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DyDo

FY2019 (Year Ending January 20, 2020)
1st Quarter Financial Highlights

DyDo Group Holdings, Inc.
(1st Section of the Tokyo Stock Exchange: 2590)

May 27, 2019

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Table of Contents

1. FY2019 1st Quarter Financial Highlights / Full-year Earnings Forecast

P.03 - 09

2. Overview of FY2019 1st Quarter Results by Segment

P.10 - 22

Appendix.

The Business Model of DyDo Group

P.23 - 34

The Growth Strategy of DyDo Group

P.35 - 47

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1. FY2019 1st Quarter Financial Highlights / Full-year Earnings Forecast

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Overview of Consolidated Financial Information for FY2019 1st Quarter

- Consolidated net sales during the 1st quarter totaled 39,633 million yen (down 0.8% year on year)
- Revenue fell in the Domestic Beverage Business against the backdrop of a competitive market environment
- The International Beverage Business operated profitably as the Turkish beverage business grew significantly on a local currency (on a Japanese yen basis, sales fell even as profits grew due to the effects of exchange rate fluctuations)
- Net sales rose in the Pharmaceutical-related Business and Food Business

(Millions of yen)

	1st Quarter (Jan 21 - Apr 20)						Full-year					
	FY2018 results		FY2019 results				FY2018 results		FY2019 earnings forecasts			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	39,966	100.0%	39,633	100.0%	(0.8%)	(333)	171,553	100.0%	170,000	100.0%	(0.9%)	(1,553)
Operating profit (loss)	724	1.8%	(113)	–	–	(837)	6,071	3.5%	3,400	2.0%	(44.0%)	(2,671)
Ordinary profit (loss)	716	1.8%	(149)	–	–	(865)	5,998	3.5%	3,700	2.2%	(38.3%)	(2,298)
Profit (loss) attributable to owners of parent	73	0.2%	(322)	–	–	(395)	3,856	2.2%	2,400	1.4%	(37.8%)	(1,456)
EPS	¥4.46		(¥19.56)		–	(¥24.02)	¥234.15		¥145.71		(37.8%)	(¥88.44)
Dividend per share	–		–		–	–	¥60		¥60		-	-

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Basic Policies in the Mid-term Business Plan 2021

- Strengthening our platform and carrying out strategic investments in a way that ensures balance

- **Focusing on improving revenue to develop more robust management**
  - Working to maximize cash flows through measures that focus on improving revenue in each business
  - Expanding products and services through a focus on delicious flavor and health

- **Determining whether to continue businesses in order to facilitate strategic management**
  - Embarking on a process of selection and consolidation of strategic bases in the International Beverage Business

- **Implementing a growth strategy to achieve the Group Mission 2030**
  - Carrying out an investment strategy to ensure growth in each business and to create new businesses in the health care domain
  - Implementing a human resources strategy to lead to sustained growth of the DyDo Group

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Investment Strategy in the Mid-term Business Plan 2021

- We anticipate spending a maximum of ¥45 billion in an investment strategy that includes growth investments, M&As, and other components

[Investment resources]

Red borders: Growth investments

About ¥36 billion

Surplus funds on balance sheet

Investing surplus funds in new businesses

[Investments in new businesses] **¥33 billion**

- M&A investments in the health care segment ¥30 billion
- Investments in launching the orphan drug business ¥3 billion

[Return of profits to shareholders through stable dividends] **¥3 billion**

¥40 billion or more

Cumulative operating cash flows over three years created by each business

Reinvesting cash flows in each business

[New investments to grow existing businesses] **¥12 billion**

(Domestic Beverage Business) ¥6 billion

- IoT investments to streamline operations
- Investments to create businesses that utilize vending machines ¥6 billion

(Pharmaceuticals Business)

- Construction of a new plant in the Kanto region
- Construction of a new pouch line at our existing Nara Plant

[Conventional capital investment in existing businesses] **¥28 billion**

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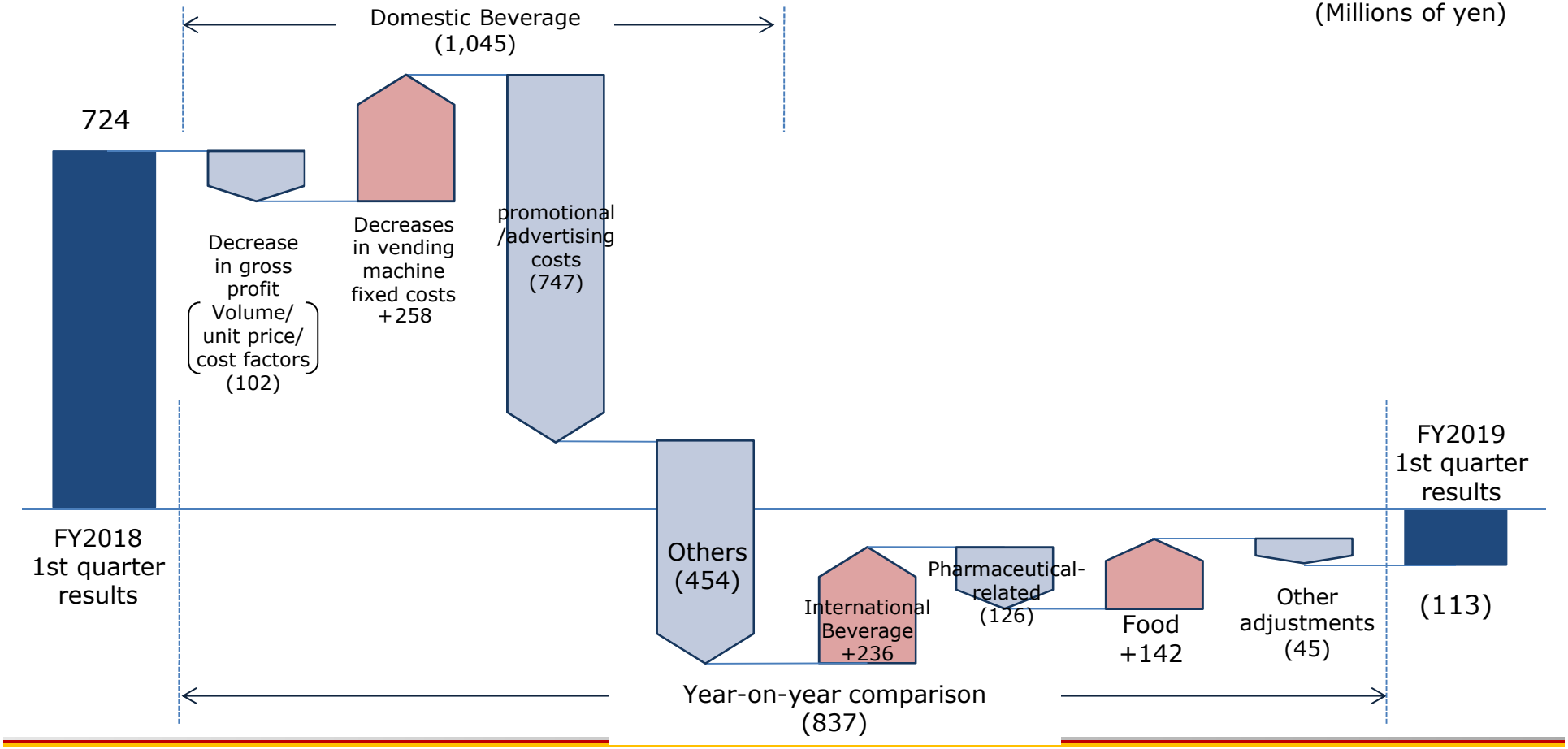
Increases/Decreases in Operating Profit for FY2019 1st Quarter - Year-on-year Comparison -

- Fast-tracking of outlays related to advertising and product promotions caused the profitability of the Domestic Beverage Business to decline
- Profits rose in the International Beverage Business and the Food Business as net sales grew
- Outlays associated with preparing for a new plant and a new pouch packaging line grew in the Pharmaceutical-related Business

(Millions of yen)



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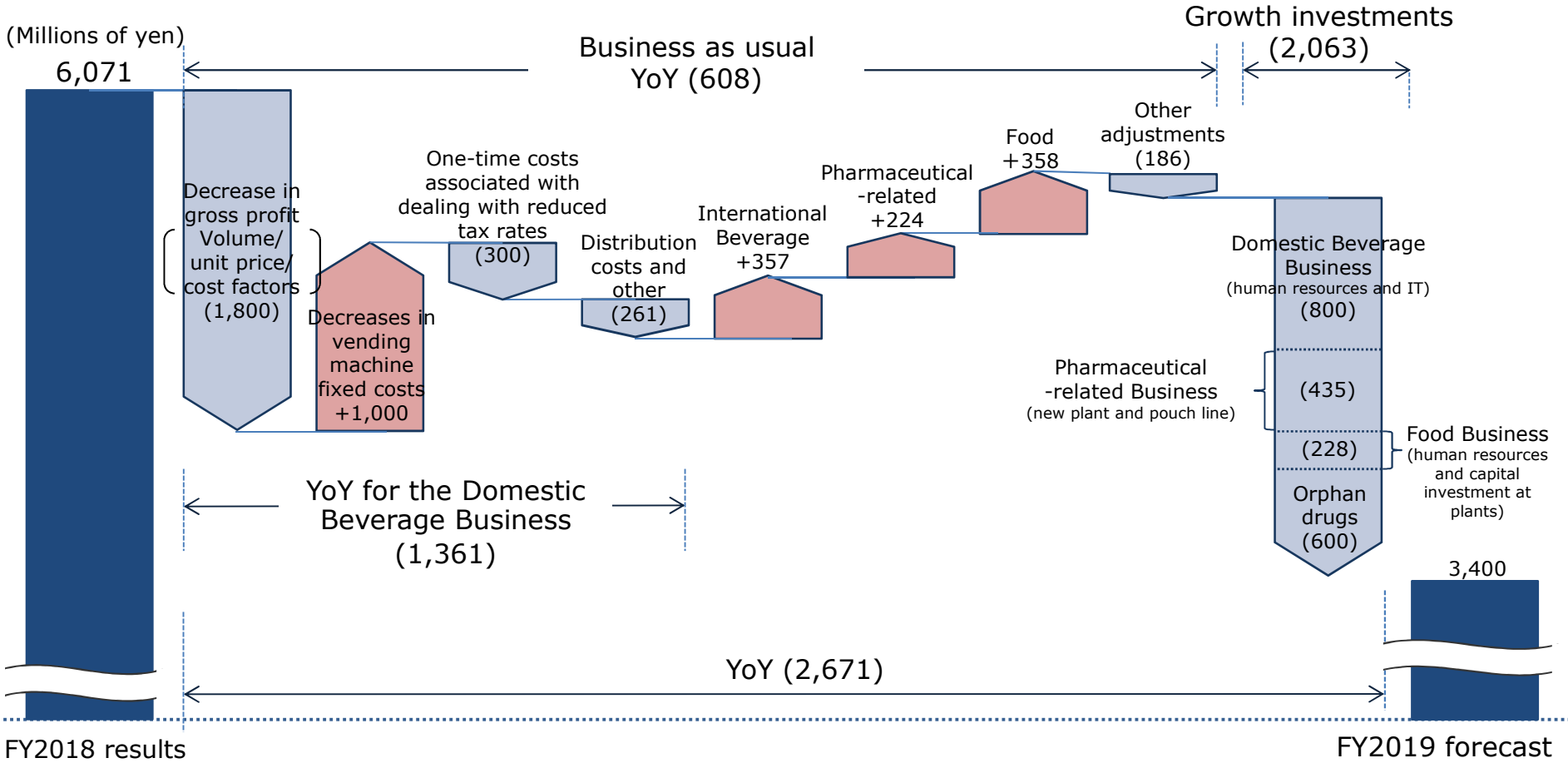
(Reference) Factors Driving Increases/Decreases in Operating Profit for FY2019 - vs. Previous Fiscal Year -

- The effect of soaring distribution costs and rising cost rates will total about 1.1 billion yen (Domestic Beverage Business)
- The effect of growth investments will total about 2 billion yen (800 million yen in the Domestic Beverage Business, about 400 million yen in the Pharmaceutical-related Business for construction of a new plant and other costs, about 200 million yen in the Food Business, and 600 million yen in the orphan drug business)



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Financial Standing: Principal Changes in the Consolidated Balance Sheet

- Property, plant, and equipment (construction in progress) rose due to factors including the construction of the DAIDO *Yakuhin*'s new Kanto Plant (in the Pharmaceutical-related Business; the facility is scheduled to be completed in 2020)
- Interest-bearing debt rose due to factors including borrowing of funds to make vending machine investments during FY2019

(Millions of yen)

Financial assets*1 86,783	Interest-bearing debt*2 35,111
	Accounts payable 19,716
	Other 22,863
Accounts receivables 19,804	Net assets 93,940
Inventries 8,782	
Property, plant and equipment Intangible assets 45,193	
Other 11,069	
Total assets 171,632	Total liabilities and net assets 171,632

January 20, 2019

(Millions of yen)

Financial assets*1 86,805 (+21)	Interest-bearing debt*2 39,723 (+4,611)
	Accounts payable 22,775 (+3,058)
	Other 25,256 (+2,392)
Accounts receivables 22,488 (+2,683)	Net assets 93,104 (-836)
Inventories 10,962 (+2,180)	
Property, plant and equipment Intangible assets 48,249 (+3,056)	
Other 12,353 (+1,283)	
Total assets 180,858 (+9,225)	Total liabilities and net assets 180,858 (+9,225)

April 20, 2019

*1: Cash and deposits, securities, investment securities (excluding shares of subsidiaries and associates), and long-term deposits
*2: Short- and long-term loans payable, short- and long-term lease liabilities and obligations, bonds payable, and long-term guaranty deposits

*Increases in trade receivables, inventory assets, and accounts payable are the result of seasonal variations.

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2. Overview of FY2019 1st Quarter Results by Segment

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FY2019 1st Quarter Consolidated Earnings/Full-year Earnings forecast (by Segment)

(Millions of yen)

	FY2018 1st quater results	FY2019 1st quater results			FY2018 full-year results	FY2019 full-year earnings forecast		
			% (YoY)	Amount (YoY)			% (YoY)	Amount (YoY)
Domestic Beverage Business	29,510	29,143	(1.2%)	(367)	124,879	122,350	(2.0%)	(2,529)
International Beverage Business	3,788	3,402	(10.2%)	(386)	17,154	16,800	(2.1%)	(354)
Pharmaceutical-related Business	2,694	2,887	7.2%	193	10,964	11,550	5.3%	585
Food Business	4,112	4,398	7.0%	286	19,114	19,850	3.8%	735
Adjustment	(140)	(199)	–	(59)	(559)	(550)	–	9
Total net sales	39,966	39,633	(0.8%)	(333)	171,553	170,000	(0.9%)	(1,553)
Domestic Beverage Business	970	(74)	–	(1,045)	7,106	4,945	(30.4%)	(2,161)
International Beverage Business	(235)	1	–	236	(704)	(347)	–	357
Pharmaceutical-related Business	356	230	(35.4%)	(126)	847	636	(25.0%)	(211)
Food Business	(75)	66	–	142	235	366	55.3%	130
Adjustment	(291)	(336)	–	(45)	(1,413)	(2,200)	–	(786)
Total operating profit (loss)	724	(113)	–	(837)	6,071	3,400	(44.0%)	(2,671)

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Seasonal Fluctuations by Segment

Net sales/net sales by segment

(Millions of yen)

		1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Consolidated	FY2018	39,966	47,023	46,239	38,323	171,553
		23.3%	*27.4%*	*27.0%*	*22.3%*	*100.0%*
	FY2019	39,633	–	–	–	–
Domestic Beverage	FY2018	29,510	32,862	33,162	29,343	124,879
		23.6%	*26.3%*	*26.6%*	*23.5%*	*100.0%*
	FY2019	29,143	–	–	–	–
International Beverage	FY2018	3,788	5,199	5,013	3,153	17,154
		22.1%	*30.3%*	*29.2%*	*18.4%*	*100.0%*
	FY2019	3,402	–	–	–	–
Pharmaceuti-cal-related	FY2018	2,694	2,866	2,637	2,764	10,964
		24.6%	*26.1%*	*24.1%*	*25.2%*	*100.0%*
	FY2019	2,887	–	–	–	–
Food	FY2018	4,112	6,275	5,546	3,180	19,114
		21.5%	*32.8%*	*29.0%*	*16.7%*	*100.0%*
	FY2019	4,398	–	–	–	–

Operating profit (loss)/segment profit (loss)*

(Millions of yen)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
FY2018	724	2,555	2,718	73	6,071
	11.9%	*42.1%*	*44.8%*	*1.2%*	*100.0%*
FY2019	(113)	–	–	–	–
FY2018	970	2,446	2,679	1,009	7,106
	13.7%	*34.4%*	*37.7%*	*14.2%*	*100.0%*
FY2019	(74)	–	–	–	–
FY2018	(158)	(89)	84	(285)	(449)
	–	–	–	–	*100.0%*
FY2019	57	–	–	–	–
FY2018	356	306	132	52	847
	42.0%	*36.2%*	*15.6%*	*6.2%*	*100.0%*
FY2019	230	–	–	–	–
FY2018	12	443	263	(130)	587
	2.1%	*75.4%*	*44.8%*	–	*100.0%*
FY2019	154	–	–	–	–

*Figures for the International Beverage Business and Food Business indicate segment profit before goodwill and other amortization.

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Domestic Beverage Business
Overview by Segment

Overview of the Domestic Beverage Business

(Millions of yen)

	FY2018 1Q results	Component ratio	FY2019 results	Component ratio	% (YoY)	Amount (YoY)	FY2018 results	Component ratio	FY2019 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	29,510	100.0%	29,143	100.0%	(1.2%)	(367)	124,879	100.0%	122,350	100.0%	(2.0%)	(2,529)
Operating profit (loss)	970	3.3%	(74)	–	–	(1,045)	7,106	5.7%	4,945	4.0%	(30.4%)	(2,161)

- Sales in the distribution channel rose even as revenue shrunk in the vending machine channel
- We moved to address this trend by moving up outlays associated with advertising and product promotions compared to the previous year (the year-round advertising and promotional budget remains on par with the previous year)

(Thousands of cases)

	Jan. 21 - Apr. 20	
	Sales volume	Change (%)
Coffee beverages	7,326	(8.9%)
Other beverages	5,487	7.2%
Total	12,813	(2.6%)

Sales volume by channel, Jan. 21 - Apr. 20			
Vending machines		Other	
Sales volume	Change (%)	Sales volume	Change (%)
5,864	(9.7%)	1,462	(5.7%)
4,611	3.2%	875	35.5%
10,476	(4.4%)	2,337	6.5%

Change in days of operation compared to previous year	(1 day)

*Sales to overseas affiliates (cancelled by means of internal transactions in consolidated accounts) were transferred to "Other" in FY2019. This classification has been applied retroactively to FY2018 figures.



Advance launch at convenience stores on 3/12

We began making the product available in vending machines on March 25.

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Domestic Beverage Business
Strengthening the Product Line

Implementing strategies based on channel characteristics

- **For vending machines**

DETECTIVE CONAN HOWAITO SODA (Carbonated Drinks)

✓ Enabling customers to enjoy the fun of different designs and the joy of collecting them all

➡ Offering a sense of fun that is unique to vending machines



Launched 2/25

- **For the distribution channel**

"Calorie Limit For the Mature Aged" tea series

✓ Adding unsweetened black tea to the line

✓ Offering products in original-design bottles with "MOCHI-GOKOCHI (ComforGrip)"*

*"MOCHI-GOKOCHI (ComforGrip)" is an expression created by DyDo DRINCO to reflect the fact that the new bottles are easier to hold and feel more pleasing in the hand, as verified by a "neuro-study."

➡ Creating an image that equates DyDo with health



Launched 3/25

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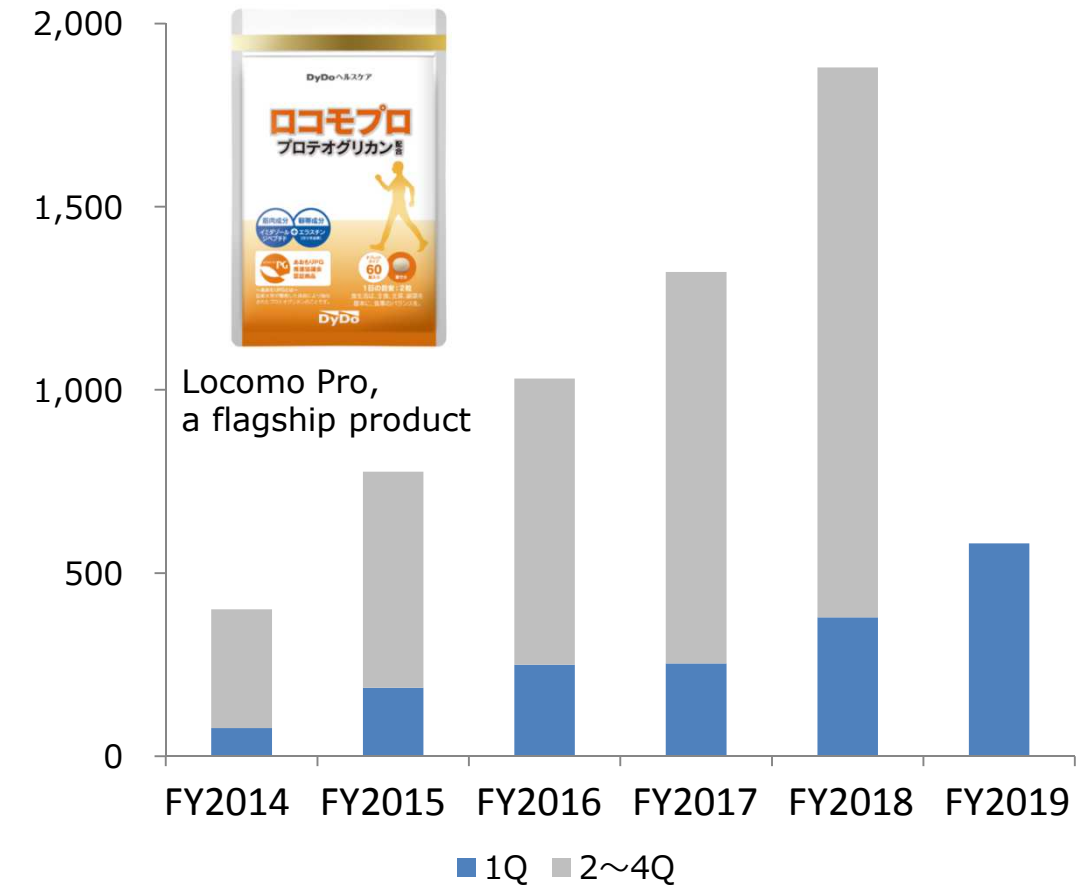
Domestic Beverage Business
Progress in the Mail-order Business

The mail-order business continued to grow

Net sales in the mail-order business



Locomo Pro,
a flagship product

- **We launched Smart Pro targeting primarily Locomo Pro users**
  - ✓ The product makes it easier to burn fat during daily activities



Launched on 5/21



Announcement to members of the media (in Osaka)

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Domestic Beverage Business
Growth Investments in Existing Businesses: Establishing Smart Operating Structures

Risk Industry-wide shortage of personnel to oversee operations due to a labor shortage

Strength Expertise accumulated by operational personnel stationed nationwide

＋

Investments IoT investments that utilize the scale advantages of managed vending machines

Turning risk into opportunity

- **Increasing the number of vending machines per coordinator by streamlining operations**
- **Ensuring competitive advantages in the vending machine industry by building smart operational structures**

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Domestic Beverage Business
Growth Investments in Existing Businesses: Capital and Operational Alliance with 600 Inc.

- Concluding investment and operational alliance agreements with the company that operates "600," a new unmanned convenience stores for offices



- **Investment objective**
  - To tap the future potential of a business model that allows consumers to purchase the products they need when they need them at convenient locations
- **Operational alliance objective**
  - To facilitate cooperation in the area of sales activities targeting corporations
  - To offer new services that combine the cashless technology and purchase analysis expertise of 600 with DyDo's vending machine expertise

- Company overview

Established	June 2017
Head office	Chuo-ku, Tokyo
Representative	Kei Kubo CEO
Businesses	Manufacture, sale, and operation of unmanned convenience stores

- 600's approach to the unmanned convenience store
  - ✓ The company wants to serve as a sort of concierge for individual customers.
  - ✓ Its goal is to provide a different product mix at each company.

➡ **Same vision as our vending machine model**

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International Beverage Business
Overview by Segment

Overview of the International Beverage Business

(Millions of yen)

	FY2018 1Q results	Component ratio	FY2019 1Q results	Component ratio	% (YoY)	Amount (YoY)	FY2018 results	Component ratio	FY2019 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	3,788	100.0%	3,402	100.0%	(10.2%)	(386)	17,154	100.0%	16,800	100.0%	(2.1%)	(354)
Operating profit (loss)	(158)	–	57	1.7%	–	216	(449)	–	(150)	–	–	299
Amortization of goodwill, etc.	76	2.0%	56	1.6%	(26.5%)	(20)	255	1.5%	196	1.2%	(23.1%)	(59)
Operating profit (loss) after subtracting amortization of goodwill, etc.	(235)	–	1	0.0%	–	236	(704)	–	(347)	–	–	357
JPY per TRY	¥27.98		¥20.57		(¥7.41)		¥23.41		¥18.00		(¥5.41)	

- Favorable performance in our Turkish beverage business drove up overall sales in the International Beverage Business
- We operated in the black during the 1st quarter, a time when business slows down due to seasonal trends
- Policies designed to optimize pricing and a factory reorganization designed to streamline operations contributed to strong performance



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International Beverage Business
Overview of Performance in Major Geographical Areas

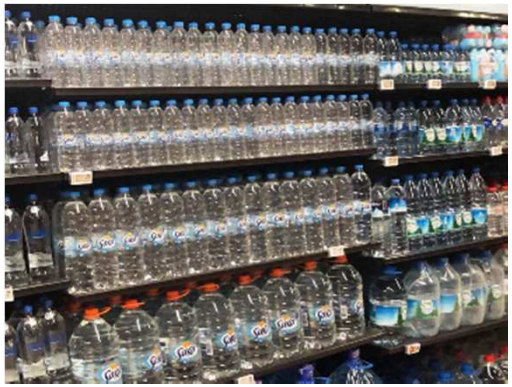
Turkish beverage business

- First-quarter sales rose 30% year on year on a local currency basis
- Strong sales of highly profitable mineral water products drove overall performance
- We absorbed the impact of factors driving costs up with measures designed to ensure products are priced appropriately

Local-currency-basis results			1st quarter	2nd quarter	3rd quarter	4th quatrter	Year
FY2019	Sales, YoY	Quarter	+30%				
	Exchange rate (JPY per TRY)	Cumulative results	¥20.57			Assumption→	¥18.00
FY2018	Sales, YoY	Quarter	+28%	+32%	+38%	+4%	+26%
	Exchange rate (JPY per TRY)	Cumulative results	¥27.98	¥26.53	¥24.15	¥23.41	¥23.41



Mineral water brand
Saka



Distribution to supermarkets



Staff for our popular home office delivery (HOD) service

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Pharmaceutical-related Business Overview by Segment

Overview of the Pharmaceutical-related Business

(Millions of yen)

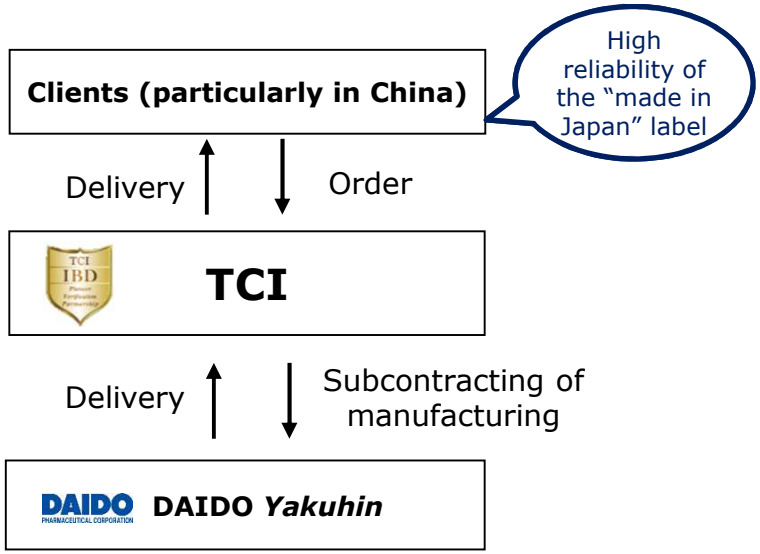
	FY2018 1Q results		FY2019 1Q results				FY2018 full-year results		FY2019 full-year earnings forecast			
		Component ratio		Component ratio	% (YoY)	Amount (Y oY)		Component ratio		Component ratio	% (YoY)	Amount (Y oY)
Net sales	2,694	100.0%	2,887	100.0%	7.2%	193	10,964	100.0%	11,550	100.0%	5.3%	585
Operating profit	356	13.2%	230	8.0%	(35.4%)	(126)	847	7.7%	636	5.5%	(25.0%)	(211)

- Orders for beauty drinks for the Chinese market rose thanks to the effects of collaboration with TCI
- Preparations for the start of operations of our pouch packaging line in the fall of 2019 and of our new Kanto Plant in the spring of 2020 made progress according to plan



- Increase in contract manufacturing volume thanks to orders via TCI

  By maintaining and developing our capital and operational alliance with TCI, in which we made an investment to acquire an 11.8% stake, we will increase order volume from clients, particularly those in China.



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Pharmaceutical-related Business
Growth Investments in Existing Businesses: Expanding the Types of Products

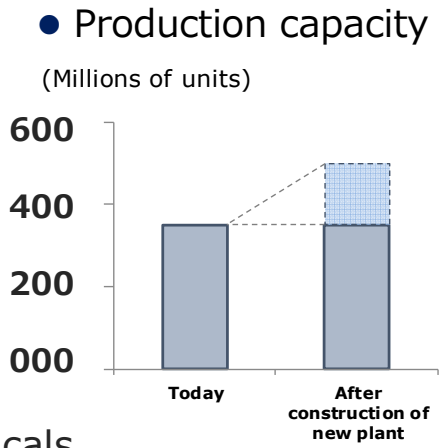
Strength Overwhelmingly dominant position as a contract manufacturer of health drinks

+

Opportunity Growth in the health care market

+

Investments Expanding production volume with a new Kanto Plant, satisfying BCP requirements, and diversifying the container formats we can accommodate by establishing a new pouch line



New strengths Contract manufacture of pharmaceuticals, quasi drugs, and foods packaged in pouches

Search for new investment opportunities Expansion to new product types

Solidifying our position as a contract manufacturer of pharmaceuticals and quasi-drugs

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Food Business
Overview by Segment

Overview of the Food Business

(Millions of yen)

	FY2018 1Q results		FY2019 1Q results				FY2018 full-year results		FY2019 full-year earnings forecast			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	4,112	100.0%	4,398	100.0%	7.0%	286	19,114	100.0%	19,850	100.0%	3.8%	735
Operating profit	12	0.3%	154	3.5%	1176.8%	142	587	3.1%	716	3.6%	21.8%	128
Amortization of goodwill, etc.	88	2.1%	88	2.0%	(0.0%)	(0)	352	1.8%	350	1.8%	(0.6%)	(2)
Operating profit after subtracting amortization of goodwill, etc.	(75)	–	66	1.5%	–	142	235	1.2%	366	1.8%	55.3%	130

- Increased sales of cup jelly products in the medium- and high-priced segment of the market and the launch of new pouch jelly products contributed to strong performance
- A multifaceted review of costs helped strengthen profitability
- We made marketing investments designed to facilitate an increase in value for our Tarami brand



Bringing fans from mature markets to new markets

Bringing new customers in growth markets to mature markets



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DyDo

□ The Business Model of DyDo Group

Significance of the DyDo Group

- Offering delicious products for sound mind and body

DyDo Group Corporate Philosophy

Creating happiness and prosperity, together with people and with society.
To achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way.

DyDo Group Corporate Vision

Together with our customers.	With our high-quality products, we will offer our customers excitement and enhanced wellness, with distinctive delicious flavors that only DyDo can.
Together with society.	Bringing together all DyDo's resources in the entire Group's product development and corporate activities, we will help build a rich and vibrant society.
Together with the next generation.	We will create a "DyDo Standard" for the next generation that transcends national borders and conventional frameworks.
Together with our people.	We will tirelessly embrace the "DyDo Challenge" of bringing happiness to all whose lives are touched by the DyDo Group.

Group Slogan

こころとからだに、
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Offering delicious products
for sound mind and body

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DyDo Group History

(Billions of yen)

200

100

◆ Overseas expansion

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



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



- ・Smile STAND



2001 Listed on the Second Section of the Tokyo Stock Exchange

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

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



- Relocation of the plant to a new facility in Katsuragi, Nara Prefecture



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



- Expansion of orders of beauty health drink



- Expansion of products sold in the Chinese market through a capital and operational alliance with TCI of Taiwan

*Envisioned sales

1950s **1970s** **1990s** **2010s**

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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	International Beverage Business	Pharmaceutical-related Business	Food Business
• DyDo DRINCO • DyDo Beverage Service	Countries in which we have operations: Turkey, Malaysia, Russia, Others	• DAIDO *Yakuhin*	• Tarami
			
72.8%	**10.0%**	**6.1%**	**11.1%**

*Sales to external customers as a percentage of total net sales (FY2018 results)

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DyDo Group SWOT

Strengths

- Unique business models based on supplying the delicious flavor customers want in locations that are familiar and convenient
- Stable cash flows created by invisible assets (i.e., the vending machine business model)
- Ability to develop and manufacture pharmaceuticals and quasi-drugs on a contract basis; broad customer base as a manufacturer of products ranging from pharmaceuticals to cosmetics
- Technology for creating delicious jelly products

Weaknesses

- Position in the bottom half of the market as a drink manufacturer
- Inadequate human resources with expertise in the health care and IT fields
- Dependence on outside resources in areas such as ingredient procurement and R&D functionality

Opportunities

- Ensuring competitive advantages as the vending machine market shrinks
- Expanding contract manufacturing opportunities by establishing a new pouch line
- Growth in the health care market
- Advances in technology

Threats

- Inadequate personnel to oversee vending machine operations
- Changes in the purchasing habits of consumers

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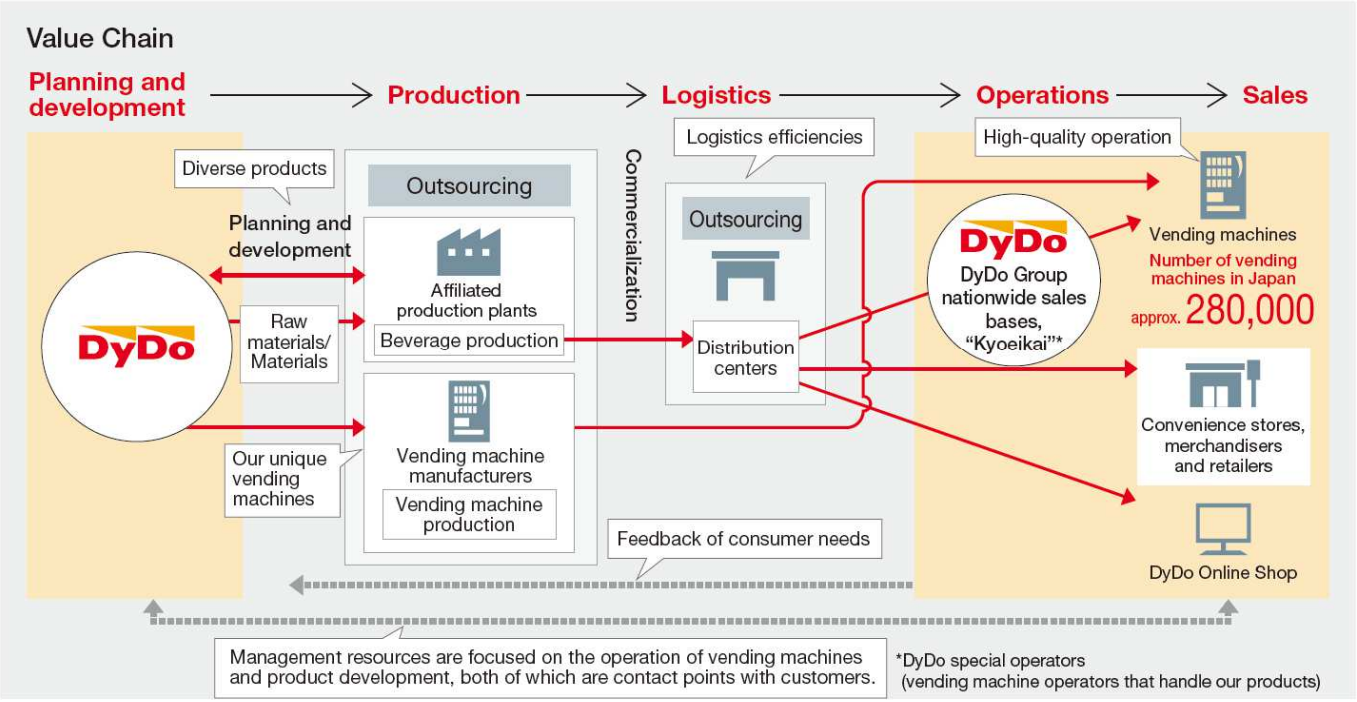
Domestic Beverage Business: Business Model



Issues and Future Strategy: Striving to Secure Advantages in the Vending Machine Market

The Domestic Beverage Business, and more specifically the vending machine channel, have an important role to play in creating funding for the investments that will be necessary in order for the DyDo Group to carry out its growth strategy, and these operations must continue to support the Group going forward as a core business. However, the Group was unable to place the vending machine channel on a revenue-growth trajectory under the previous Mid-term Business Plan, and during that period various new challenges such as sales losses and a decline in the number of installed vending machines began to emerge due to a shortage of personnel capable of overseeing operations, particularly at *Kyoeikai* member companies. Additionally, the benefits of the non-current cost-cutting measures related to vending machines that were undertaken as part of the previous Mid-term Business Plan ran their course in FY2020, and it is inevitable that the channel will see reductions in both revenue and profits if the current growth trajectory continues.

Under the newly formulated Mid-term Business Plan 2021, the Group will work to secure advantages in the vending machine market by reforming operations in order to maintain high quality despite the ongoing labor shortage and to maintain the network of vending machines that provides the basis for sales.

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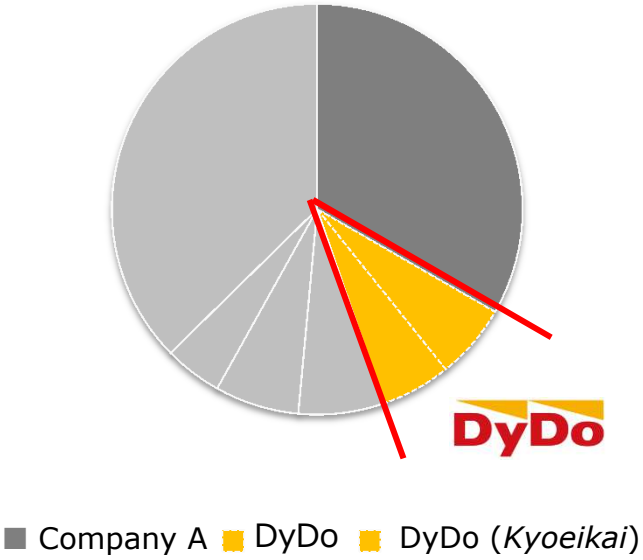
DyDo Group Strengths (1)
Unique Business Models

- We build unique business models by combining capital in the form of customers, organizational strengths, and human resources.

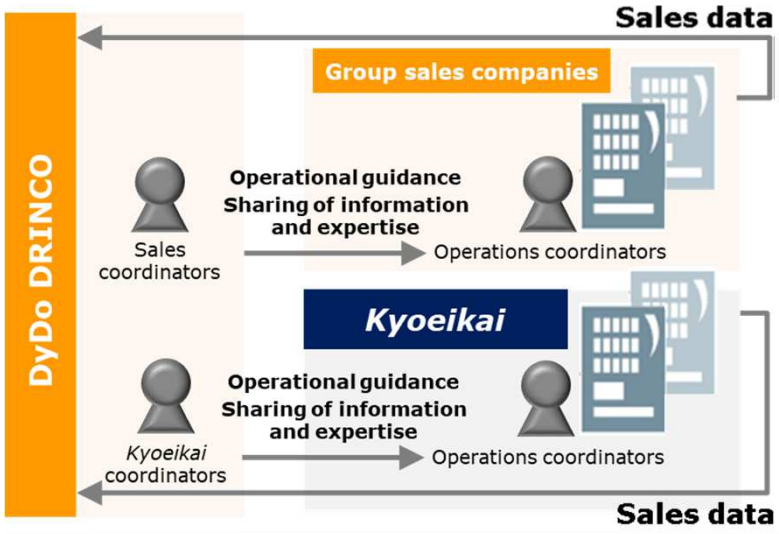
Customers as capital	One of the industry's premier vending machine networks
Organizational strengths as capital	Direct-sale and *Kyoeikai* structures
Human resources as capital	2,000 operations coordinators and the expertise they've helped accumulate

- Vending machines managed by DyDo



- About *Kyoeikai*

Kyoeikai is a group of operator partners. By sharing sales data and offering operational guidance, we've implemented an integrated approach to operations regardless of whether we have a capital relationship with member companies.



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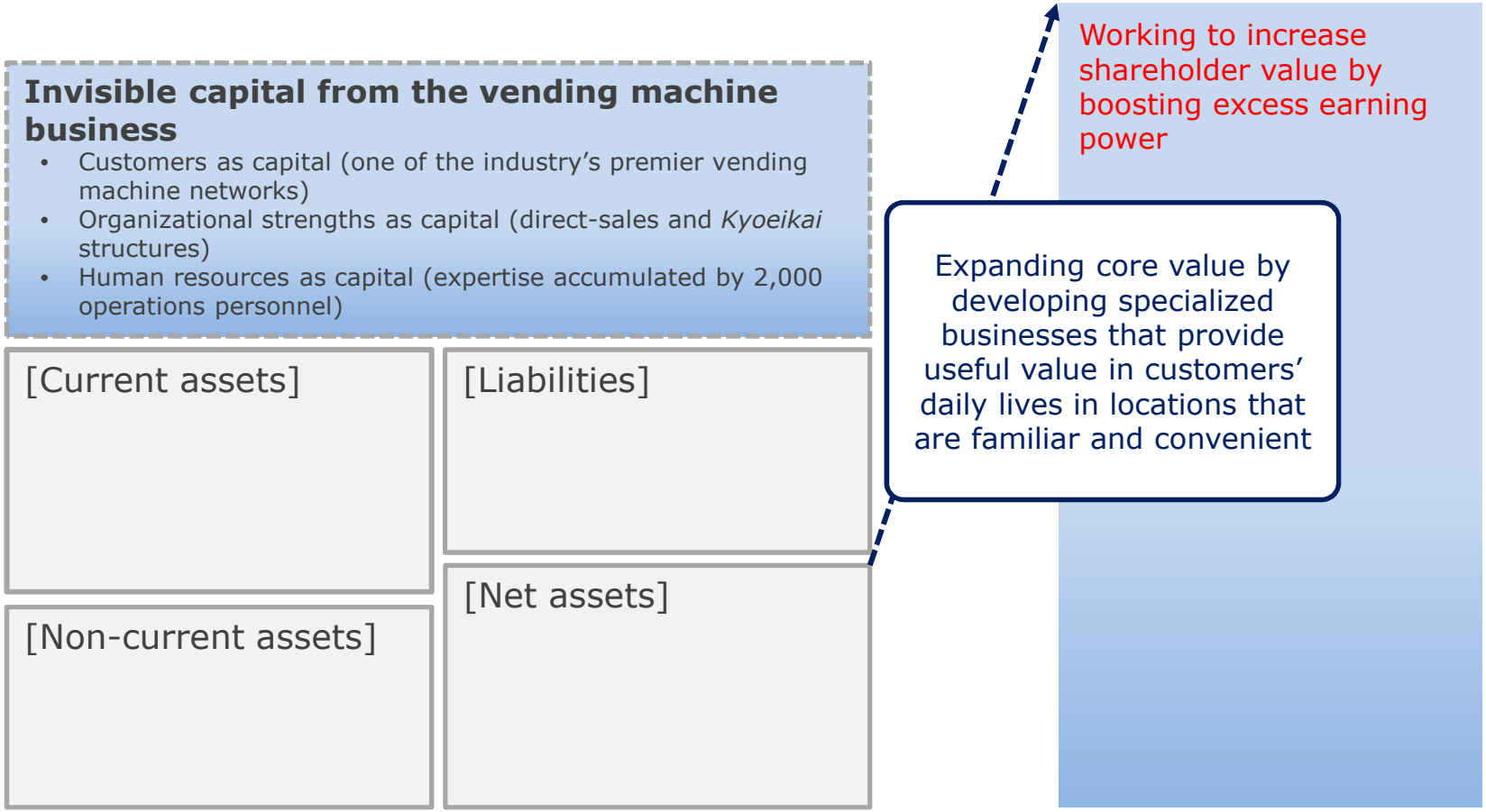
DyDo Group Strengths (2)
Stable Cash Flows Created by Invisible Assets

- Ability to create cash-rich businesses using invisible assets (i.e., the vending machine business model)
- Increasing shareholder value by refining operations into mechanisms that meet the needs of the times



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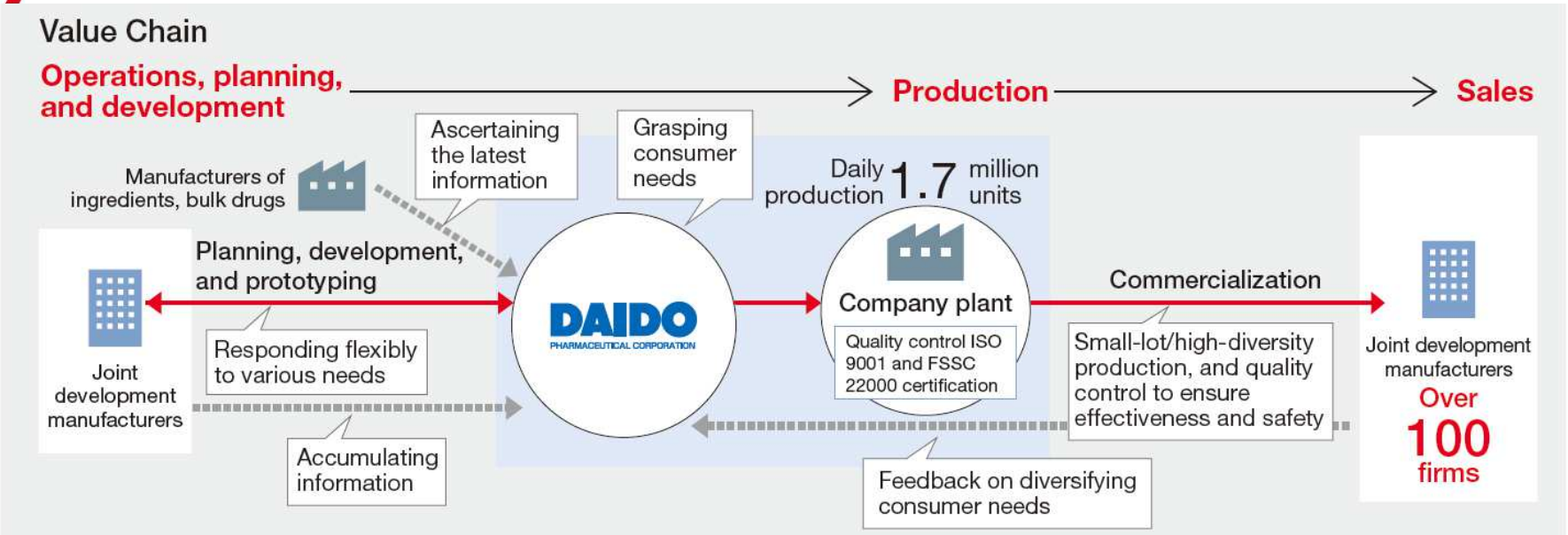
Pharmaceutical-related Business: Business Model



Issues and Future Strategy: Establishing an Overwhelmingly Dominant Position as a Contract Manufacturer of Pharmaceuticals and Quasi-drugs

The nutritional drink market has been shrinking in recent years due to factors including the aging of its core consumer segment. At the same time, we see new growth potential in the drink preparation contract manufacturing market due to growth in sales of beauty drinks exported overseas as the result of inbound demand and moves by pharmaceutical manufacturers to outsource manufacturing in response to the elimination of a rule requiring pharmaceutical sales companies to operate manufacturing plants under the revised Pharmaceuticals and Medical Devices Act*. Additionally, we expect the trend toward increased awareness of health and beauty, which is developing against the backdrop of Japan's aging population, to continue to fuel significant growth in the health care market in the future.

We see opportunity in these and related changes in the market environment, and under the Mid-term Business Plan 2021 we will work to strengthen supply structures and competitiveness by building a new Kanto Plant and to expand our range of contract-manufactured products by accommodating new preparation types.

*Pharmaceuticals and Medical Devices Act

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DyDo Group Strengths (3)
Ability to Develop and Manufacture Pharmaceuticals and Quasi-drugs

- Refined development capabilities and quality control structures as a contract manufacturer
- Establishment of market position as a contract manufacturer of health drinks

● History of DAIDO *Yakuhin*

1950s	Manufacture of health drinks as a DAIDO product
1980s	Start of large-scale contract manufacturing of other companies' products and accumulation of manufacturing expertise
1990s	Rapid growth in the popularity of functional drinks: Establishment of a new plant and **development into a company that specializes in contract manufacturing**
1999	Revision of the Pharmaceutical Affairs Act to allow the sale of quasi-drugs in convenience stores and vending machines
2000s	Expansion of contract manufacturing business from cosmetics manufacturers and other customers in the face of rapid growth in the popularity of beauty drinks and **shift to sophisticated planning and development operations**
Fall 2019	Scheduled start of operations by a new pouch packaging line at the Nara Plant
Spring 2020	Scheduled start of operations at new Kanto Plant

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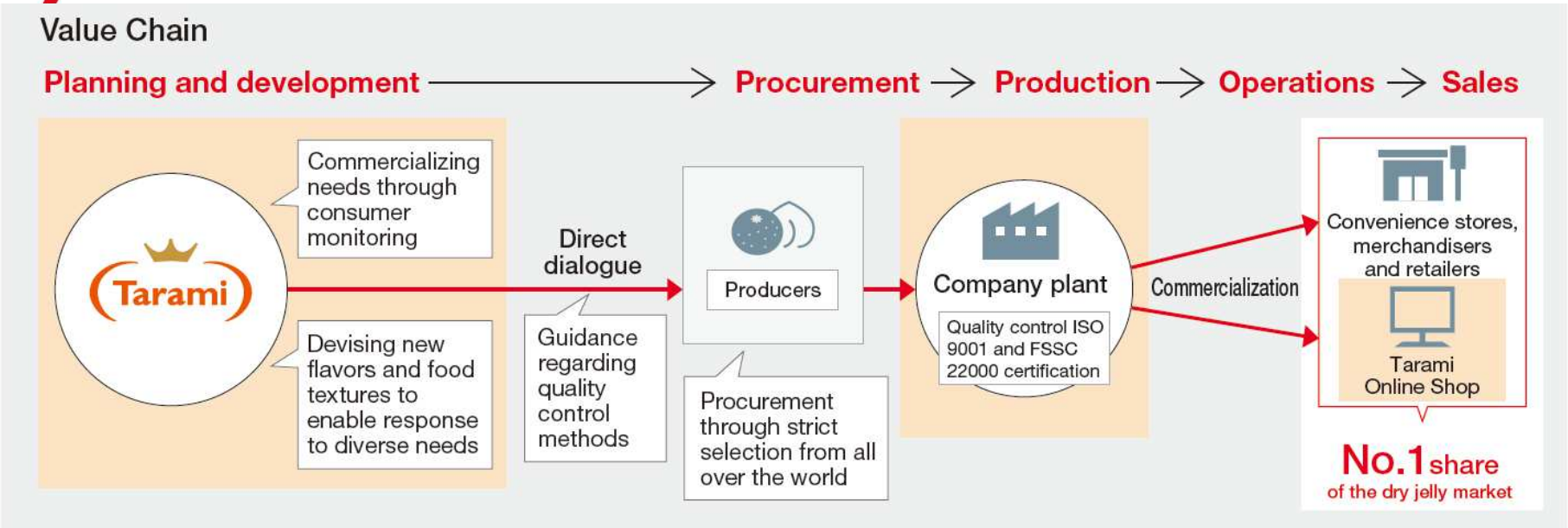
Food Business: Business Model



Issues and Future Strategy: Strengthening Our Revenue Base and Creating new Business Models to Facilitate Future Growth

Under the previous Mid-term Business Plan, we grew at a rate that outpaced the market as a whole and solidified our industry-leading share in terms of sales. However, we are aware that our performance in terms of profits, which have been hobbled by rising raw material and labor costs as well as marketing investments designed to boost our brand value, remains a major issue.

The dry jelly market has been flat overall, but even as the low-priced segment (products priced at 100 yen and under) shrinks, the medium- and high-priced segment (products priced at 140 yen and over) is growing.

Moreover, the pouch jelly market has been growing quickly in recent months. These factors make clear a trend on the part of customers to seek not simply inexpensive products, but rather products that deliver delicious flavor, health benefits, and convenience.

In addition to working to improve profitability through a multifaceted review of costs, the Mid-term Business Plan 2021 will seek to create new business models that transcend traditional categories and to realize our vision of bringing happiness to all by pursuing delicious flavor and health through fruit and jelly products.

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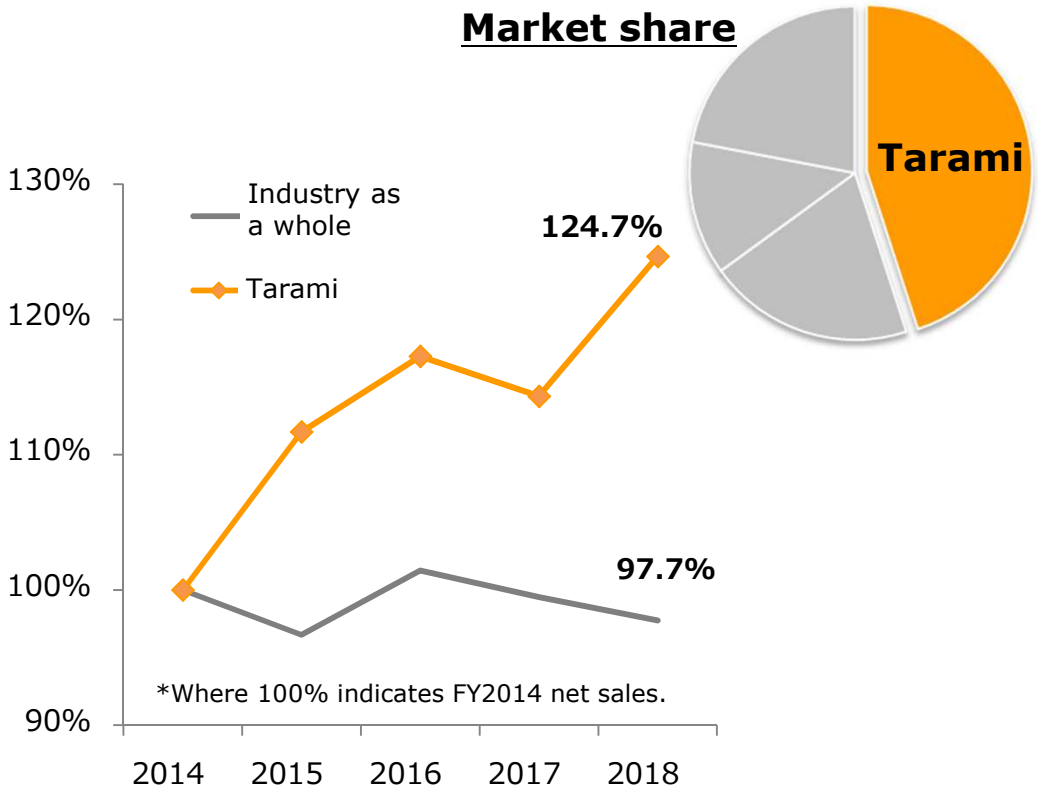
DyDo Group Strengths (4)
Technology for Creating Delicious Jelly Products

- Technology for creating jelly products with delicious texture based on ingredients such as fruit and the preferences of the target market
- Establishment of position as the industry's leader based on a high growth rate

● Net Sales



● Pursuing jelly texture on a product-by-product basis



Smooth texture that highlights the juiciness of bits of fruit



Melt-in-your mouth texture that highlights the aroma of the fruit and the product's fruit juice-like consistency



Jelly designed for maximum juiciness to highlight the springy texture of *konnyaku*

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DyDo

□ The Growth Strategy of DyDo Group

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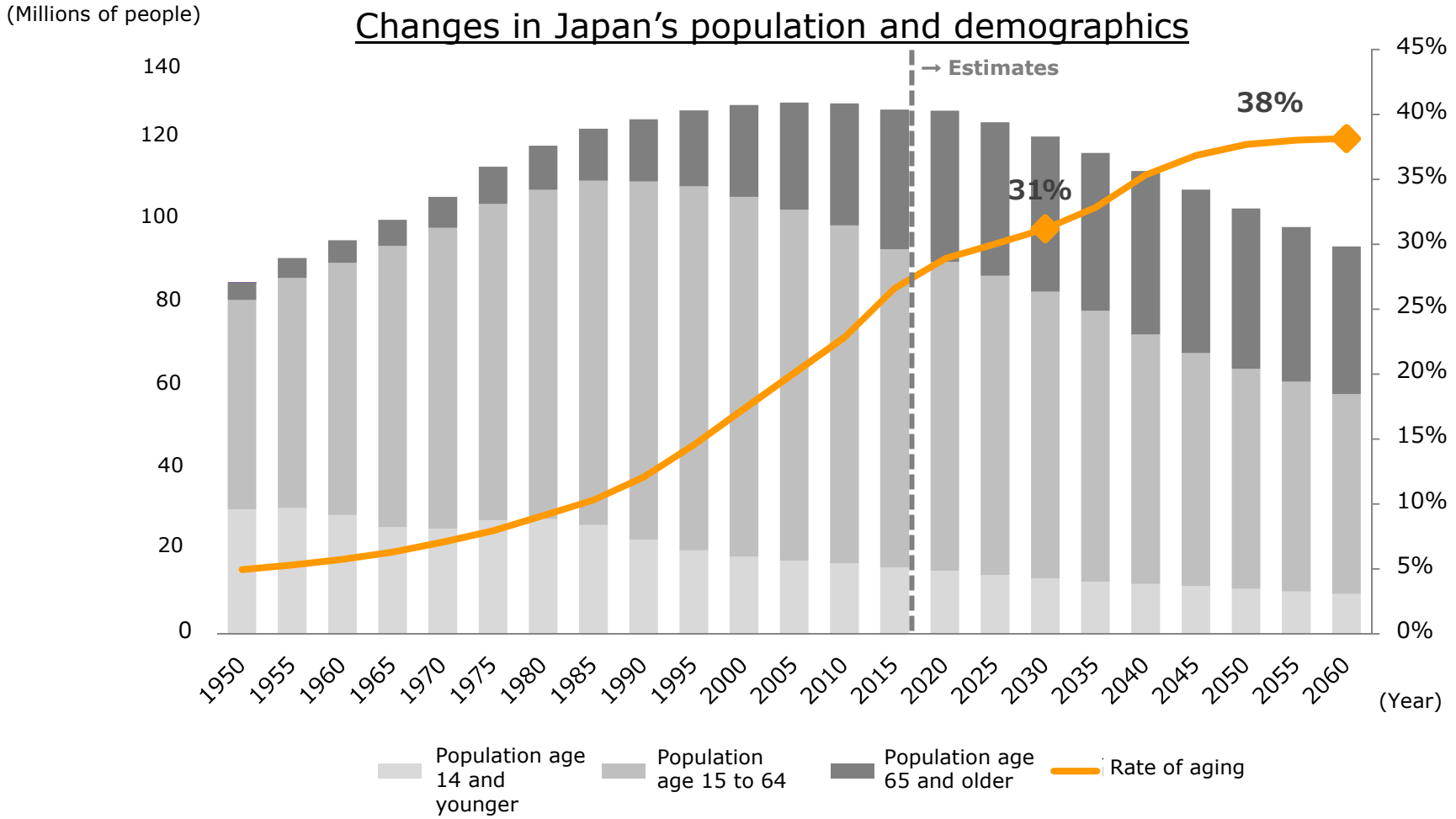
Changes in the Business Environment

- The rate at which Japan's population is aging is expected to rise further in the coming years



Source: Compiled based on the FY2018 White Paper on Telecommunications (Ministry of Internal Affairs and Communications)

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Group Mission 2030

For DyDo Group to create enjoyable, healthy lifestyles for people around the world

Together with our customers.



Nurturing our customers' health

We will deliver products and services that help improve health and quality of life for our customers around the world, in a tireless quest for delicious taste.

Together with the next generation.



Creating new value for future generations

We will take advantage of innovative technologies, bringing surprise and delight to all of our stakeholders.

Together with society



Taking the lead in social reform

We will take the lead in social reform, going beyond conventional wisdoms to adopt new for achieving a sustainable society.

Together with our people.



Connecting people to people

We will seek out new ways to form mutually beneficial relationships with stakeholders, both old and new, within and outside the company, working flexibly with them and respecting the diversity of their values and abilities.

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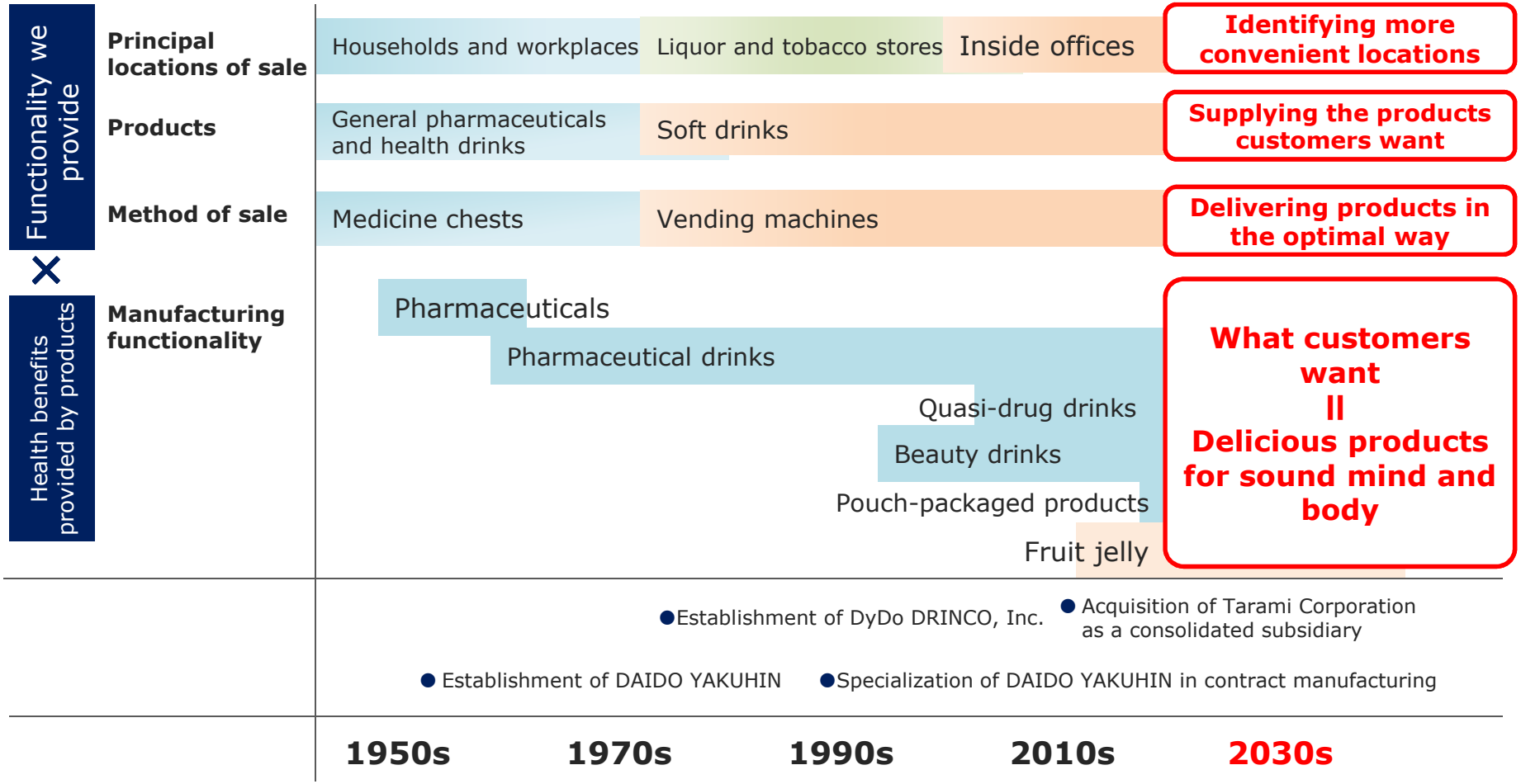
Direction of the DyDo Group

- Refine our strengths and continue to offer delicious products for sound mind and body



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Group Mission 2030 Basic Policies

- Strive to develop a business portfolio characterized by high growth, profitability, and efficiency

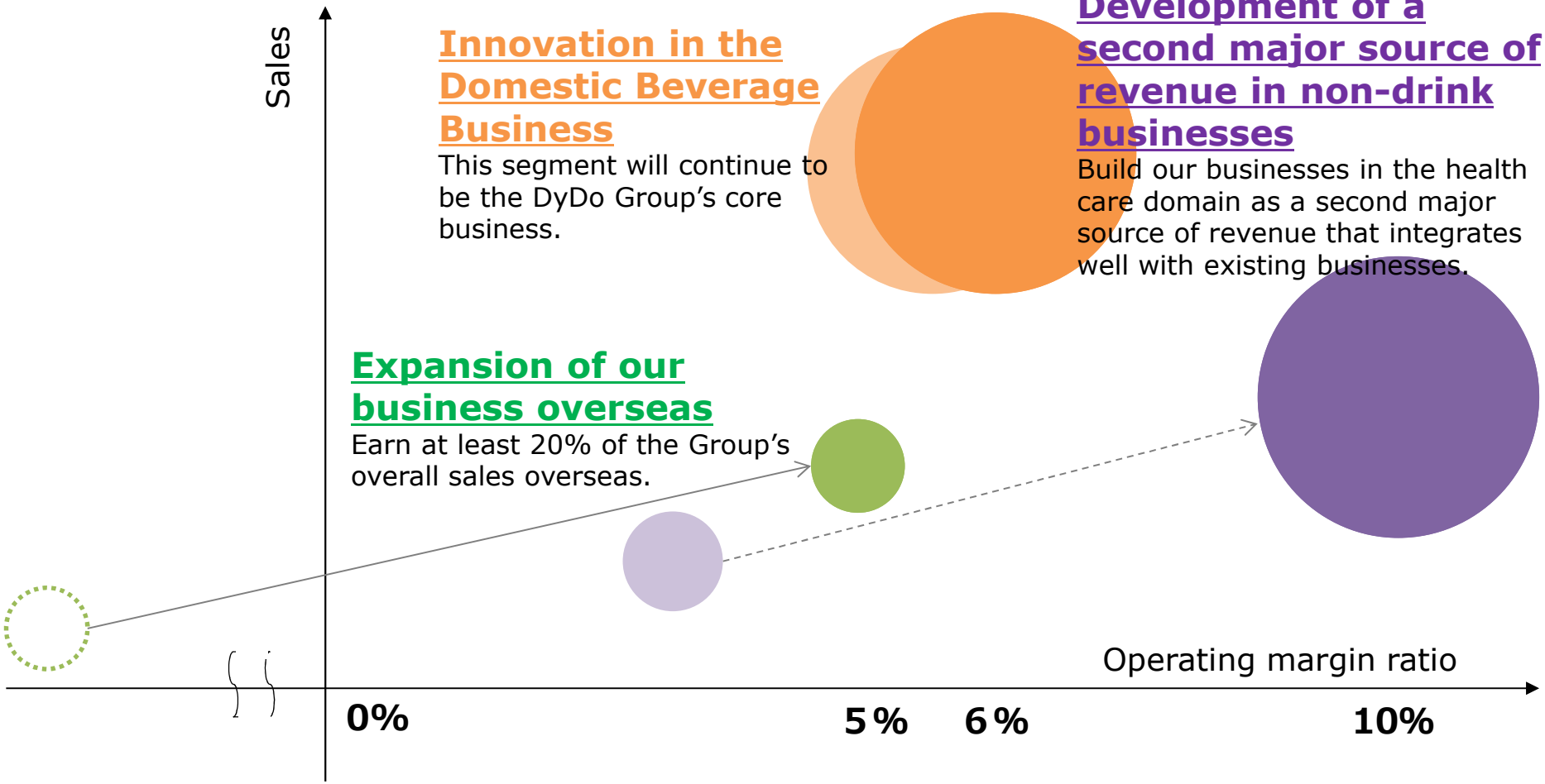

*Figure intended as a general illustration. The size of each circle represents operating income, with FY2018 and FY2030 indicated by light and dark colors, respectively.

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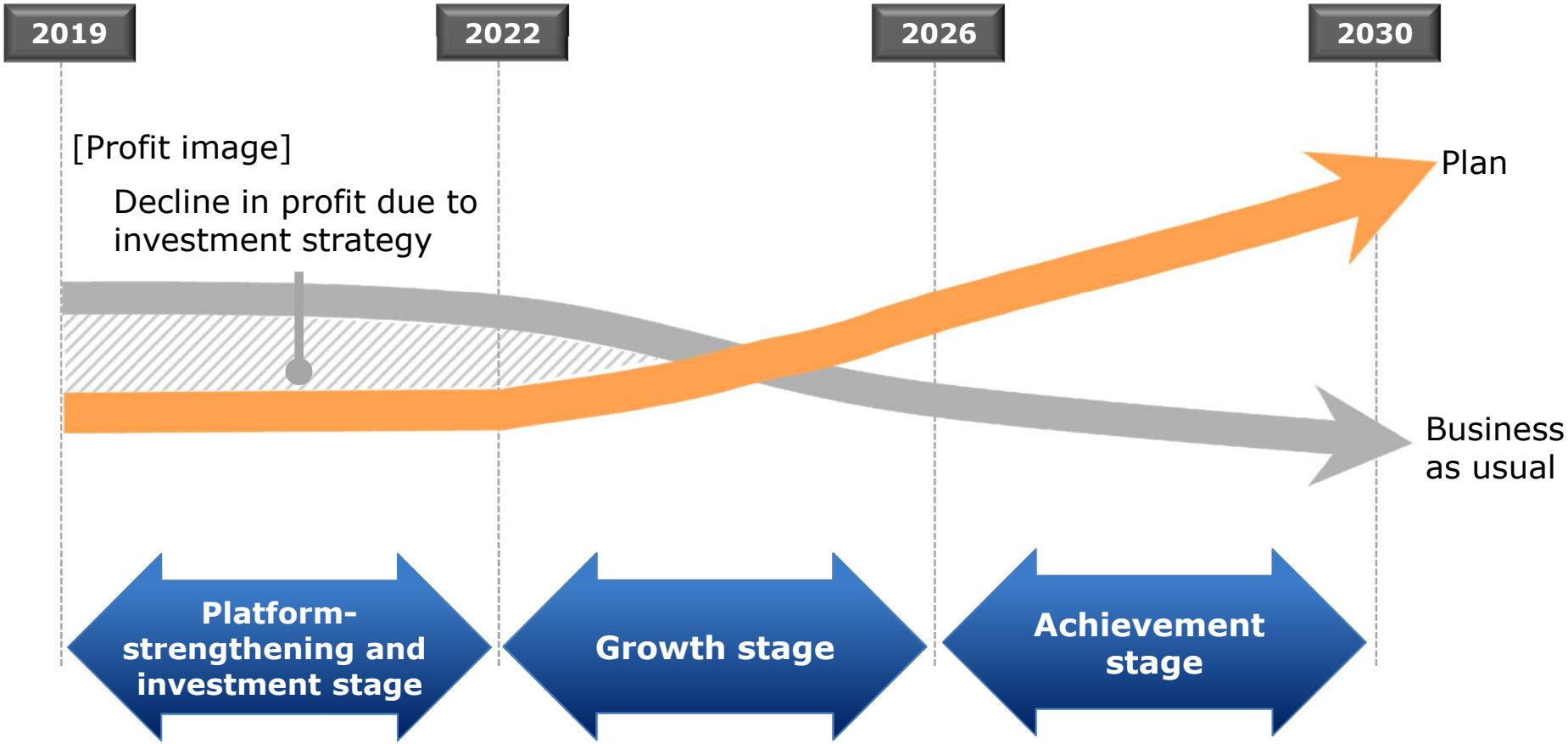
Roadmap

- Although revenue will fall temporarily, we will make advance investments to achieve sustained growth.



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Mid-term Business Plan 2021 Guidelines

- Quantitative targets are disclosed in the one-year plan
- We will pursue these guidelines as we implement the Mid-term Business Plan

	Guidelines
Sales	• Organic growth in existing businesses along with new M&As
Operating margin	• Operating margin in existing businesses (3%) minus investment strategy costs plus profit/loss from new M&As • Transition of the International Beverage Business to profitability
Cash flows (CFs)	• Operating cash flows created by existing businesses: ¥40 billion yen or greater • Capital investment necessary in existing businesses: About ¥28 billion
Investment strategy	• Growth investments in existing businesses: About ¥12 billion • Investment in the health care segment to execute new M&As: About ¥30 billion • Launch of the orphan drug business: About ¥3 billion
Return to shareholders	• Return of profits to shareholders through stable dividends

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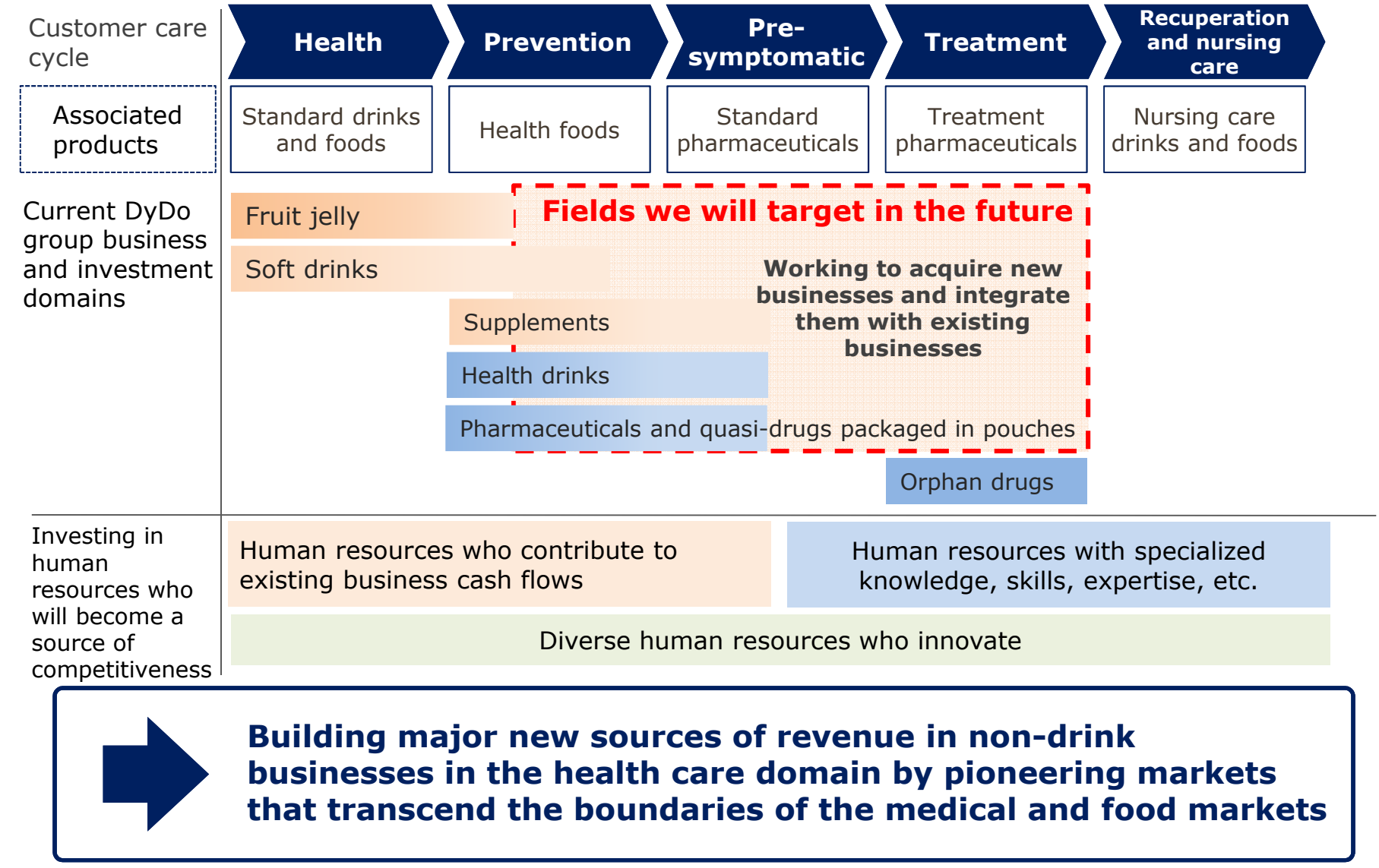
Investment Strategy

M&A Investments in the Health Care Domain



Building major new sources of revenue in non-drink businesses in the health care domain by pioneering markets that transcend the boundaries of the medical and food markets

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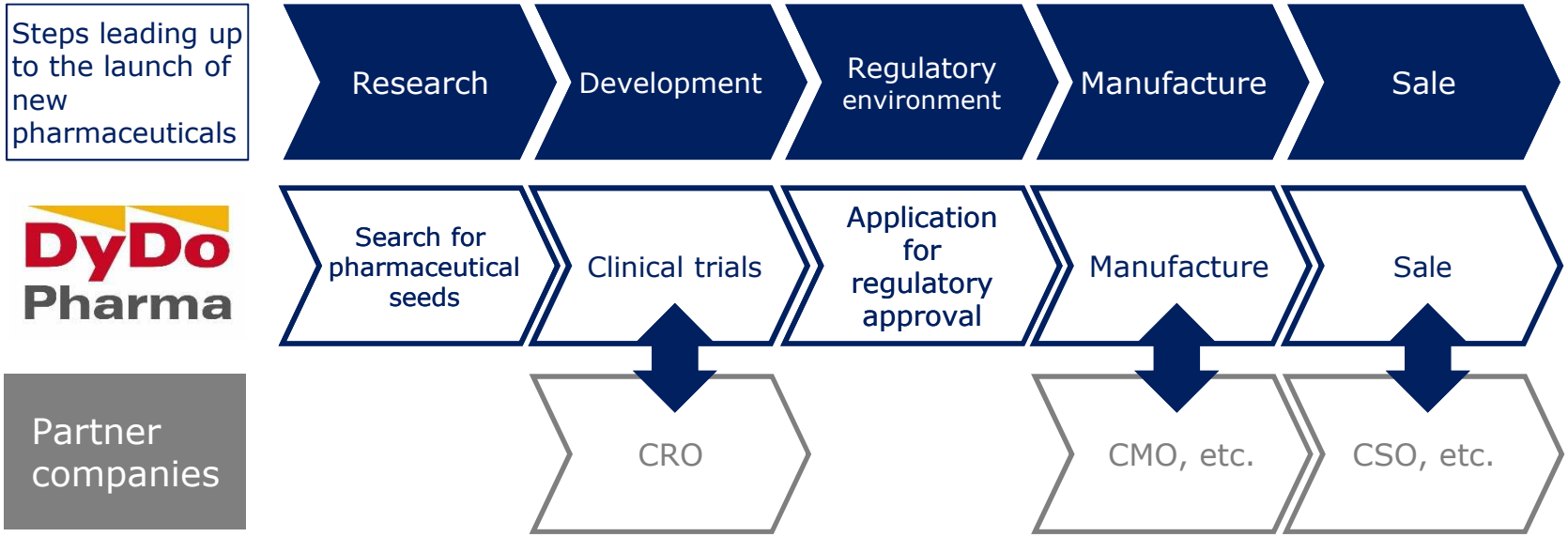
Investment in New Businesses

Investments in Launching the Orphan Drug Business

- We established DyDo Pharma, Inc. , as a new company operating a treatment pharmaceuticals business on January 21, 2019



CRO: Contract Research Organization
CMO: Contract Manufacturing Organization
CSO: Contract Sales Organization

Working to deliver profitability in the long term by outsourcing operations and developing a promising new product pipeline of high-quality products

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Entering the Orphan Drug Market

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

  - **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.

  - **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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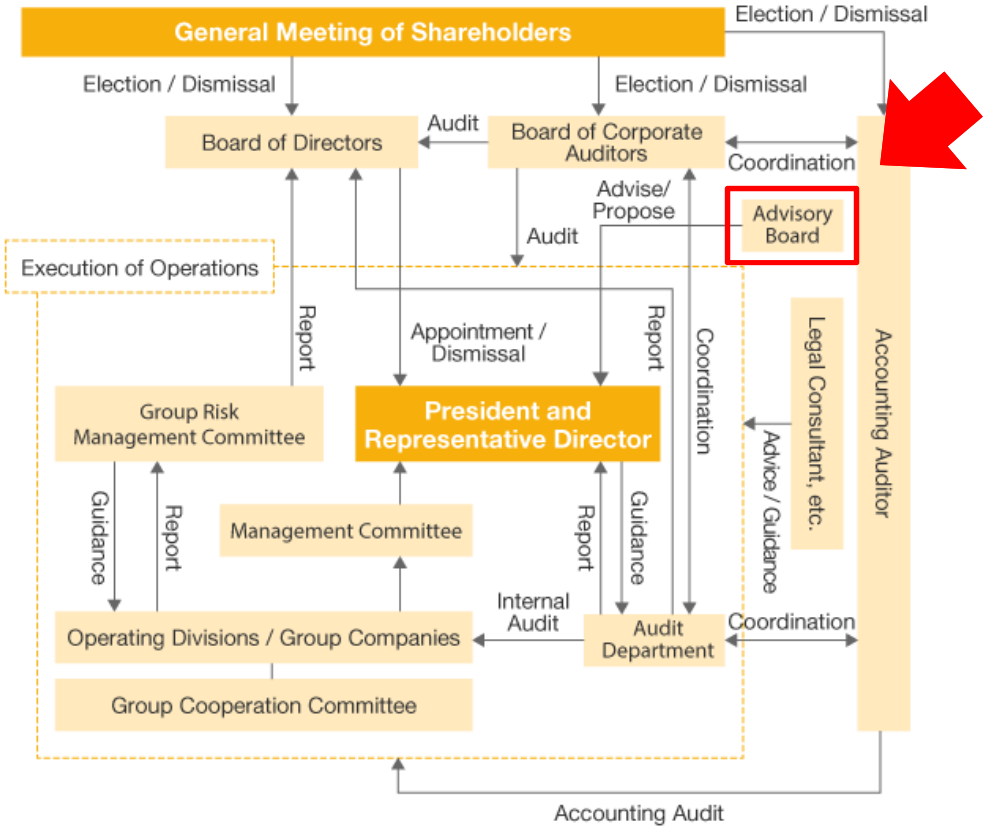
Ongoing Improvements in Corporate Governance

- We created an Advisory Board to serve as an advisory body to the president
  - Consisting of roughly three outside experts not currently serving as outside directors or corporate auditors
  - Offering assessments and advise from an objective perspective concerning issues that demand a high level of specialized knowledge, for example investment decisions related to the orphan drug business



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Human Resources Strategy

Strengthening Management Structures to Achieve the Group Mission 2030

Securing human capital

- Strengthening holding company functions and hiring career employees who can make an immediate contribution to new businesses
- Hiring new graduates based on future needs



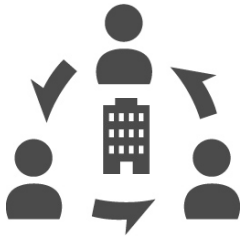
Fostering the development of human resources

- Training a new generation of management candidates
- Training workers to perform global jobs
- Training specialist



Assigning and transferring human resources

- Reallocating management resources in an optimal manner through transfers between Group companies
- Accumulating new expertise by seconding employees to outside companies



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Formulating the DyDo Group Code of Conduct

- We formulated a DyDo Group Code of Conduct to serve as the basic set of principles in sharing ethical values throughout the Group and ensuring that actual conduct furthers those values.



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