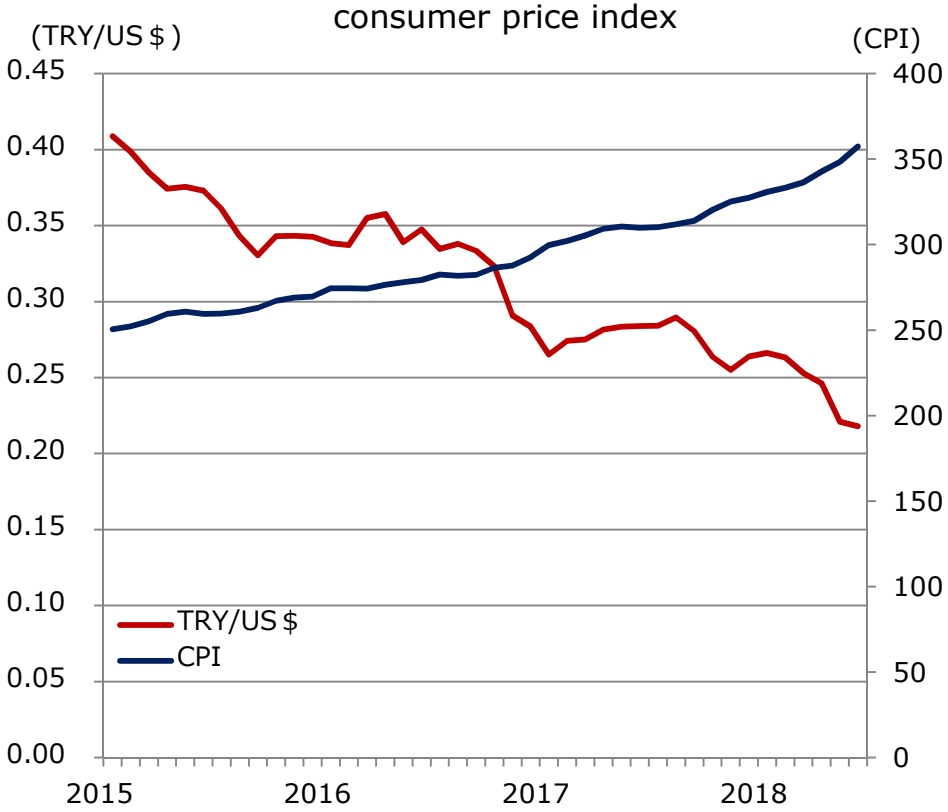
- Conditions in the Turkish beverage market remain robust
- At the same time, the continued weakness of the Turkish lira provides cause for concern as it may drive up the cost of imported ingredients
- Caution is warranted concerning the impact of sudden inflation on consumption

Consumer expenditures on beverages (non-alcoholic) per month in Turkey



Compiled by DyDo based on data from the Turkish Statistical Institute.
Total household consumption expenditure (TRY/month)/ (Non-Alcoholic Beverages)

Turkish exchange rate (vs. USD) and consumer price index



Compiled by DyDo based on data from the Turkish Statistical Institute.

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<International Beverage Business> Overview of the Turkish Business

Local currency-basis results			1st quarter	2nd quarter	3rd quarter	4th quarter	Full-year
FY2018	Sales, YoY	Quarterly	+28%	+32%			
	Exchange rate (JPY per TRY)	Cumulative results	27.98 yen	26.53 yen		Assumption→	30.00 yen
FY2017	Sales, YoY	Quarterly	+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

- Efforts to put in place sales structures proceeded smoothly, and revenue rose on a local currency basis
- Sales of "Saka" mineral water grew significantly
- Sales growth is contributing to local employees' self-confidence and engendering a virtuous cycle



"Saka" mineral water



Thanks to efforts to put in place sales structures, many of the company's products can be found in major chain stores

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<International Beverage Business> Overview of the Malaysian Business

- We have rebuilt our product portfolio and increased our stake in our Malaysian sales company to 90%
- We launched Yobick, a new, high-quality product modeled on Japan's image
- We're working to improve profitability by launching additional new brands modeled on Japan's image during the 2nd half

Profitability



Having Japanese staff members develop high-quality products with a healthy image

Existing chilled drink brands



The sales company has stopped carrying existing carbonated drink brands



Sales volume

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<International Beverage Business> Overview of the Russian and Chinese Businesses

<Overview of the Russian business>

- We've undertaken a significant review of vending machine locations as we work to comply with the requirement that vending machines be online
- We're taking advantage of those changes to build a next-generation operational system

[Expected benefits]

TELEMETRON
telemetry for vending

- Streamlining, simplification, and optimization of operations
- Increased customer loyalty thanks to an ability to respond quickly in the event of vending machine problems by taking advantage of our call center management and financial management databases

<Overview of the Chinese business>

- We launched Yobick, a product developed in Malaysia, first in China in 2017
- Fine-grained sales activities have contributed to performance, and distribution is growing steadily



Yobick

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<Pharmaceutical-related Business> Overview

(Millions of yen)

	FY2017 1st half results	Component ratio	FY2018 1st half results	Component ratio	% (YoY)	Amount (YoY)	FY2017 results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	5,154	100.0%	5,561	100.0%	7.9%	406	10,536	100.0%	10,500	100.0%	(0.3%)	(36)
Operating profit	698	13.6%	663	11.9%	(5.1%)	(35)	1,271	12.1%	1,100	10.5%	(13.5%)	(171)

(Note) Figures prior to consolidated adjustment.

Summary of the 1st half of FY2018

- We accelerated our organizational approach to proposal-based sales in anticipation of the start of operations at our new Kanto Plant in 2020
- Favorable performance in terms of both new and existing orders contributed to increased revenue
- We're putting in place structures to facilitate the start of operations at our new Kanto Plant

Issues and future actions

- Accelerate human resources investments to accommodate future order growth
- Undertake capital investments at our existing plant in Nara to facilitate stable supply until the new plant comes online
- Strengthen product development and quality control structures with a view to the start of operations at the new plant

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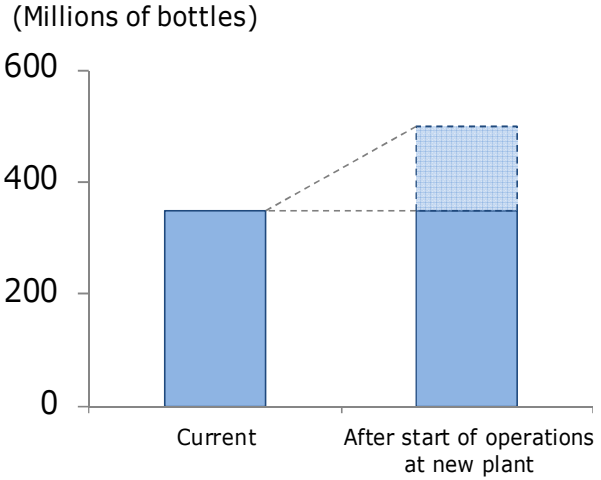
<Pharmaceutical-related Business>
Plans for Building a New Factory in the Greater Tokyo Area

- Toward building a new Kanto Plant in 2020
  - Strengthen our organizational approach to proposal-based sales
  - A groundbreaking ceremony was held for the Kanto Plant in June 2018
  - Efforts to bring the plant online during the 1st half of 2020 are proceeding according to plan
- Strengthening our existing plant in Nara
  - Enhance prototyping and testing facilities to accommodate order growth
  - Hire more personnel in advance of the start of operations in 2020

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	First half of 2020
Products	Drinkable preparations
Production capacity	150 million units per year
Capital investment	About 6 billion yen

Plant production capacity (2 plants)





Enhancing prototyping and testing facilities at the Nara Plant



At the groundbreaking ceremony on June 20, 2018

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<Food Business> Overview

(Millions of yen)

	FY2017 1st half results	Component ratio	FY2018 1st half results	Component ratio	% (YoY)	Amount (YoY)	FY2017 results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	9,536	100.0%	10,387	100.0%	8.9%	851	17,560	100.0%	18,850	100.0%	7.3%	1,290
Operating profit	456	4.8%	455	4.4%	(0.3%)	(1)	571	3.3%	997	5.3%	74.6%	426
Goodwill and other amortization costs	176	1.8%	176	1.7%	(0.0%)	0	352	2.0%	352	1.9%	0.0%	0
Operating profit after subtracting amortization of goodwill	280	2.9%	279	2.7%	(0.5%)	(1)	219	1.2%	645	3.4%	194.5%	426

(Note) Figures prior to consolidated adjustment.

Summary of the 1st half of FY2018

- Product proposals incorporating new concepts contributing to significant profit growth
- We made marketing investments in order to increase Tarami's brand value
- Labor costs associated with hiring and retention rose due to an increase in factory operating rates caused by strong sales

Issues and future actions

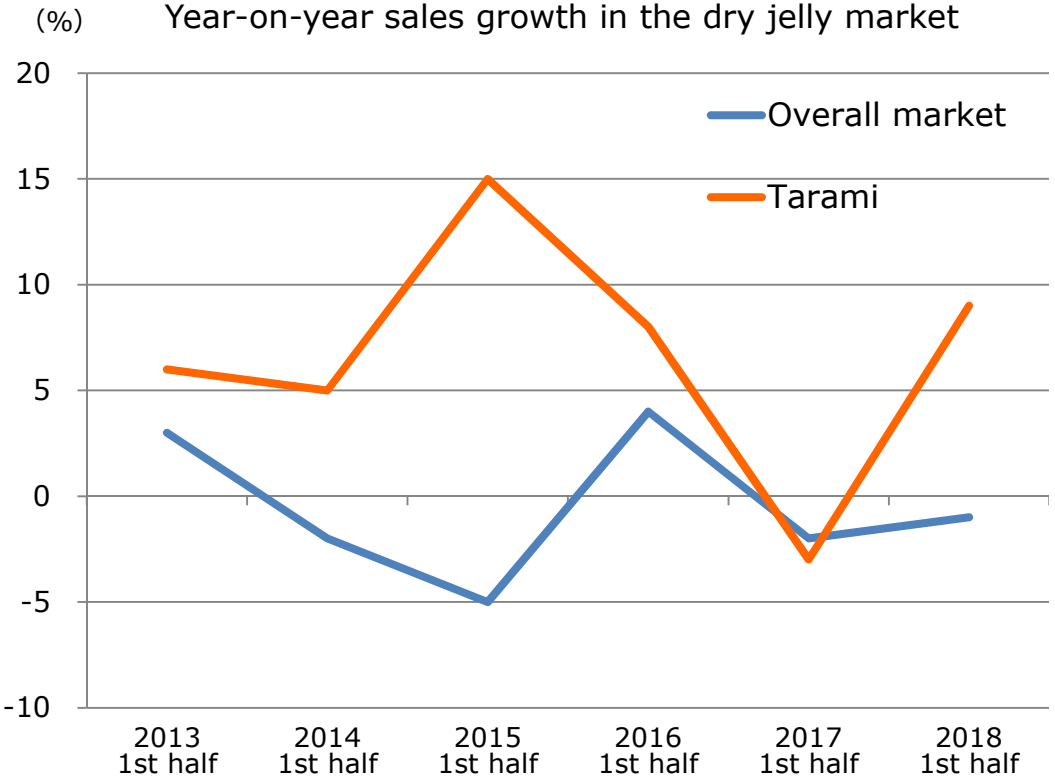
- Strengthen promotions based on brand value and product value
- Develop new products around the concepts of beauty and health
- Put in place distribution structures to address damage from strong rain in western Japan in July

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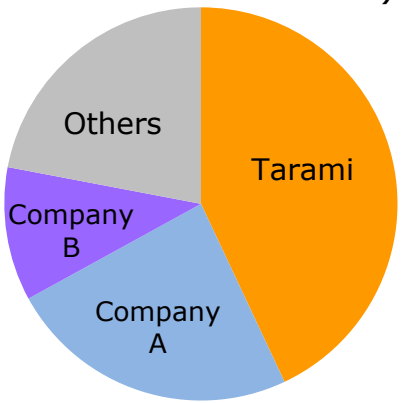
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<Food Business> Sales Volume

- Although the dry jelly market in the 1st half of 2018 shrunk compared to the previous year, our sales rose 9%
- Proposals of products based on new concepts and marketing investments intended to increase Tarami's brand value are paying off



Dry jelly share
(As of 1st half of 2018)



*Compiled by DyDo



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

Achieving Sustained Growth

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Efforts to Formulate the Next Mid-Term Business Plan

- We are formulating a long-term vision for 2030 and will work backwards from that to formulate a new mid-term business plan that covers the first three years of the period
- We're deepening discussions at Board of Director's meetings and in other venues to consider the major direction of our business strategy with a focus on the following topics as a way to help achieve the Group's sustained growth:

(1) Sustainability of the vending machine business model

(2) The Group's overall business portfolio

(3) Human resources investment to move our growth strategy forward

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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

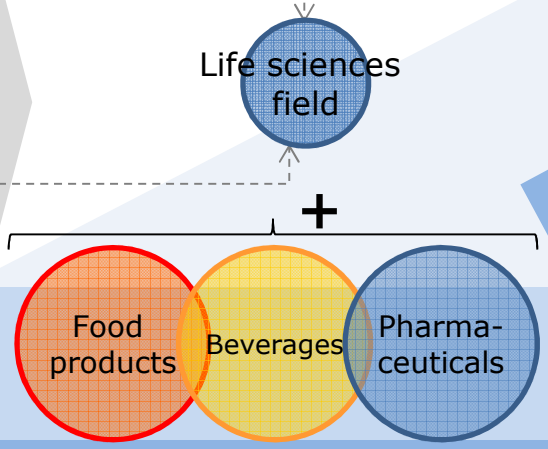
Changes in the external environment

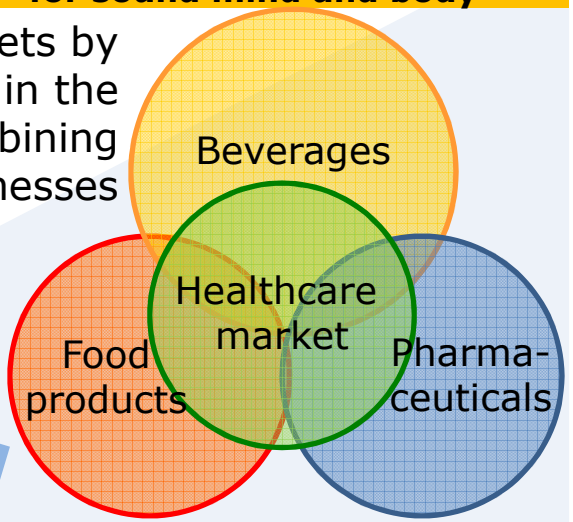
- Changes in the demographics of Japan's population
- Rising healthy lifespan
- Major trend toward interest in health worldwide

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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■ APPENDIX

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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	47,023	–	–	–

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	32,862	–	–	–

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	5,199	–	–	–

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	2,866	–	–	–

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	6,275	–	–	–

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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	2,555	–	–	–

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	2,446	–	–	–

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)	(89)	–	–	–

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	306	–	–	–

Food Business

(Before amortization of goodwill)

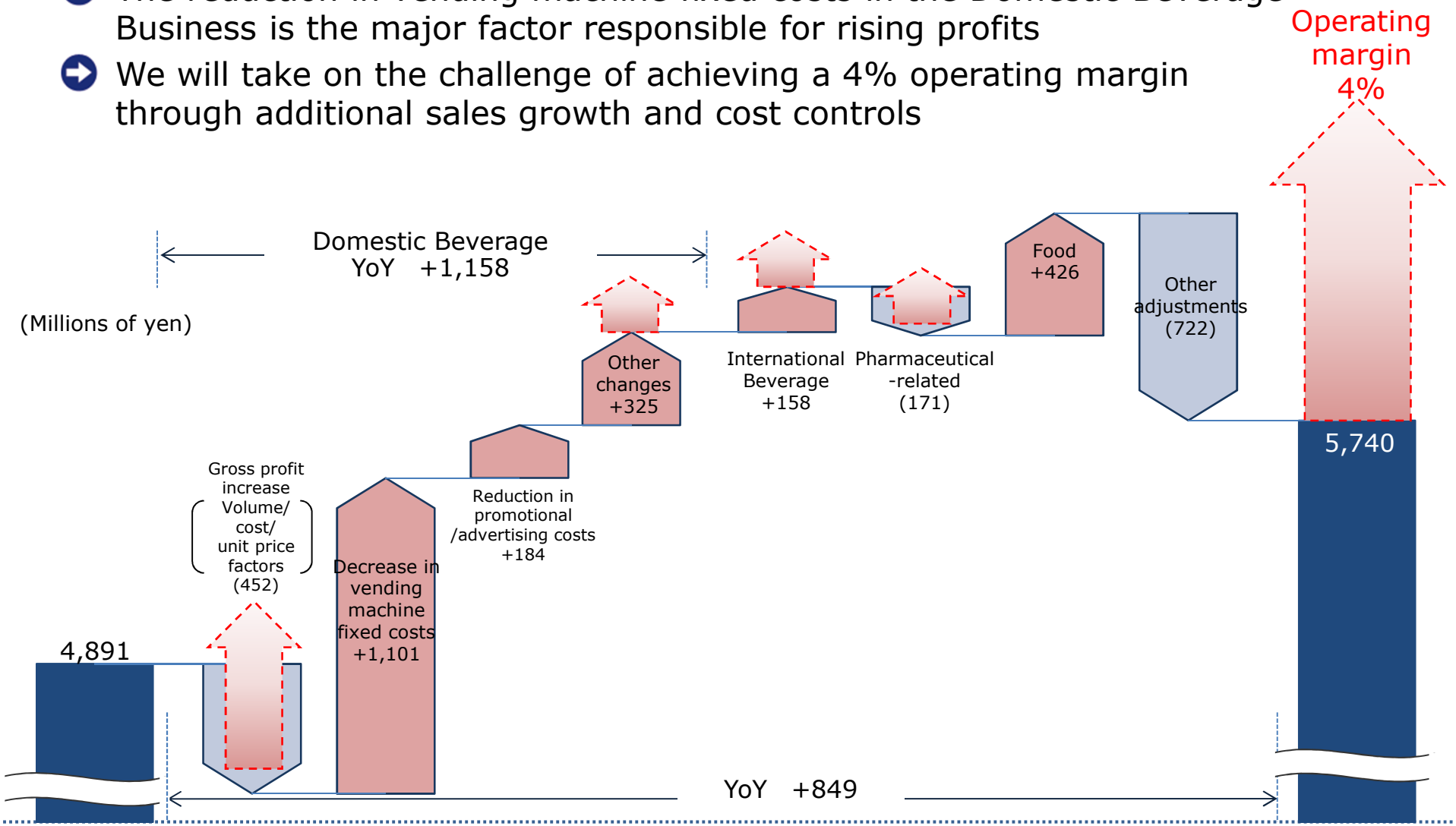
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2017	16	440	314	(199)	571
Ratio of full year (%)	2.9%	77.1%	55.0%	–	100.0%
FY2018	12	443	–	–	–

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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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□ The Business Model of DyDo Group

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DyDo Group History

(Billions of yen)

200

100

0

◆ 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

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

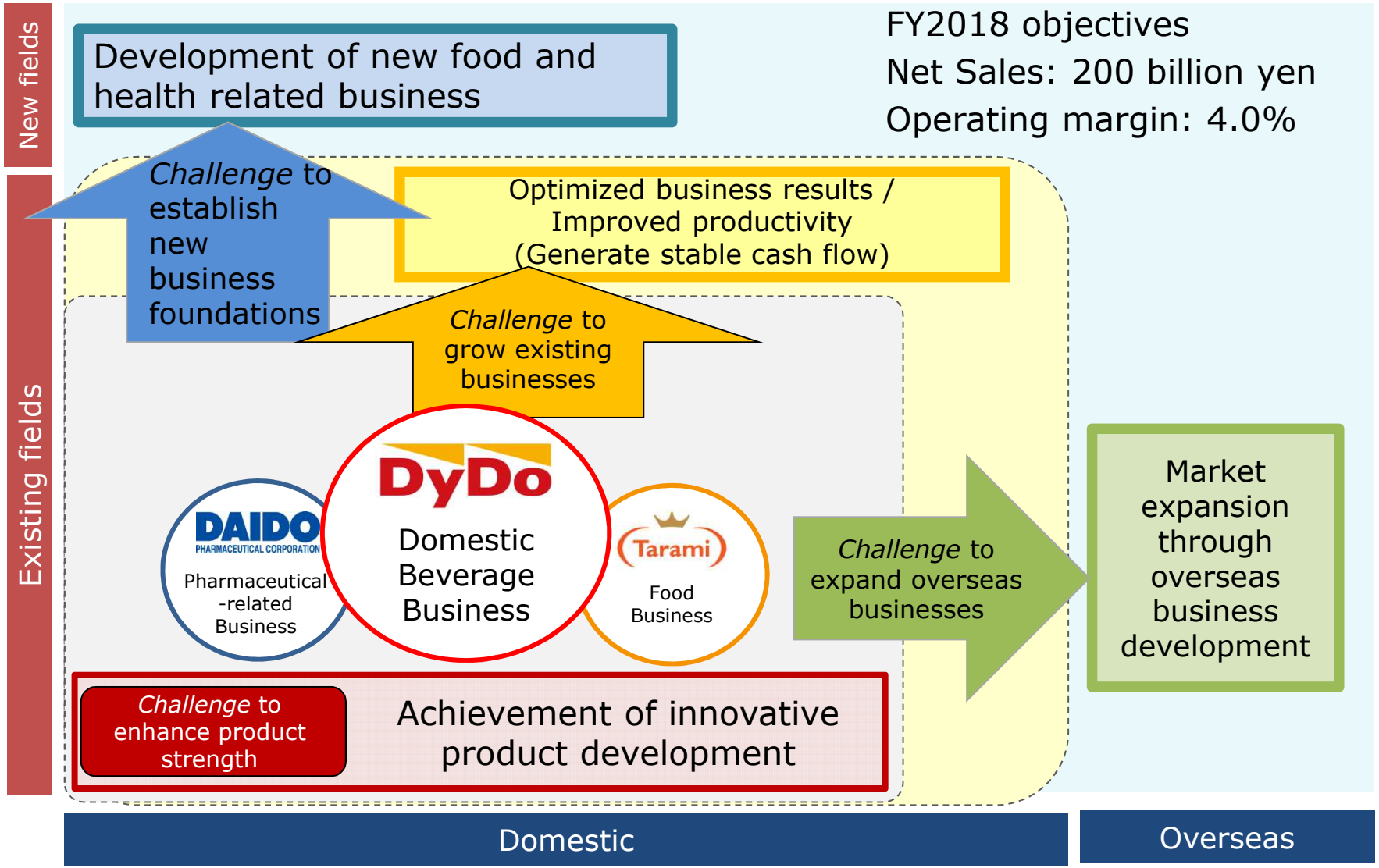
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Offering delicious products
for sound mind and body

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



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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)

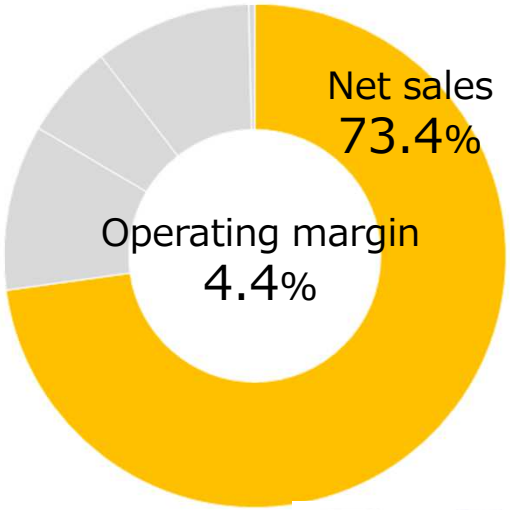
Others





- Domestic Beverage Business as a percentage of overall performance

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



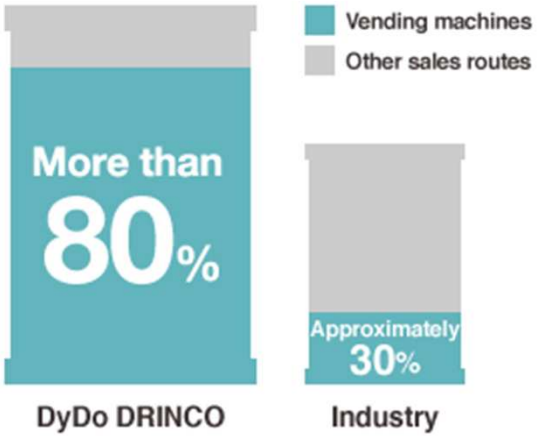
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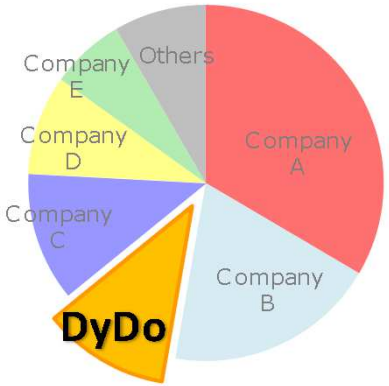
Key Features / Strengths of Domestic Beverage Business

Securing steady profit with sales of coffee from vending machines

Vending Machine Sales account for more than 80%

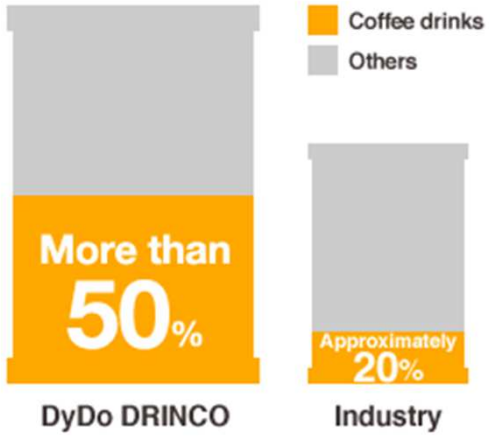


Share of vending machine installed base

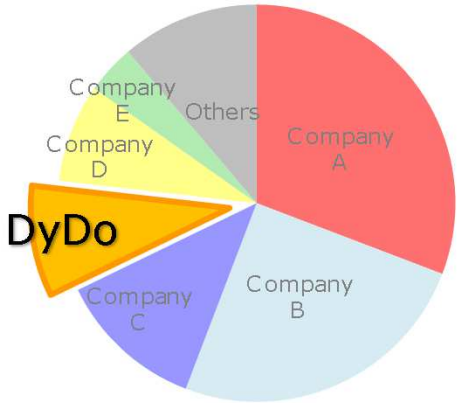


nationwide network of approximately 280,000 vending machines

Coffee sales account for more than 50%



Share of coffee drink sales



* Compiled by DyDo

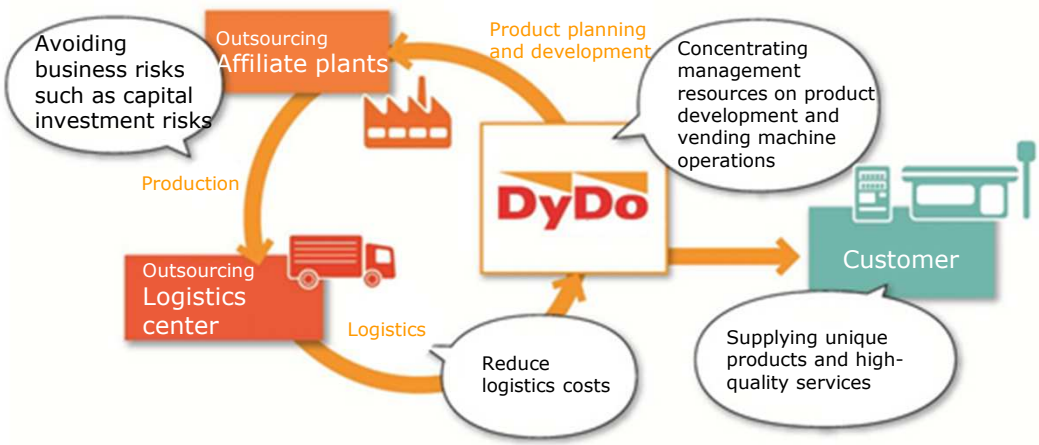
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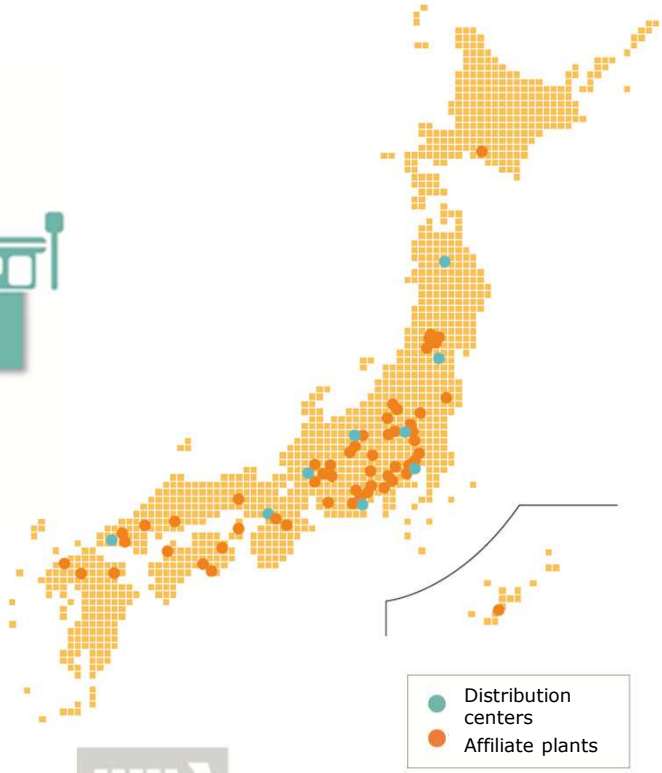
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Key Features / Strengths of Domestic Beverage Business

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.

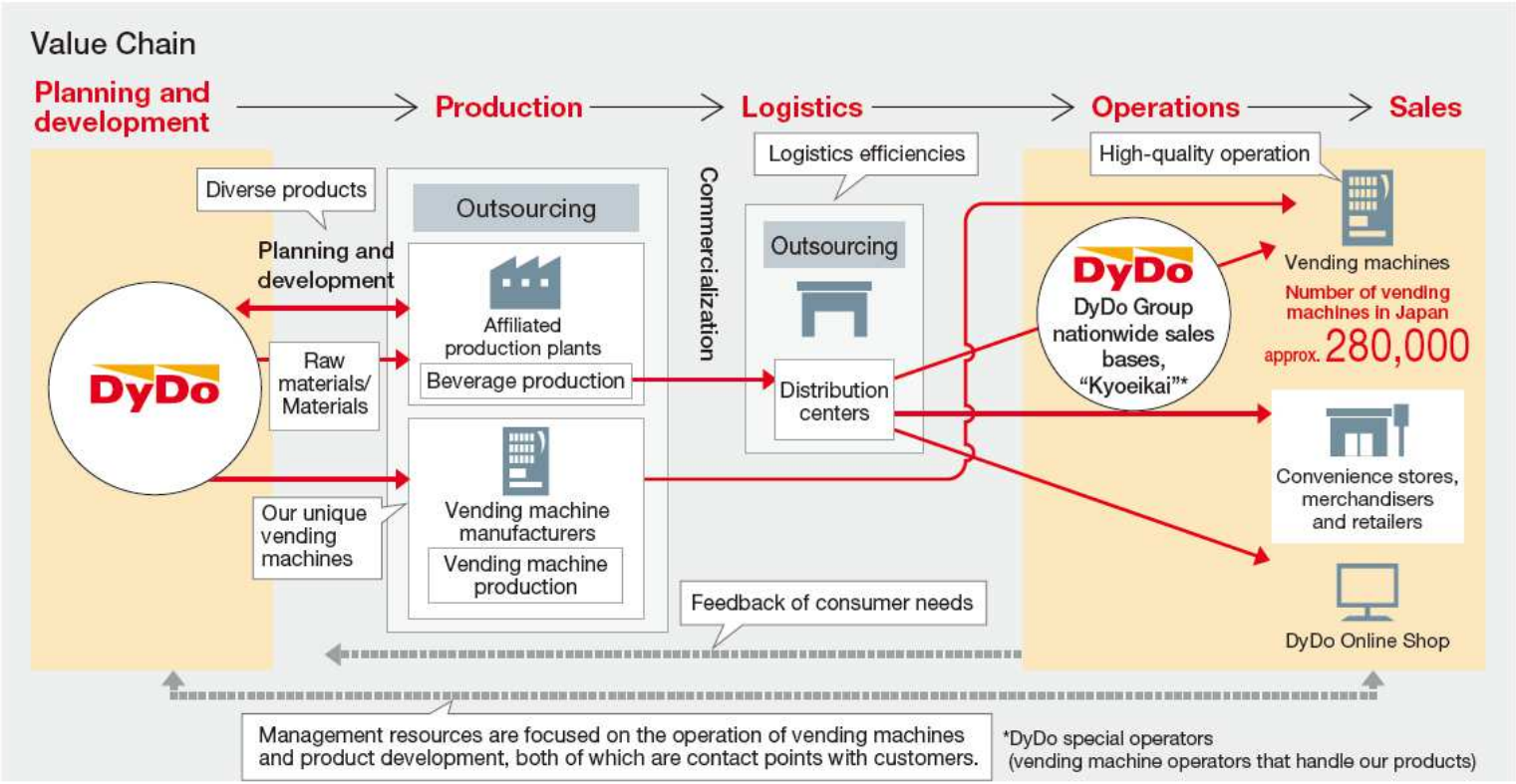


Products that pass inspections

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Domestic Beverage Business: Business Model



Issues and Future Strategy

Embracing the potential of vending machines as infrastructure

The environment in which our vending machine business operates has been becoming increasingly competitive in recent years, and sales per vending machine continue to trend down. Customer values and consumption behavior are becoming more diverse, and what customers want in terms of flavor and healthiness is also diversifying. In order to increase cash flows from our vending machine business on an ongoing basis under these conditions, it will be key for us to deepen the added value provided to customers by vending machines and to deliver products that accommodate those diversifying values. Going forward, we will strive to take advantage of vending machines as infrastructure through IoT to provide services that make customers' lifestyles richer and more pleasant in a variety of fields. We will also accommodate diversifying values and deliver high-quality flavor and health that will inspire customers' empathy by pursuing initiatives in the areas of open innovation and diversity.

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Overview of the International Beverage Business - Turkey -

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[*1] channel	**W** • Relatively low market share • High level of dependence on Yildiz in the traditional sales 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-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



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

FY2018 profit improvement plan

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

(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 of the 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 of the 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



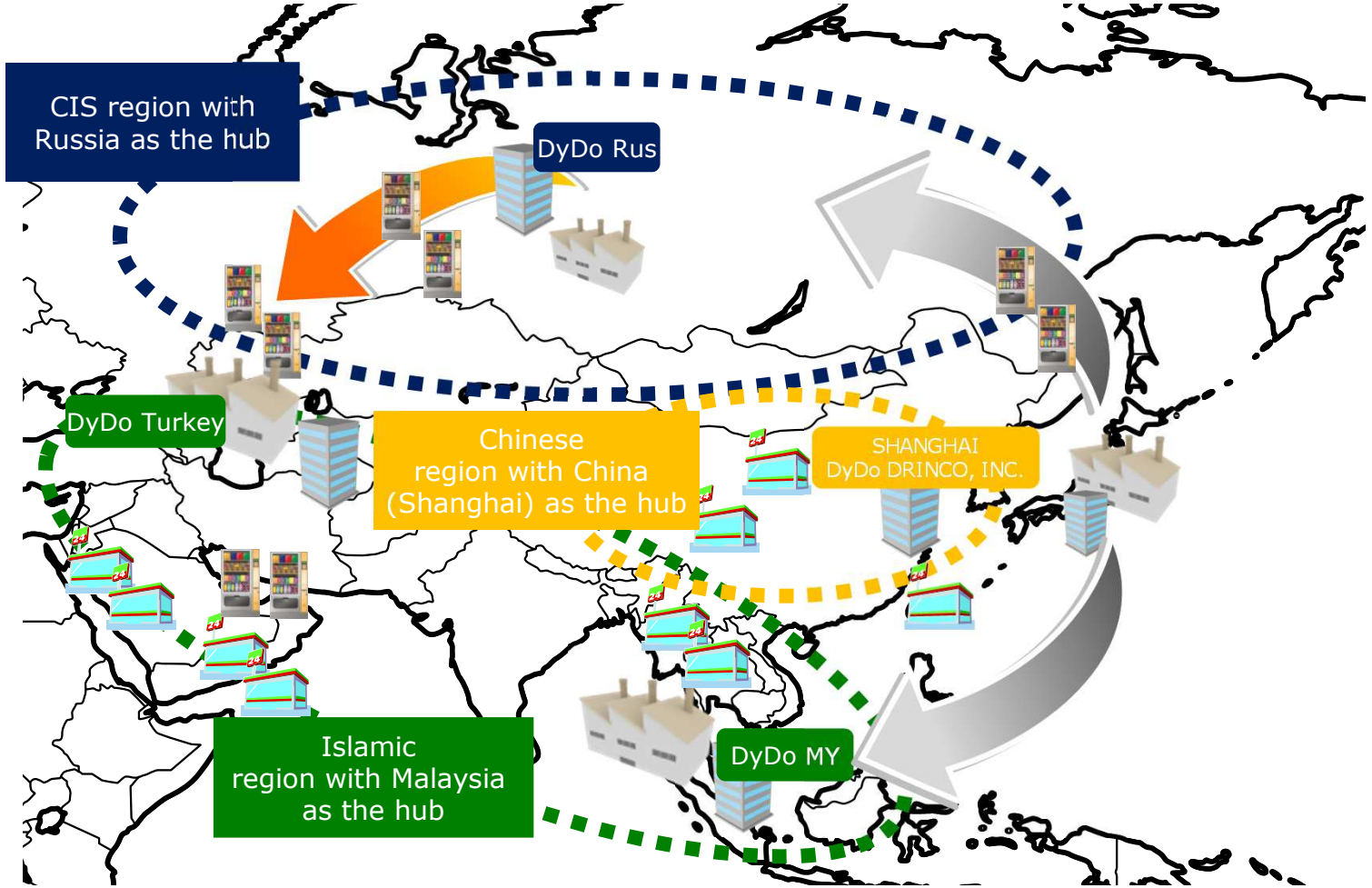
FY2018 profit improvement plan	
• Reduction in gross margin	(17)
• Other	+ 23
Total	+ 6
	(Millions of yen)
Exchange rates	• FY2017: JPY 1.93 = RUB 1.0 • FY2018 forecast: JPY 1.90 = RUB 1.0

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Future vision for the International Beverage Business

Bringing our business to the CIS region with Russia as its hub, the Islamic world with Malaysia as its hub, and the Chinese world with Shanghai as its hub



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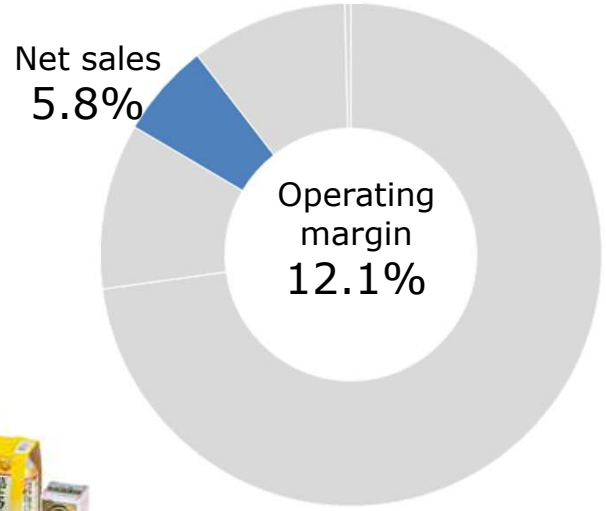
Pharmaceutical-related Business

- 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%

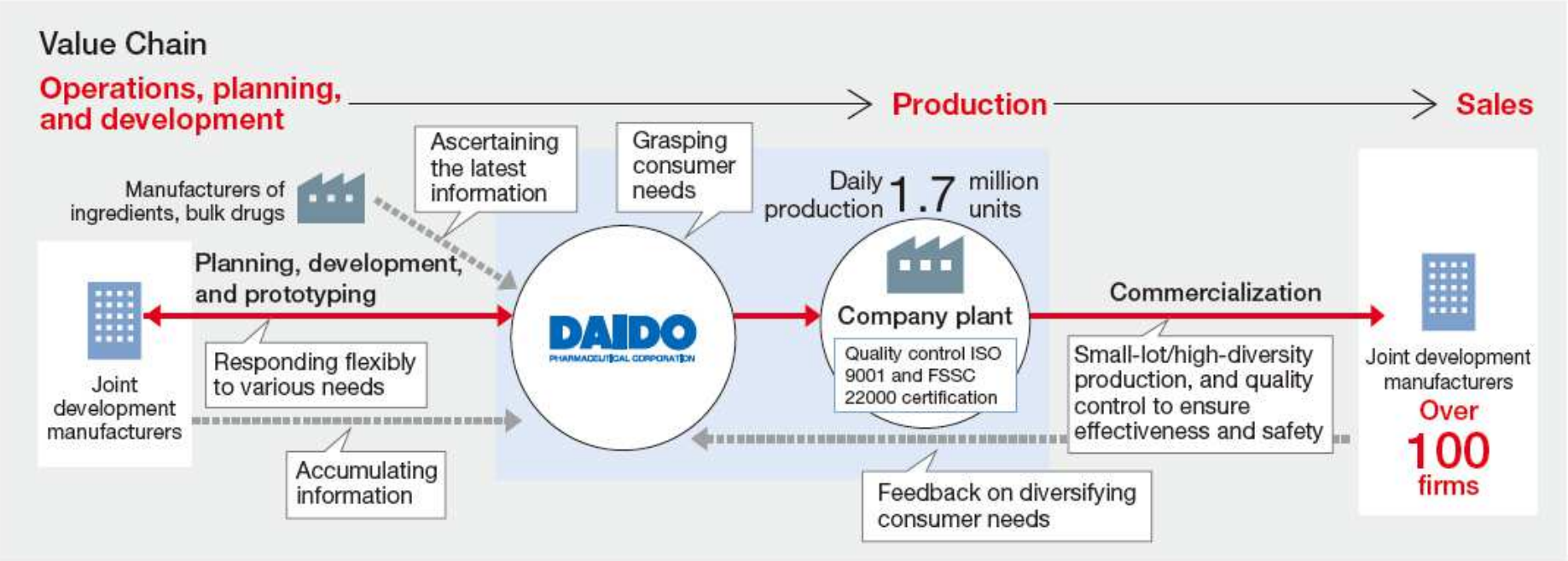


- Product development capabilities that align with customer needs and brand concepts
- Unique proposal capabilities deriving from many years of experience

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Pharmaceutical-related Business: Business Model



Issues and Future Strategy

Establishing a dominant position as a contract manufacturer of drinkable preparations

Although the drinkable preparation market has been shrinking in recent years due to factors including the aging of the core consumer demographic that purchases nutritional drinks, a growth trend centered on beauty-oriented drinkable preparations has emerged thanks to consumers' growing interest in health and beauty. In addition, the need to disperse risk as part of business continuity planning and to address the issue of soaring distribution costs are causes for concern on the part of brand manufacturers. In this environment, it will be critical for us to put in place structures to ensure high manufacturing quality and stable supply so that we can satisfy business partners' requests and needs. We will further bolster our position as a leading contract manufacturer of drinkable preparations by strengthening and enhancing the expertise we've accumulated over many years of operations.

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Food Business

Manufacture and sale of fruit dessert jellies

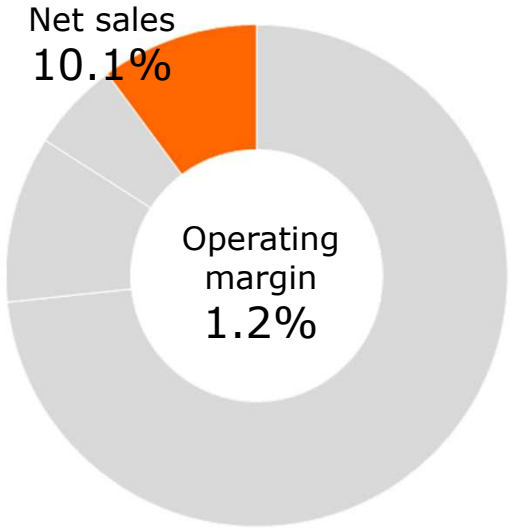
Tarami

- 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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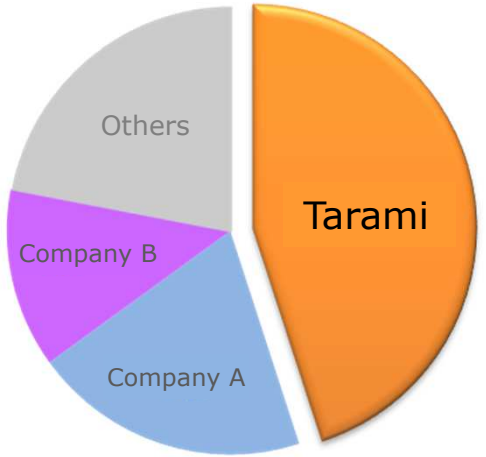
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Key Features / Strengths of the Food Business

- 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

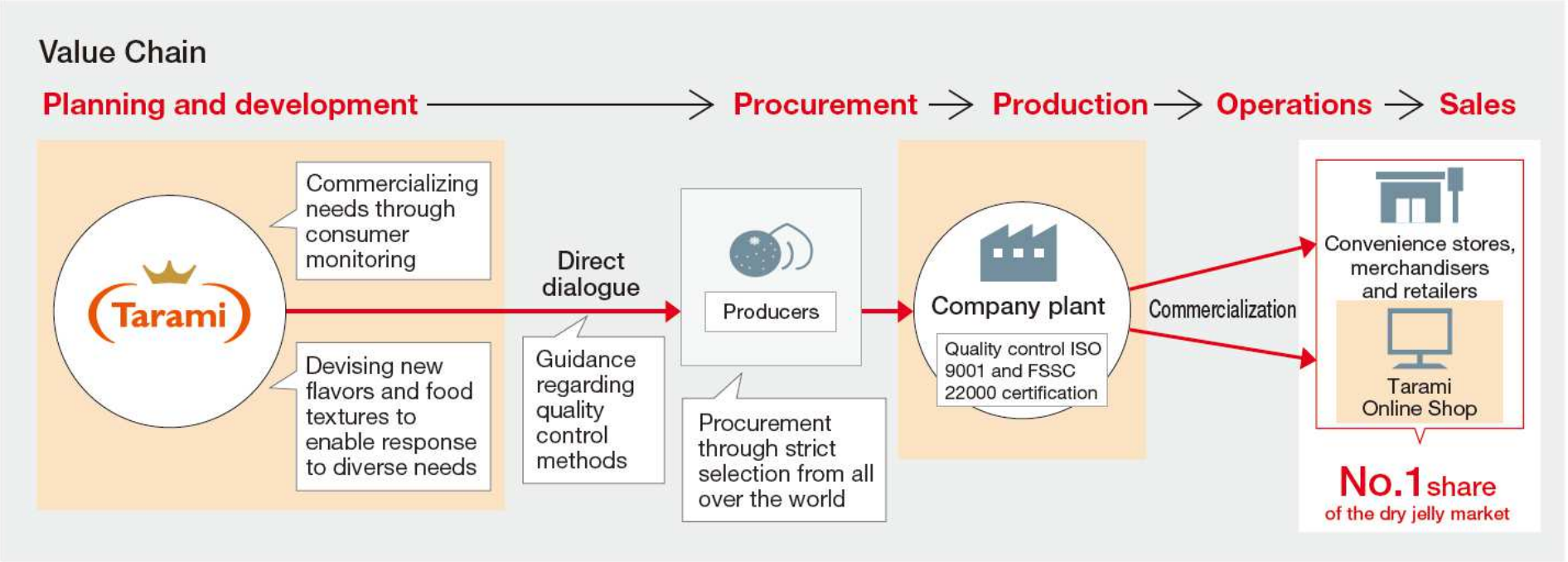


- Going forward, we will work to provide higher-value-added products while pioneering new markets and sales channels

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Food Business: Business Model



Issues and Future Strategy

Striving to inspire consumers to choose the Tarami brand

While sales volume in the low-cost segment of the dry jelly market has been falling in recent years, sales of products in the mid-price tier have been growing, suggesting that a time is approaching when customers will pay for what they perceive as a dedication to quality.

In this environment, we believe that it will be important for us to accommodate a multifaceted array of customer needs by continuing to create a broad range of products that afford a sense of surprise and excitement so that customers will actively choose Tarami brand products.

Going forward, we will strive to realize long-term growth through a customer-oriented focus by redoubling initiatives targeting the customer's perspective and innovation and by strengthening promotions based on brand and product value.

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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.

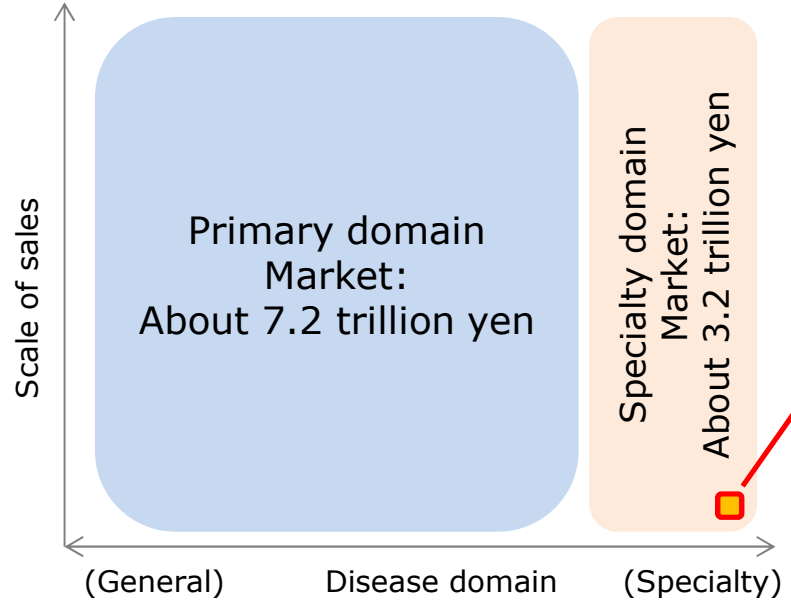
Article 77 Paragraph 2 of the Law on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical devices

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Size of the Orphan Drug Market

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

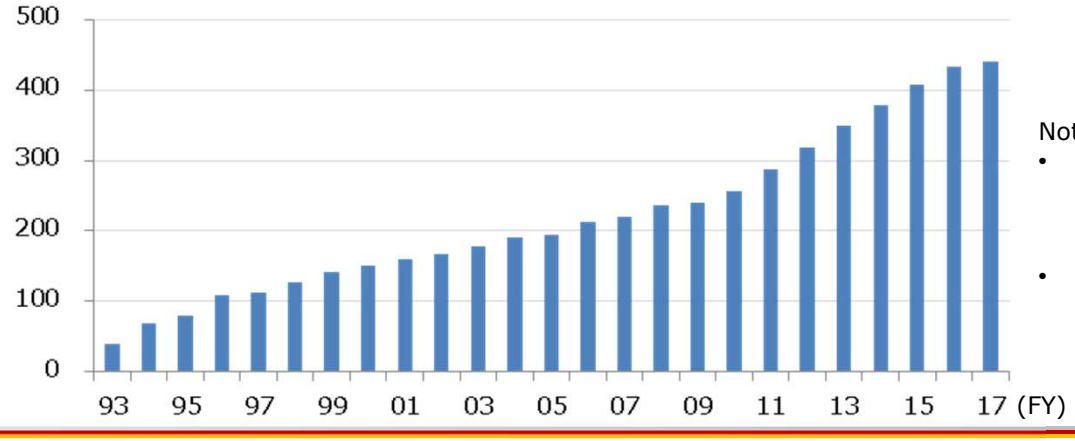


Rare-disease domain
Market: Several hundred billion yen

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

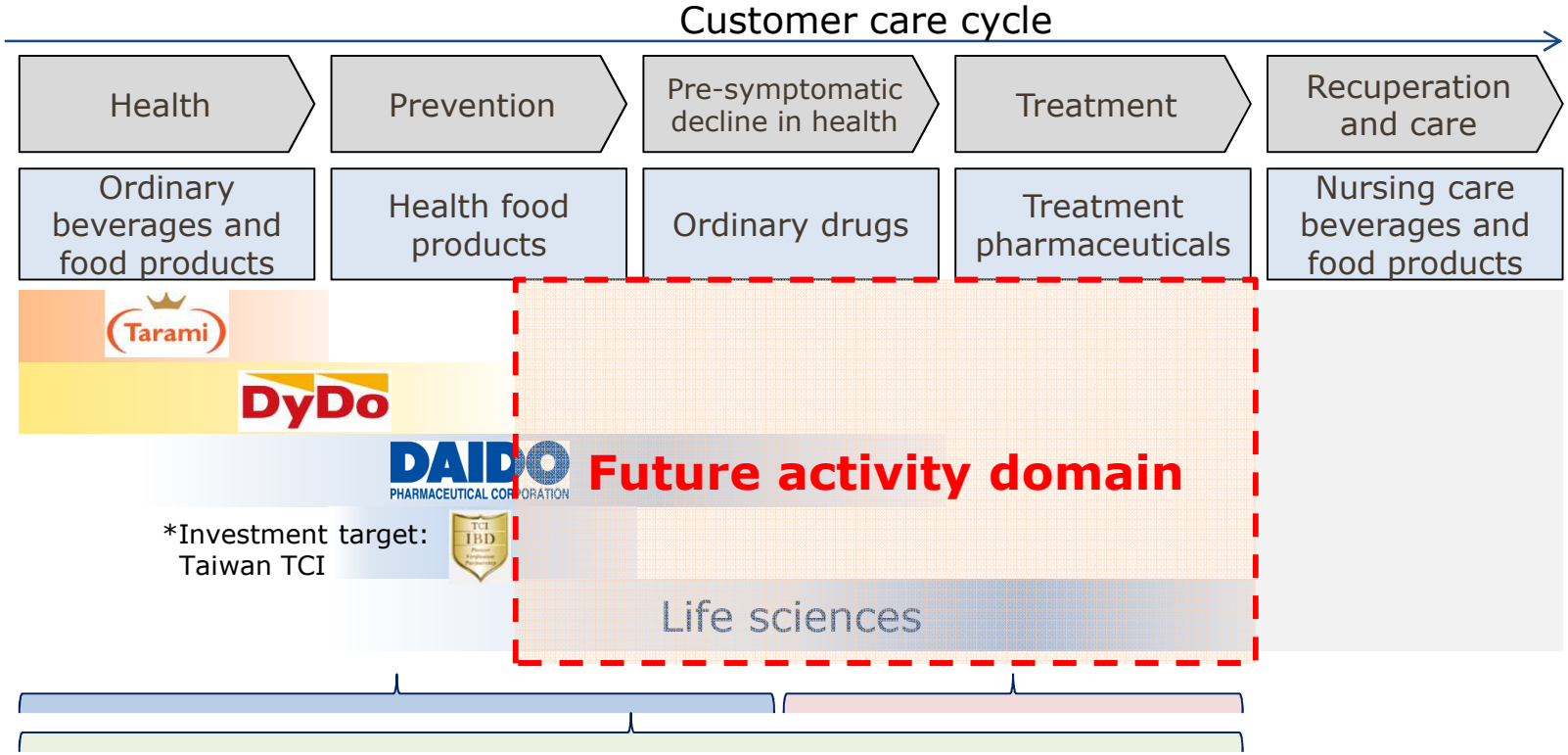
- Graph depicts the number of drugs that have been designated as orphan drug as of December 21, 2017, including those that subsequently lost that designation.
- Compiled by DyDo based on the "List of Designated Orphan Drugs" (published by the National Institute of Biomedical Innovation, Health and Nutrition).

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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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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.