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DyDo

FY2018 (Year Ending January 20, 2019) 3rd Quarter Financial Highlights

DyDo Group Holdings Inc.

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

November 27, 2018

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1. FY2018 3rd Quarter Financial Highlights / Full-year Earnings Forecast

Overview of Cumulative Consolidated Financial Information as of FY2018 Third Quarter

- Cumulative net sales as of the third quarter fell 0.5% year on year, and operating profit rose 1.1 billion yen from the previous year
- Net sales in the Domestic Beverage Business fell, while performance in the Pharmaceutical-related Business and the Food Business remained robust
- Net sales in the International Beverage Business fell on a Japanese yen basis due to the effects of exchange rate fluctuations
- Efforts to cut selling expenses contributed to rising profits in the Domestic Beverage Business

(Millions of yen)

	3rd quarter (Jan 21 - October 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	**133,904**	**100.0%**	**133,229**	**100.0%**	**(0.5%)**	**(674)**	**172,684**	**100.0%**	**175,220**	**100.0%**	**1.5%**	**2,536**
Operating profit	**4,812**	**3.6%**	**5,998**	**4.5%**	**24.7%**	**1,186**	**4,891**	**2.8%**	**5,740**	**3.3%**	**17.4%**	**849**
Ordinary profit	**5,274**	**3.9%**	**5,752**	**4.3%**	**9.1%**	**478**	**5,382**	**3.1%**	**5,725**	**3.3%**	**6.4%**	**343**
Profit attributable to owners of parent	**3,138**	**2.3%**	**3,432**	**2.6%**	**9.4%**	**294**	**2,504**	**1.5%**	**3,640**	**2.1%**	**45.4%**	**1,136**
EPS	**189.97 yen**		**208.41 yen**		**9.7%**	**18.44 yen**	**151.73 yen**		**220.99 yen**		**45.6%**	**69.26 yen**

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FY2018 Third Quarter Consolidated Earnings / FY2018 Full-year Consolidated Earnings Forecast - Details -

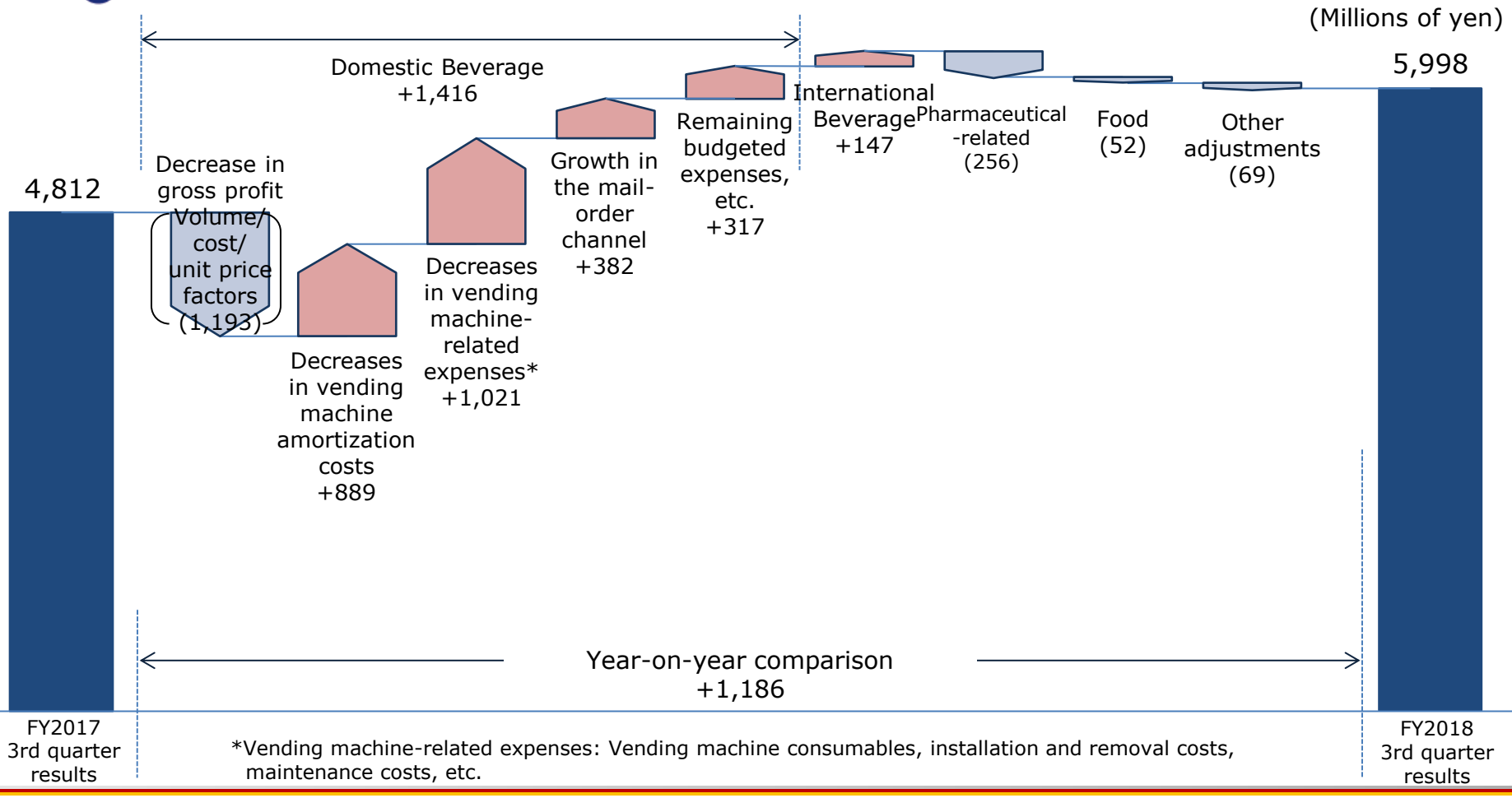
(Millions of yen)

	FY2017 3rd quarter results	FY2018 3rd quarter results			FY2017 full-year results	FY2018 full-year earnings forecast		
			% (YoY)	Amount (YoY)			% (YoY)	Amount (YoY)
Domestic Beverage Business	97,467	95,536	(2.0%)	(1,931)	126,712	127,070	0.3%	358
International Beverage Business	14,116	14,001	(0.8%)	(114)	18,547	19,410	4.7%	863
Pharmaceutical-related Business	8,091	8,199	1.3%	107	10,536	10,500	(0.3%)	(36)
Food Business	14,793	15,934	7.7%	1,141	17,560	18,850	7.3%	1,290
Adjustment	(563)	(441)	–	122	(673)	(610)	–	63
Total net sales	133,904	133,229	(0.5%)	(674)	172,684	175,220	1.5%	2,536
Domestic Beverage Business	4,680	6,097	30.3%	1,416	5,542	6,700	20.9%	1,158
International Beverage Business	(509)	(362)	–	147	(838)	(680)	–	158
Pharmaceutical-related Business	1,052	795	(24.4%)	(256)	1,271	1,100	(13.5%)	(171)
Food Business	506	454	(10.3%)	(52)	219	645	194.5%	426
Adjustment	(917)	(986)	–	(69)	(1,303)	(2,025)	–	(722)
Total operating profit	4,812	5,998	24.7%	1,186	4,891	5,740	17.4%	849

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Causes Driving Increases/Decreases in Operating Profit for FY2018 Third Quarter - 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



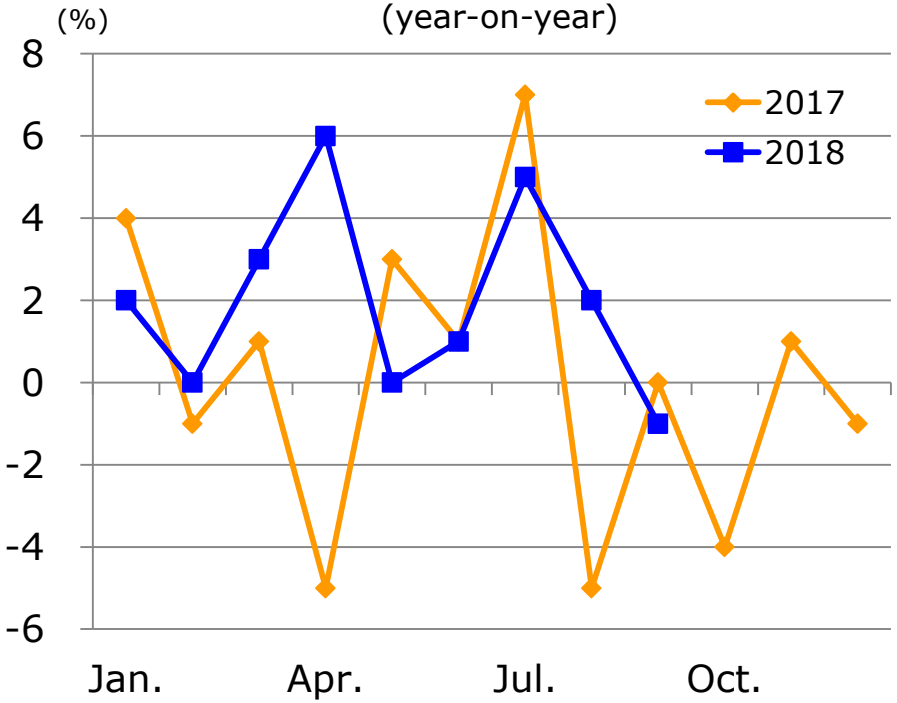
*Vending machine-related expenses: Vending machine consumables, installation and removal costs, maintenance costs, etc.

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Trends in the Beverages Industry

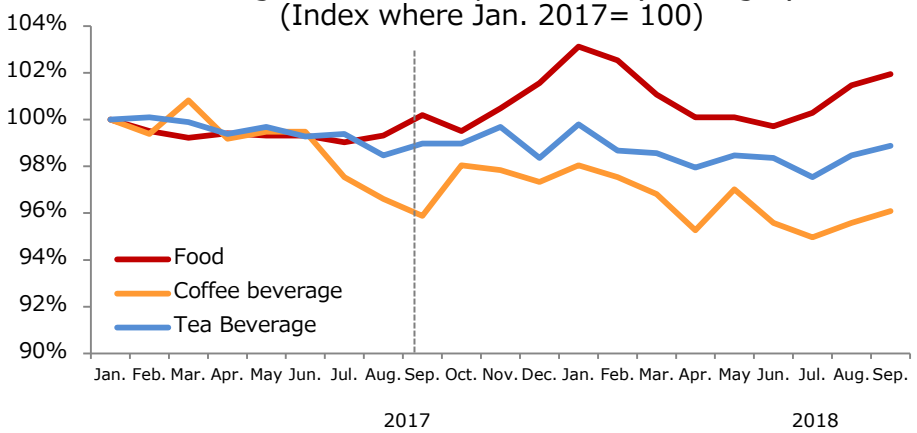
- Overall, sales volume in the beverage industry remained solid
- The shift to plastic bottles for coffee beverage continued, as did the decline in market prices
- A series of natural disasters highlighted issues involving crisis management in industry companies' supply chains

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	Jan. to Aug. 2018
Cans	45%	39%	32%
Bottle-shaped cans	33%	33%	25%
Plastic bottles	22%	28%	43%

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Overview of the Domestic Beverage Business

Domestic Beverage Business

(Millions of yen)

	FY2017 3rd quarter results	Component ratio	FY2018 3rd quarter results	Component ratio	% (YoY)	Amount (YoY)	FY2017 full-year results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	97,467	100.0%	95,536	100.0%	(2.0%)	(1,931)	126,712	100.0%	127,070	100.0%	0.3%	358
Operating profit	4,680	4.8%	6,097	6.4%	30.3%	1,416	5,542	4.4%	6,700	5.3%	20.9%	1,158

- The declining trend for sales per vending machine continued as net sales fell 2% year on year
- The company launched DyDo Blend Coffee GINREI in an effort to revitalize the market for canned coffee
- Steady effort to lower vending machine fixed costs contributed to increased profits

Initiatives to reduce the weight of containers

The company began using TULC cans, the industry's lightest-weight steel can, to reduce environment impacts.

50% lighter

Container type	1987	2018
185g steel can	37.2 g	18.6 g





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Trends in Sales Volume by Quarter in the Domestic Beverage Business

- Cumulative sales volume as of the third quarter fell 3.1% 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
- Sales of other beverages, particularly mineral water and sports drinks, rose due in part to the excessive heat



	1st quarter	2nd quarter	3rd quarter	Year to date through 3rd quarter	
	Change (%)	Change (%)	Change (%)	Sales volume (thousands of cases)	Change
Coffee beverages	(3.6%)	(7.1%)	(9.3%)	22,995	(6.7%)
Other beverages	3.1%	(5.0%)	7.4%	19,636	1.4%
Total	(1.1%)	(6.1%)	(1.7%)	42,632	(3.1%)
Change in days of operation compared to previous quarter	+ 1 day	±0 day	±0 day	+ 1 day	

Year to date through 3rd quarter by channel			
Vending machines		Other	
Sales volume (thousands of cases)	Change	Sales volume (thousands of cases)	Change
18,173	(6.4%)	4,822	(7.6%)
17,465	1.5%	2,170	0.8%
35,639	(2.7%)	6,992	(5.1%)

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Overview of the International Beverage Business

International Beverage Business

(Millions of yen)

	FY2017 3rd quarter results	Component ratio	FY2018 3rd quarter result	Component ratio	% (YoY)	Amount (YoY)	FY2017 full-year results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	14,116	100.0%	14,001	100.0%	(0.8%)	(114)	18,547	100.0%	19,410	100.0%	4.7%	863
Operating profit	(238)	–	(164)	–	–	74	(482)	–	(352)	–	–	130
Amortization of goodwill, etc.	271	1.9%	197	1.4%	(27.1%)	(73)	356	1.9%	328	1.7%	(7.9%)	(28)
Operating profit after subtracting amortization of goodwill	(509)	–	(362)	–	–	147	(838)	–	(680)	–	–	158
JPY per TRY	31.24 yen		24.15 yen		(7.09 yen)		30.78 yen		30.00 yen		(0.78 yen)	
JPY per MYR	25.82 yen		27.46 yen		1.64 yen		26.21 yen		25.00 yen		(1.21 yen)	

- Sales of Saka mineral water rose, leading to significantly higher profits in the Turkish beverage business on a local currency basis
- Profits improved at other overseas subsidiaries due to implementat of reforms
- Soaring raw material prices due to the abrupt depreciation of the Turkish lira had a significant impact on performance, and the improvement in profits throughout our International Beverage Business were less pronounced as a result



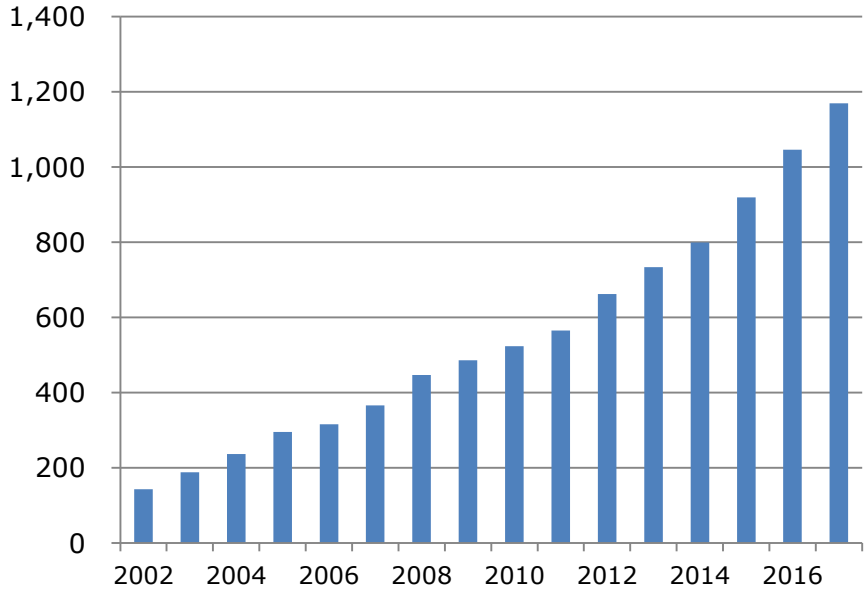
Left: Saka mineral water brand
Right: Maltana malt carbonated beverage brand

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Overview of the Turkish Business in the International Beverage Business

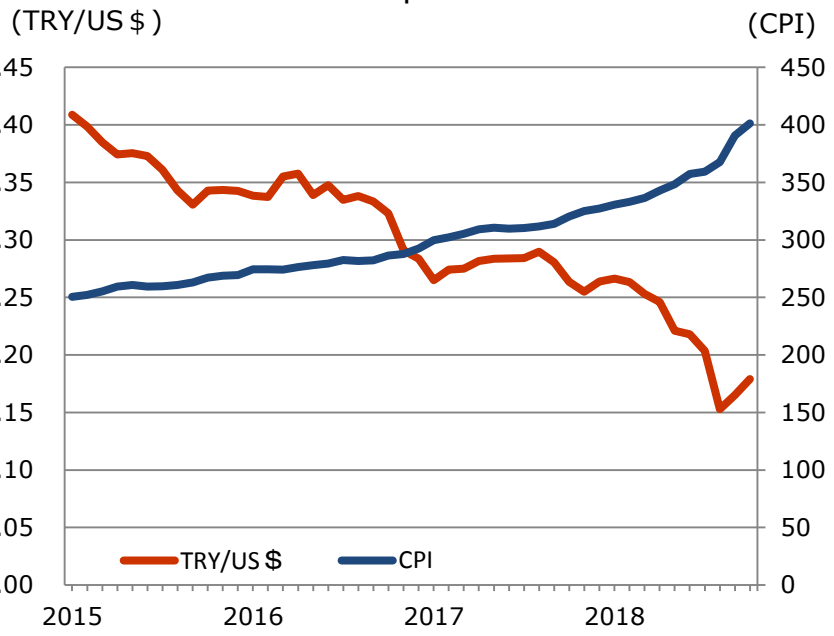
Local currency-basis results			1st quarter	2nd quarter	3rd quarter	4th quarter	Full-year
FY2018	Sales, YoY	Quarterly	+28%	+32%	+38%		
	Exchange rate (JPY per TRY)	Cumulative results	27.98 yen	26.53 yen	24.15 yen	Assumption→	30.00 yen
FY2017	Sales, YoY	Quarterly	+2%	+10%	+25%	+44%	+18%
	Exchange rate (JPY per TRY)	Cumulative results	30.67 yen	31.05 yen	31.24 yen	30.78 yen	30.78 yen

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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Overview of the Pharmaceutical-related Business and the Food Business

Pharmaceutical-related Business

(Millions of yen)

	FY2017 3rd quarter results	Component ratio	FY2018 3rd quarter results	Component ratio	% (YoY)	Amount (YoY)	FY2017 results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	8,091	100.0%	8,199	100.0%	1.3%	107	10,536	100.0%	10,500	100.0%	(0.3%)	(36)
Operating profit	1,052	13.0%	795	9.7%	(24.4%)	(256)	1,271	12.1%	1,100	10.5%	(13.5%)	(171)

- The company worked to strengthen quality control structures
- Expenditures to put in place structures in preparation for the start of operations at the new Kanto Plant in 2020 rose

Food Business

(Millions of yen)

	FY2017 3rd quarter results	Component ratio	FY2018 3rd quarter results	Component ratio	% (YoY)	Amount (YoY)	FY2017 results	Component ratio	FY2018 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	14,793	100.0%	15,934	100.0%	7.7%	1,141	17,560	100.0%	18,850	100.0%	7.3%	1,290
Operating profit	770	5.2%	718	4.5%	(6.8%)	(52)	571	3.3%	997	5.3%	74.6%	426
Goodwill and other amortization costs	264	1.8%	264	1.7%	(0.0%)	0	352	2.0%	352	1.9%	0.0%	0
Operating profit after subtracting amortization of goodwill	506	3.4%	454	2.9%	(10.3%)	(52)	219	1.2%	645	3.4%	194.5%	426

- Proposals of products based on new concepts drove significantly higher sales
- The company made marketing investments to increase the value of its Tarami brand

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■ APPENDIX

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	46,239	–	–

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	33,162	–	–

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	5,013	–	–

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	2,637	–	–

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	5,546	–	–

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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	2,718	–	–

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	2,679	–	–

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)	84	–	–

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	132	–	–

Food Business

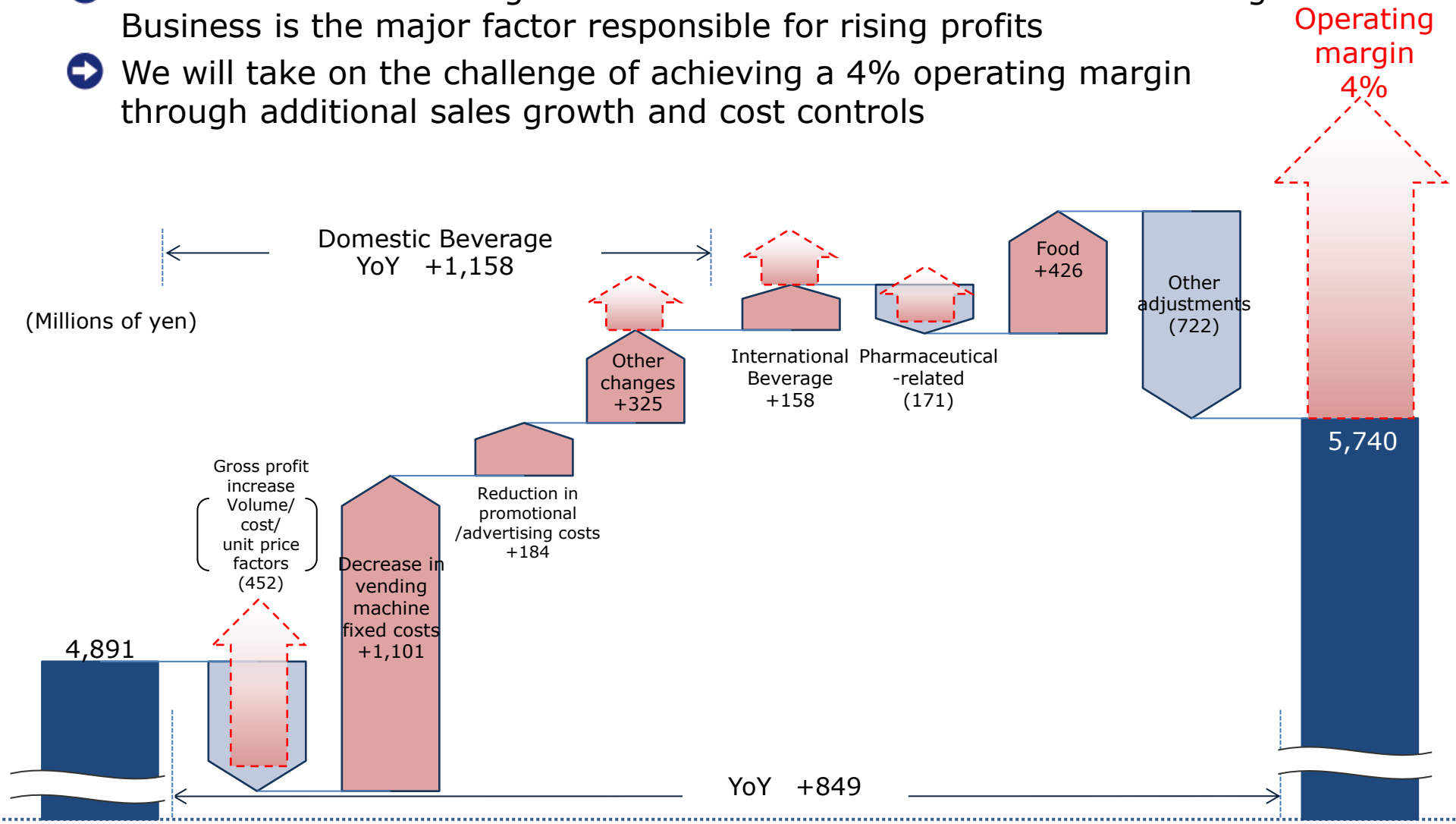
(Before amortization of goodwill)

	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	263	–	–

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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)

◆ New business

200

100

0

◆ 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.

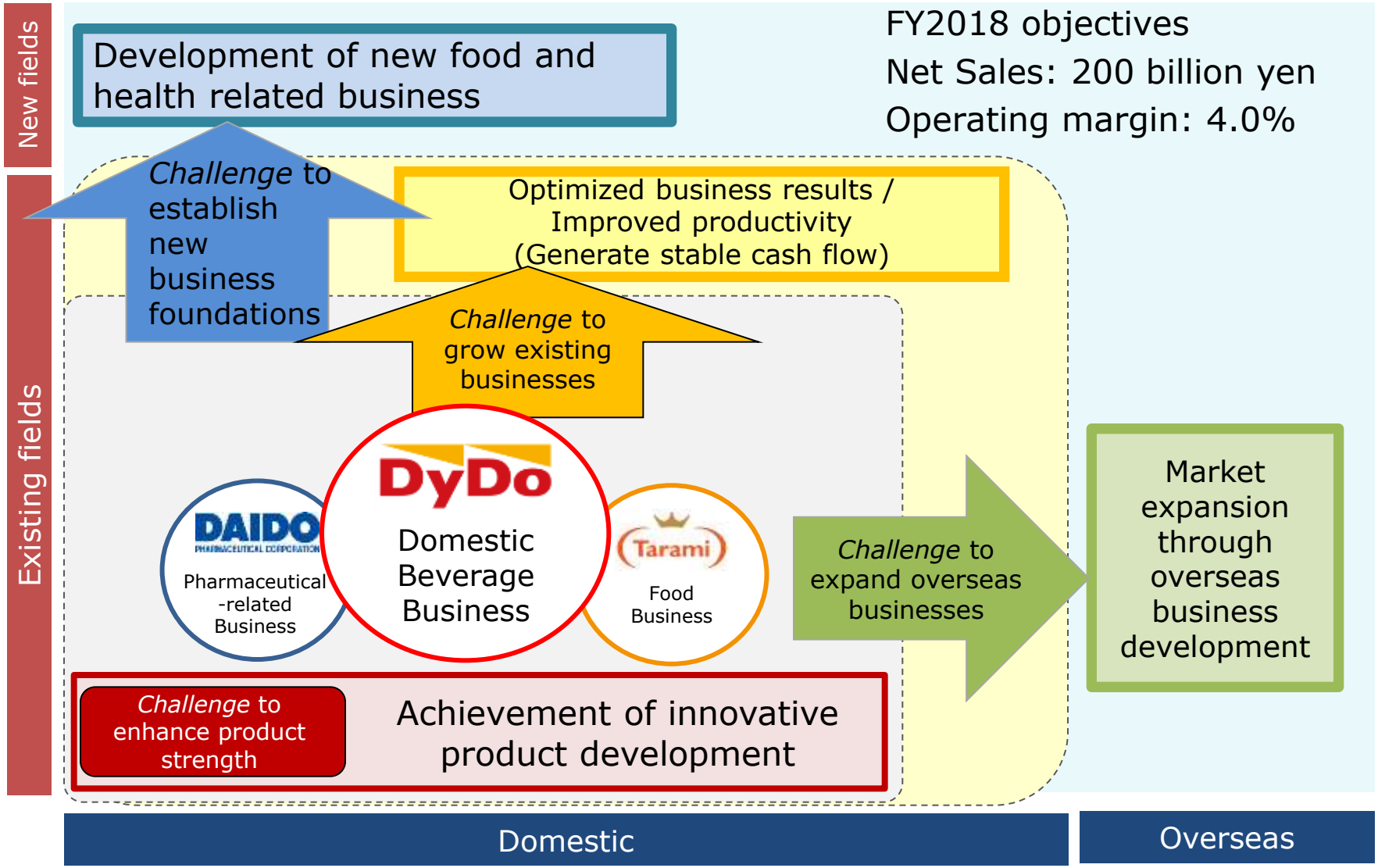
Group Slogan

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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





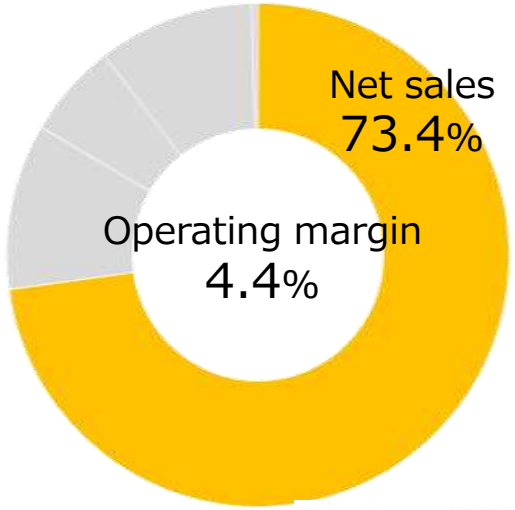






Domestic Beverage Business as a percentage of overall performance

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

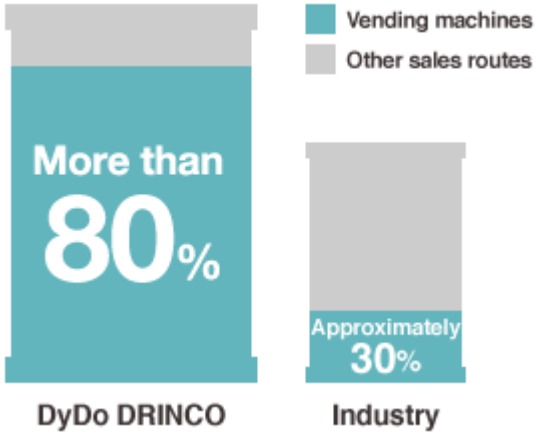


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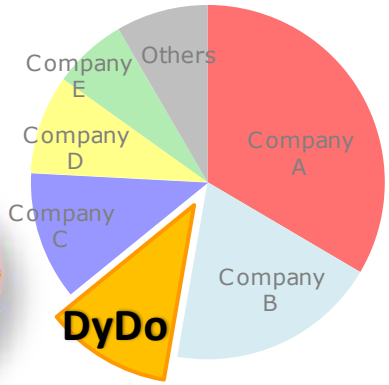
Key Features / Strengths of Domestic Beverage Business

Securing steady profit with sales of coffee from vending machines

Vending Machine Sales account for more than 80%

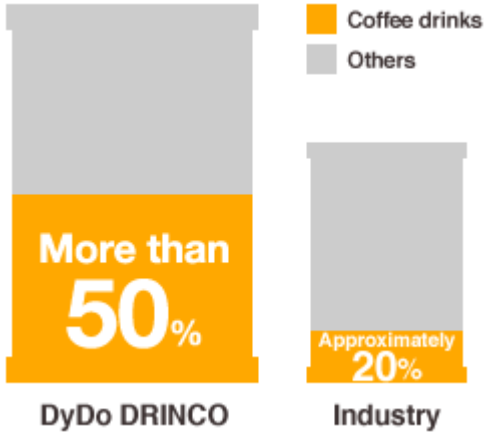


Share of vending machine installed base

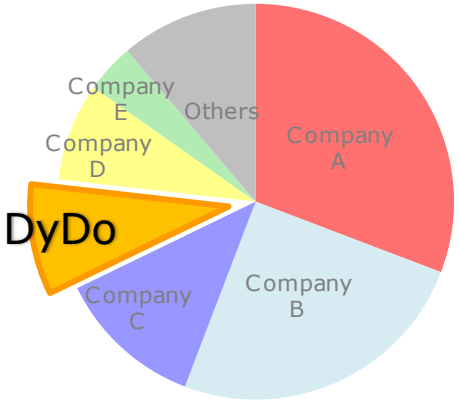


nationwide network of approximately 280,000 vending machines

Coffee sales account for more than 50%



Share of coffee drink sales



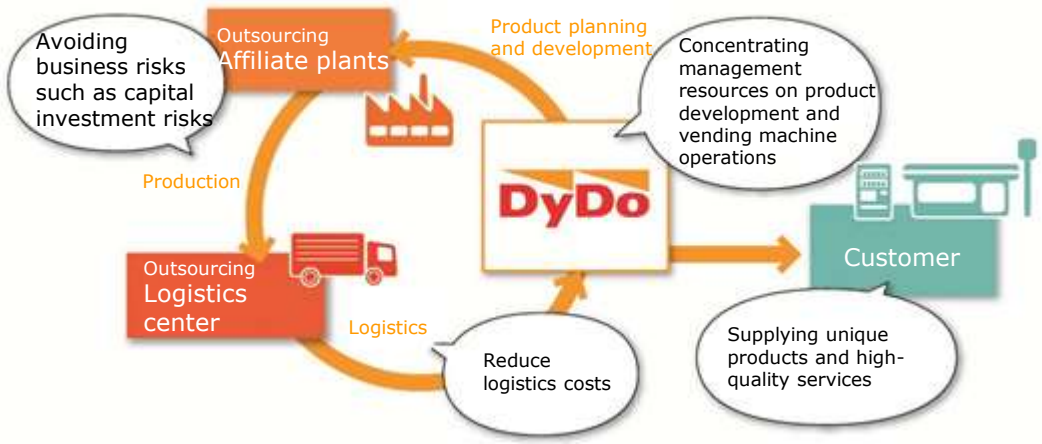
* Compiled by DyDo

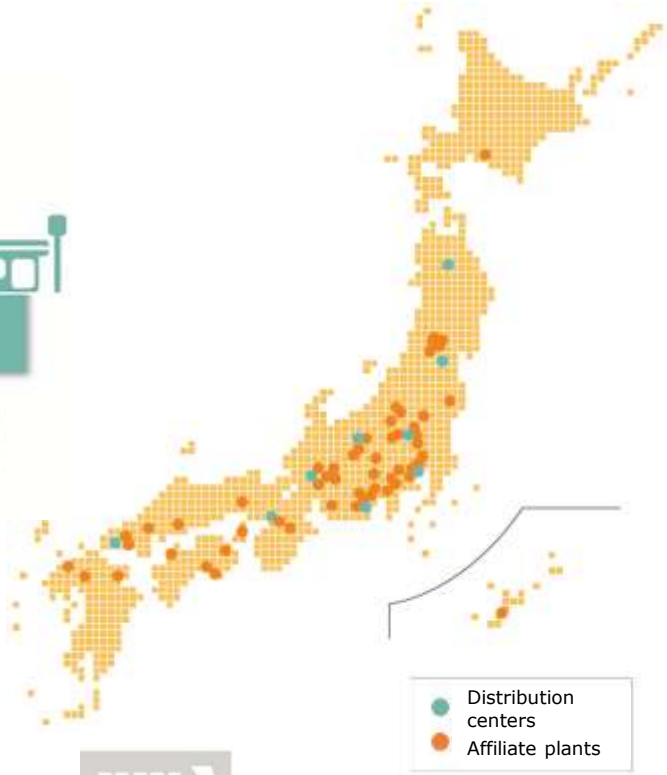
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Key Features / Strengths of Domestic Beverage Business

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

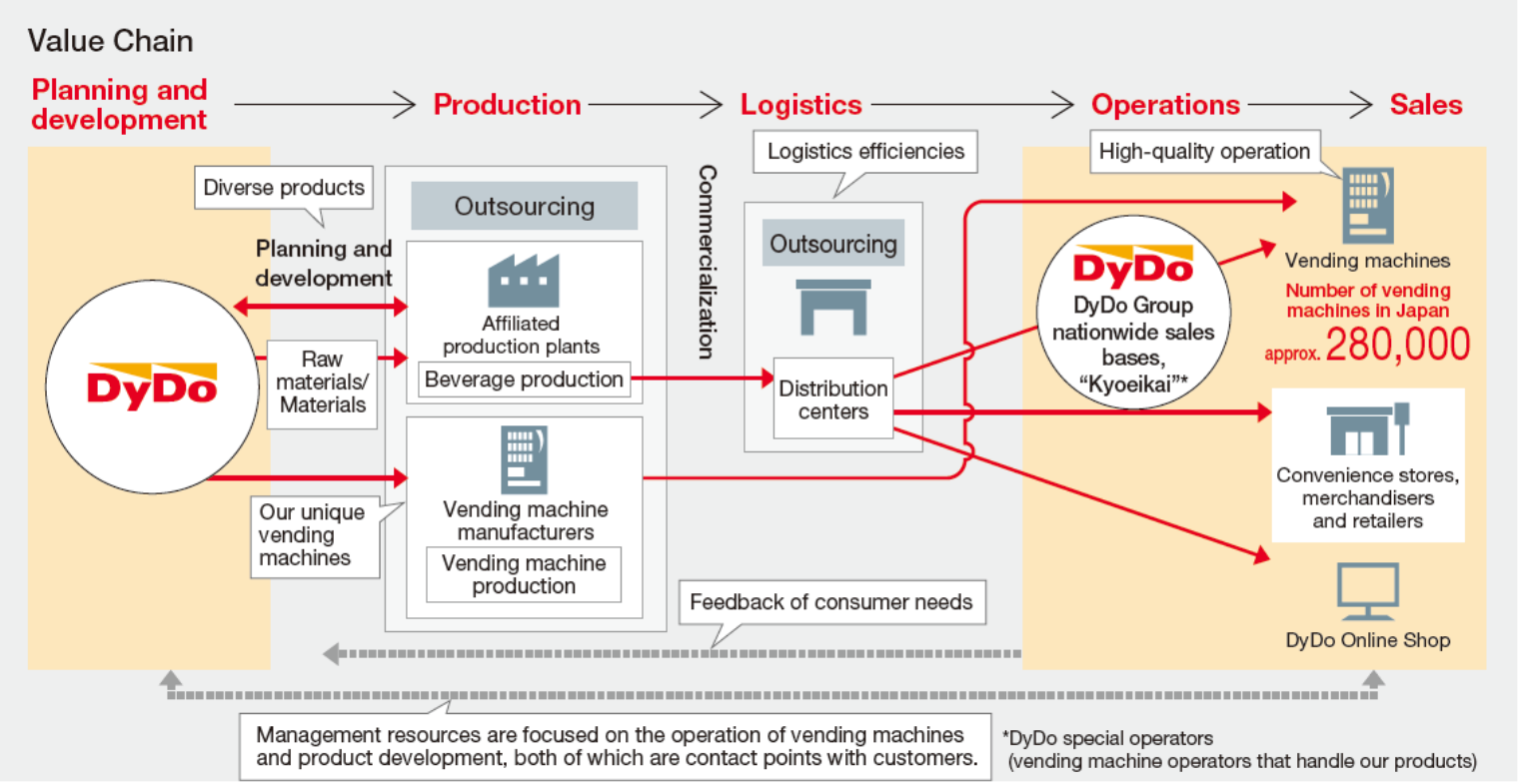
Ingredient inspections, product inspections, inspections of constant-temperature equipment, inspections to check for radioactive substances, etc.



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



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

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

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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

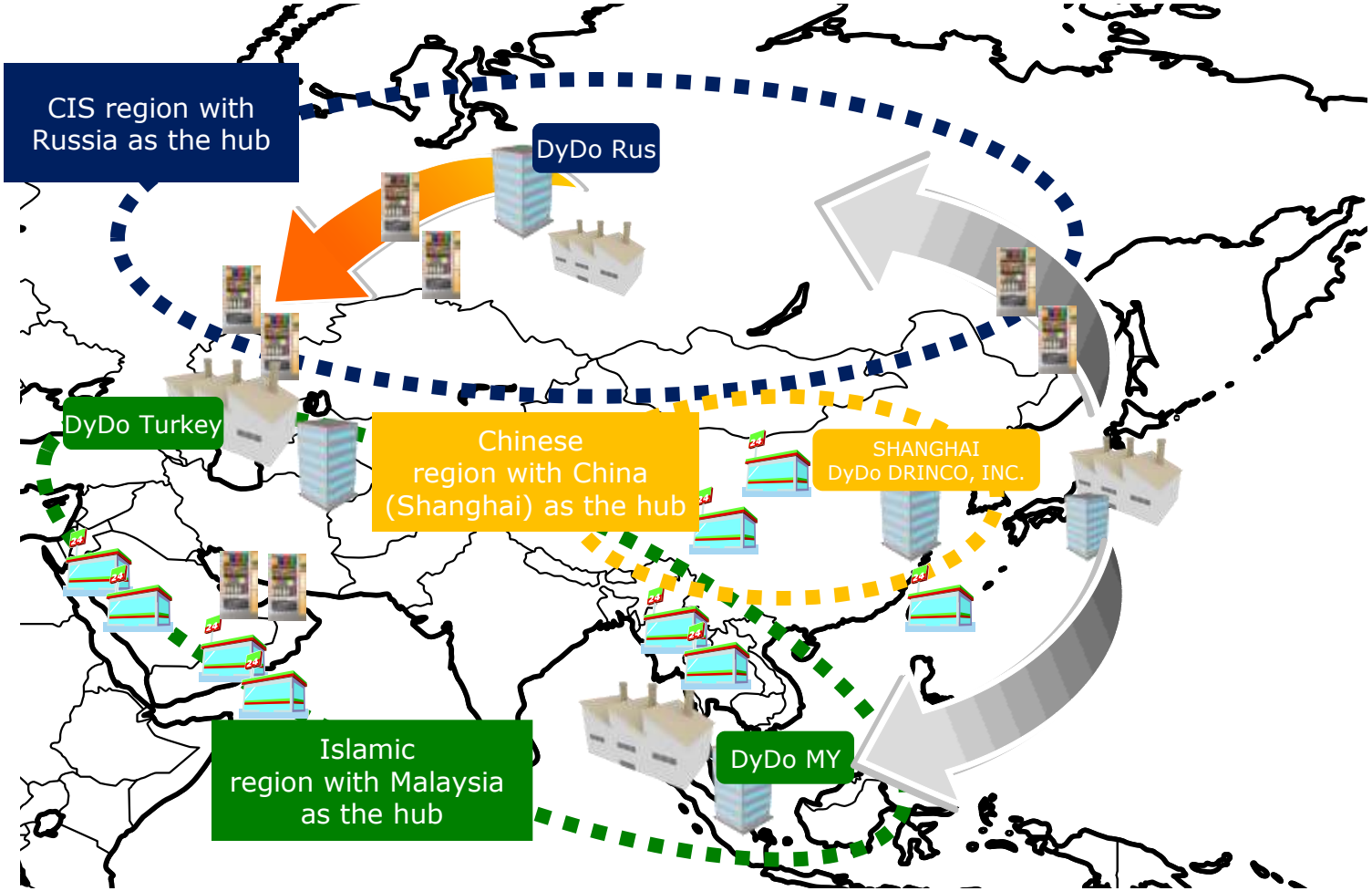


FY2018 profit improvement plan	
• Reduction in gross margin	(17)
• Other	+ 23
Total	+ 6
	(Millions of yen)
Exchange rates	• FY2017: JPY 1.93 = RUB 1.0 • FY2018 forecast: JPY 1.90 = RUB 1.0

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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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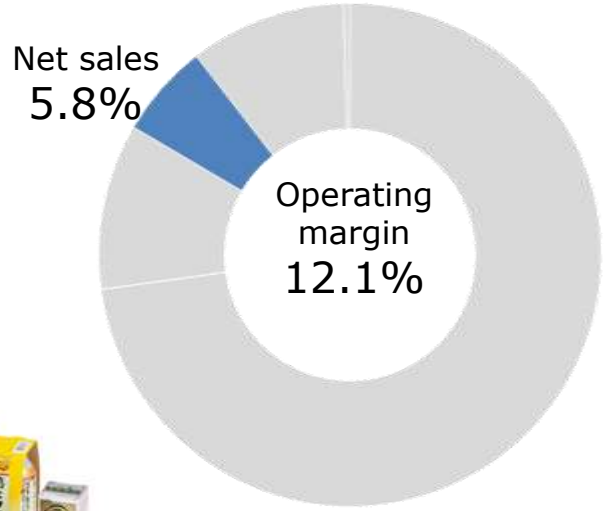
Pharmaceutical-related Business

- 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

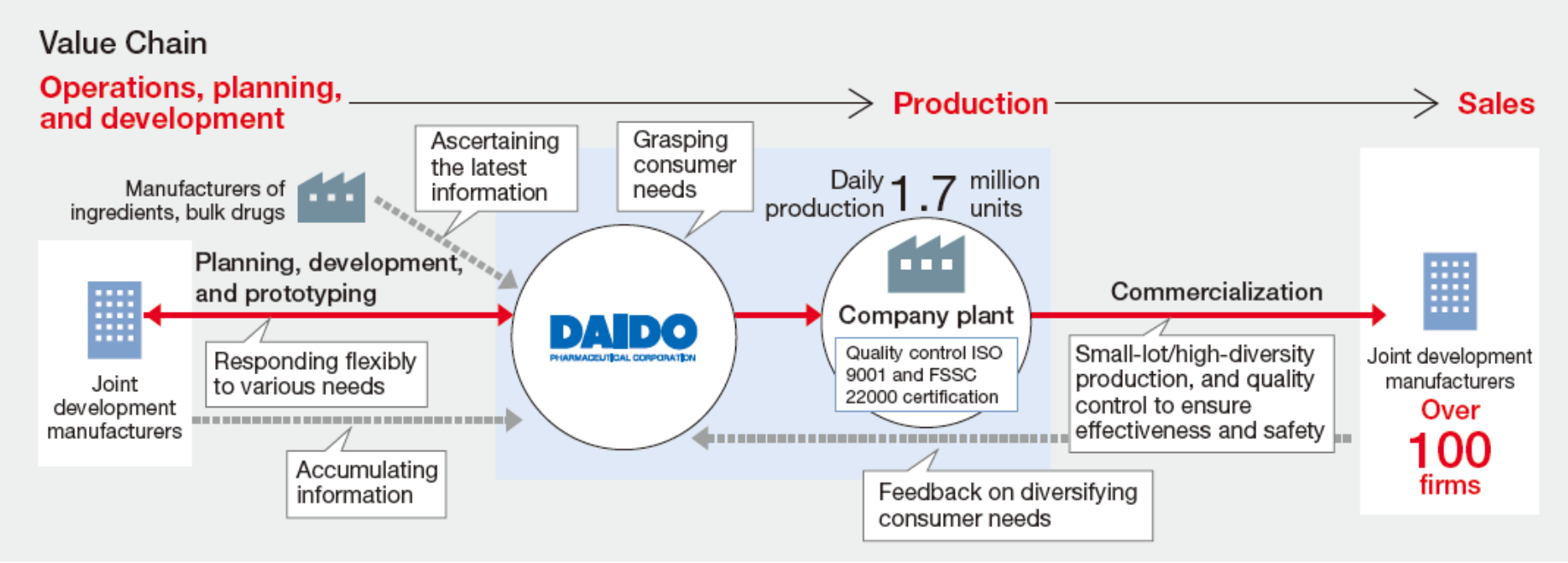
Operating margin of greater than 10%



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

Toward building a new Kanto Plant in 2020

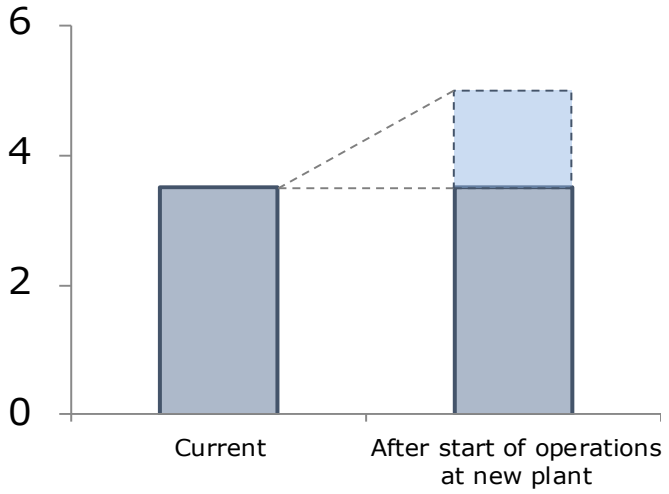
Objectives

- To respond rapidly to business partners' needs
- To lower costs by streamlining deliveries
- To put in place stable supply structures, including BCP 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	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)

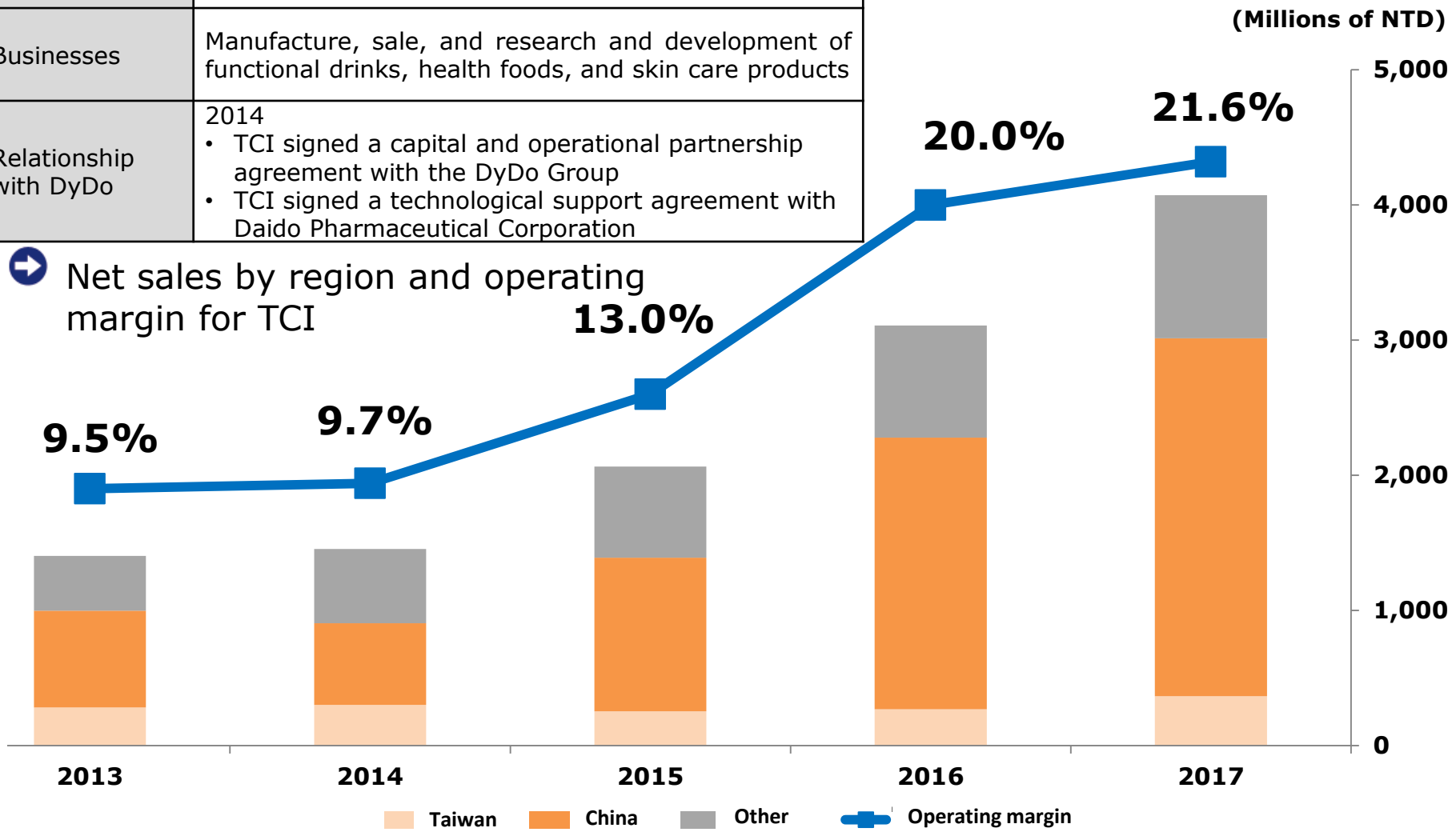


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Overview of TCI

Company name	TCI Co., Ltd.
Businesses	Manufacture, sale, and research and development of functional drinks, health foods, and skin care products
Relationship with DyDo	2014 • TCI signed a capital and operational partnership agreement with the DyDo Group • TCI signed a technological support agreement with Daido Pharmaceutical Corporation

Net sales by region and operating margin for TCI



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Food Business

Manufacture and sale of fruit dessert jellies

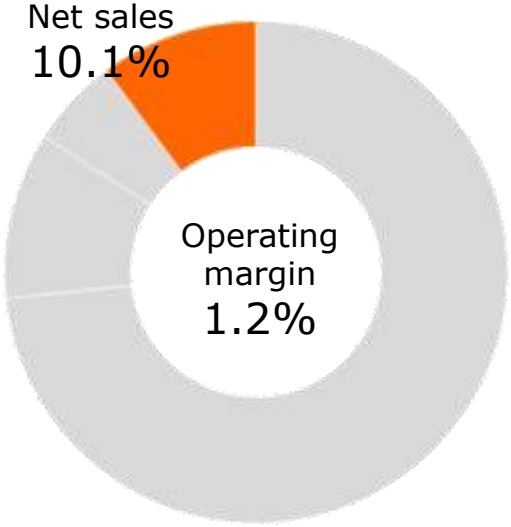
Tarami

- Tarami (Nagasaki, Nagasaki Prefecture)



Food Business as a percentage of overall performance

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





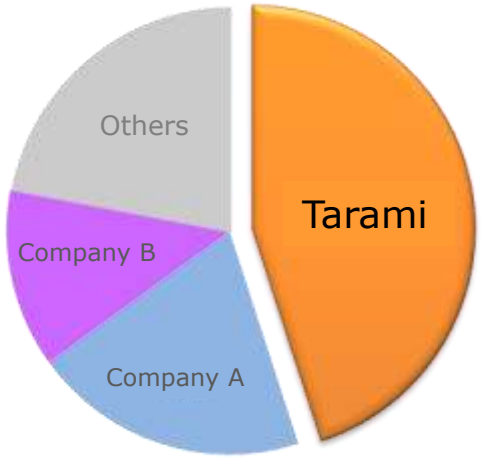
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Key Features / Strengths of the Food Business

- 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



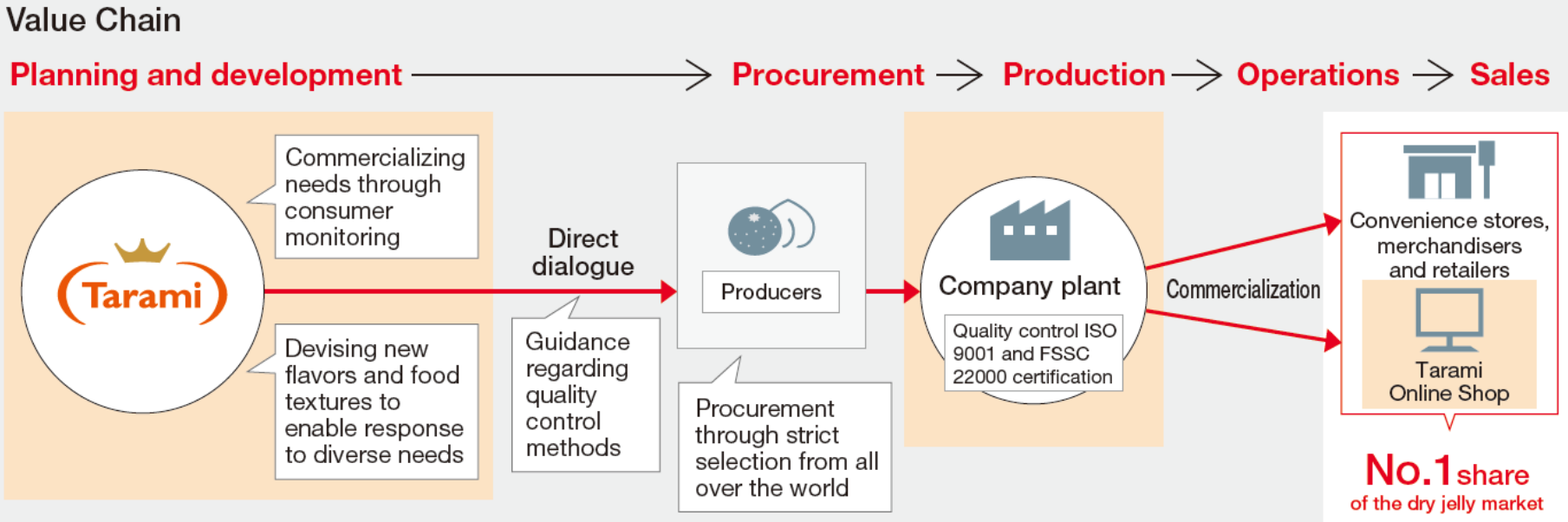
*Compiled by DyDo



- 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

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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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

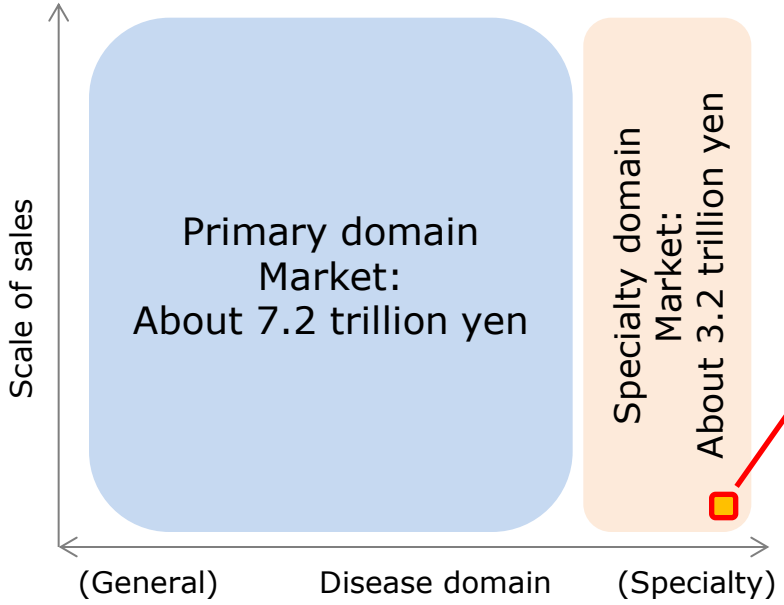
Target patient population	Less than 50,000 in Japan Alternatively, a disease may be designated as a difficult-to-treat disease by regulatory authorities.
Need for treatment	No appropriate alternative pharmaceuticals or treatment methods Alternatively, the pharmaceutical must offer potential in the form 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

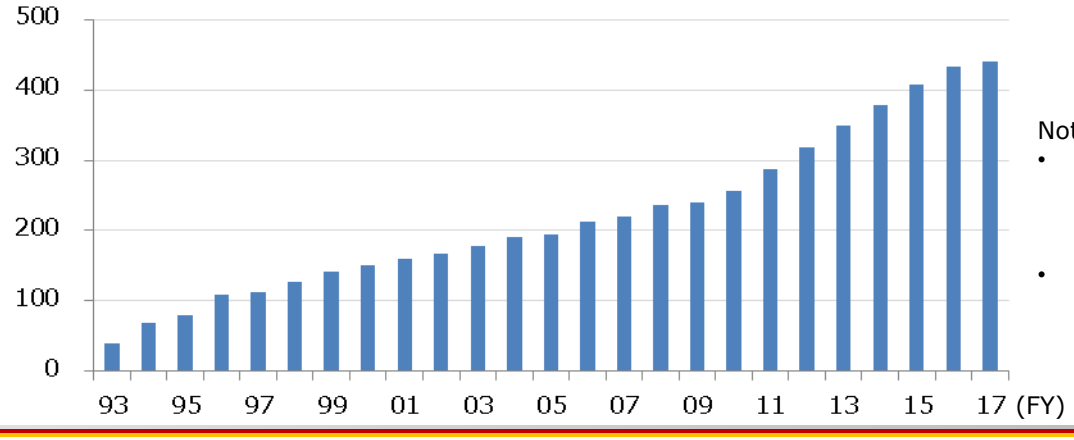


Rare-disease domain
Market: Several hundred billion yen

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



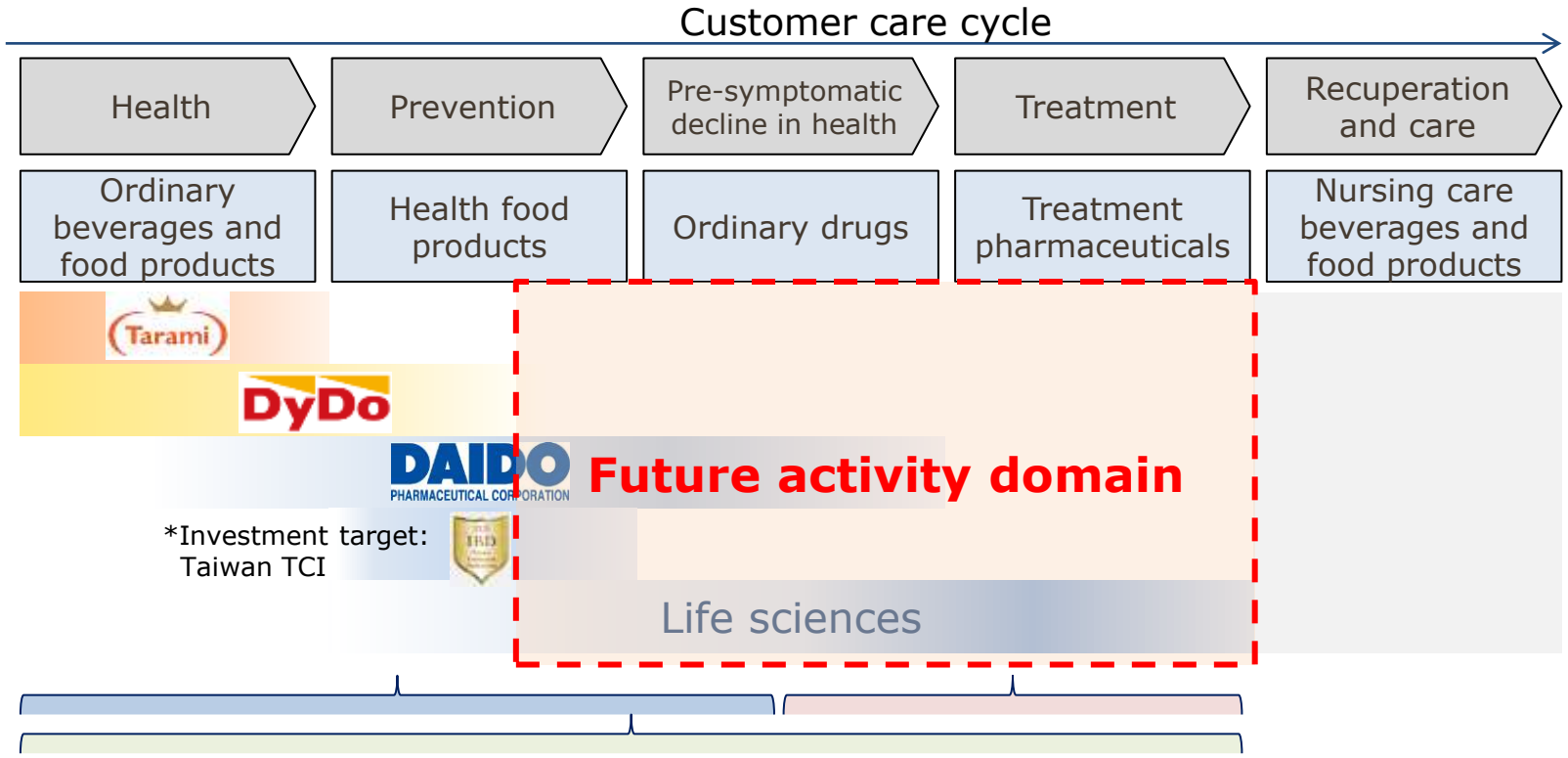
Notes

- 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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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

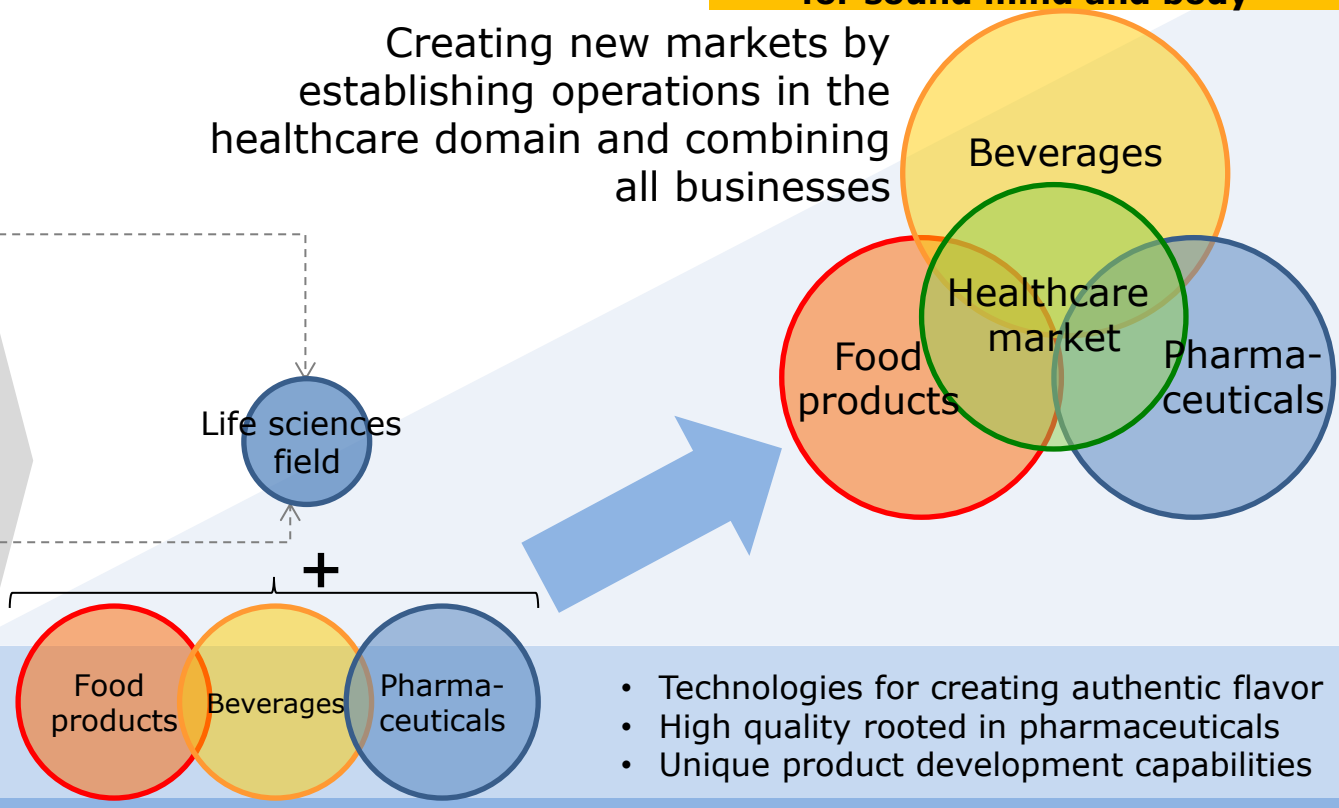
Changes in the external environment

- 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 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.