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DyDo

FY2019 (Year Ending January 20, 2020) 3rd Quarter Financial Highlights

DyDo Group Holdings, Inc.

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

November 26, 2019

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1. FY2019 3rd Quarter Financial Highlights / Full-year Earnings Forecast

Overview of Cumulative Consolidated Financial Information for FY2019 3rd Quarter

- Cumulative net sales during the 3rd quarter totaled 130,925 million yen (down 1.7% year on year)
- Revenue fell 2.5% year on year in the Domestic Beverage Business due in part to the impact of adverse weather
- Revenue rose 5.0% year on year in the Pharmaceutical-related Business and 6.8% in the Food Business on the back of steady sales
- The International Beverage Business operated profitably thanks to strong performance by the Turkish beverage business

(Millions of yen)

	3rd quater (Jan 21 - July 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	133,229	100.0%	130,925	100.0%	(1.7%)	(2,304)	171,553	100.0%	170,000	100.0%	(0.9%)	(1,553)
Operating profit	5,998	4.5%	3,969	3.0%	(33.8%)	(2,028)	6,071	3.5%	3,400	2.0%	(44.0%)	(2,671)
Ordinary profit	5,752	4.3%	4,059	3.1%	(29.4%)	(1,692)	5,998	3.5%	3,700	2.2%	(38.3%)	(2,298)
Profit attributable to owners of parent	3,432	2.6%	2,879	2.2%	(16.1%)	(553)	3,856	2.2%	2,400	1.4%	(37.8%)	(1,456)
E P S	¥208.41		¥174.79		(16.1%)	(¥33.62)	¥234.15		¥145.71		(37.8%)	(¥88.44)

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FY2019 3rd Quarter Consolidated Earnings/Full-year Earnings Forecast (by Segment)

- We began disclosing the "Other" segment in the 3rd quarter following the launch of our orphan drug business.

(Millions of yen)

	FY2018 3rd quater results	FY2019 3rd quater results			FY2018 full-year results	FY2019 full-year earnings forecast		
			% (YoY)	Amount (YoY)			% (YoY)	Amount (YoY)
Domestic Beverage Business	95,536	93,146	(2.5%)	(2,389)	124,879	122,350	(2.0%)	(2,529)
International Beverage Business	14,001	12,709	(9.2%)	(1,292)	17,154	16,800	(2.1%)	(354)
Pharmaceutical-related Business	8,199	8,606	5.0%	407	10,964	11,550	5.3%	585
Food Business	15,934	17,022	6.8%	1,088	19,114	19,850	3.8%	735
Other	–	–	–	–	–	–	–	–
Adjustment	(441)	(560)	–	(118)	(559)	(550)	–	9
Total net sales	133,229	130,925	(1.7%)	(2,304)	171,553	170,000	(0.9%)	(1,553)
Domestic Beverage Business	6,097	3,421	(43.9%)	(2,676)	7,106	4,945	(30.4%)	(2,161)
International Beverage Business	(362)	254	–	616	(704)	(347)	–	357
Pharmaceutical-related Business	795	427	(46.3%)	(368)	847	636	(25.0%)	(211)
Food Business	454	848	86.5%	393	235	366	55.3%	130
Other	–	(103)	–	(103)	–	(600)	–	(600)
Adjustment	(986)	(877)	–	109	(1,413)	(1,600)	–	(186)
Total operating profit	5,998	3,969	(33.8%)	(2,028)	6,071	3,400	(44.0%)	(2,671)

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Current progress toward implementing the Mid-term Business Plan 2021

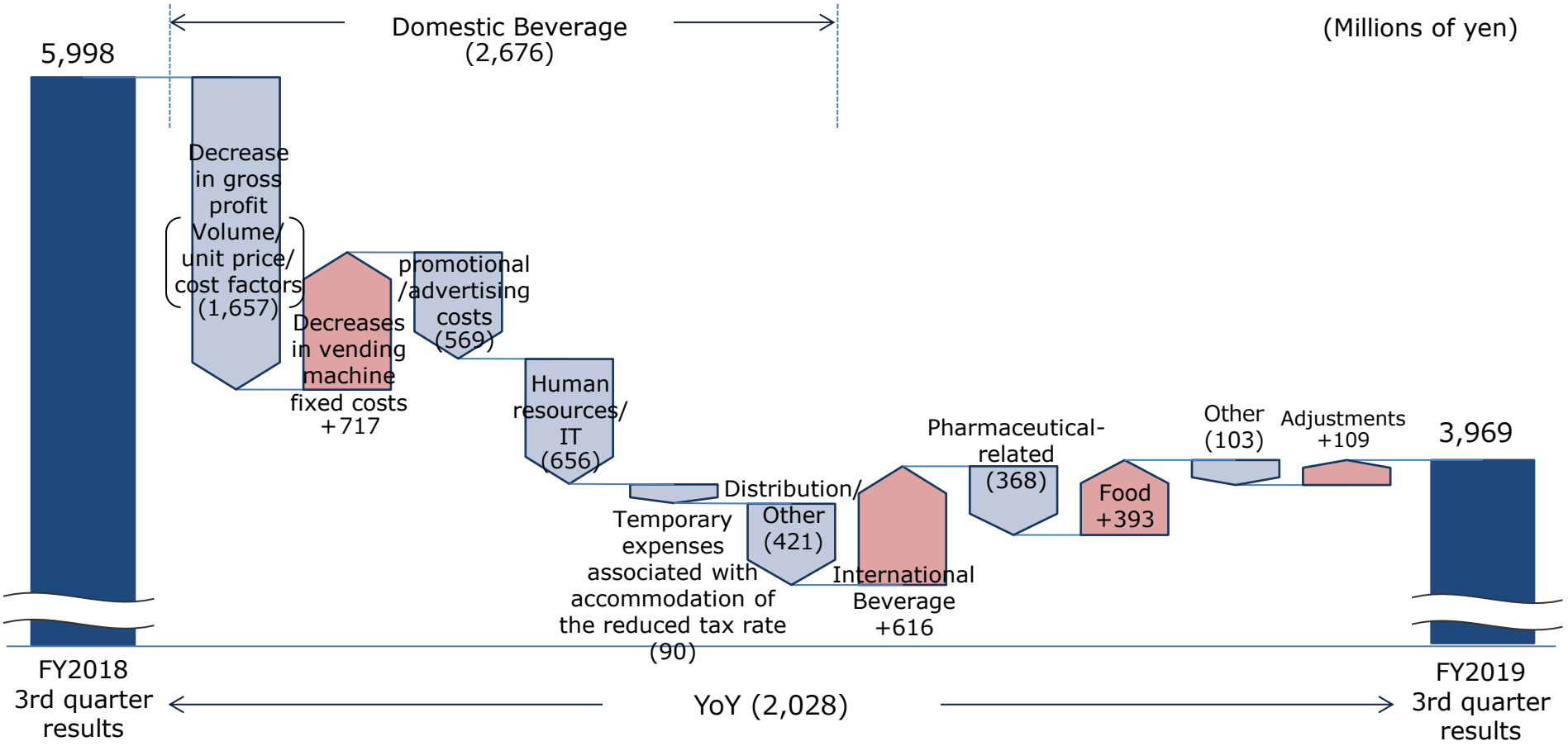
- Efforts to develop a platform to facilitate future growth made steady progress despite lackluster performance during the quarter under review

Mid-term Business Plan 2021 basic policy	Current progress
Working to maximize cash flows through measures that focus on improving revenue in each business	○ Profitability has improved significantly in the International Beverage Business and the Food Business × Domestic beverage sales suffered due to the impact of low temperatures in July and typhoons in October × Operating profit fell below corresponding levels during the same period of the previous year
Expanding products and services through a focus on delicious flavor and health	○ "Adult Calolimit®" tea has generated strong sales, and online supplement sales have grown ○ Tarami (Food Business) increased its market share × Sales of coffee beverages continue to pose challenges
Embarking on a process of selection and consolidation of strategic bases in the International Beverage Business	○ The International Beverage Business is operating profitably thanks to significant growth in our Turkish beverage business △ We're putting in place new sales bases to facilitate growth in exports from Turkey △ We dissolved our joint venture in the Malaysian business and converted the company into a wholly-owned subsidiary
Carrying out an investment strategy to ensure growth in each business and to create new businesses in the health care domain	○ DAIDO *Yakuhin* (Pharmaceutical-related Business) completed its new plant in October. △ We are currently conducting a test to prepare for the development of smart operational structures △ We continue to research and study potential M&As
Implementing a human resources strategy to lead to sustained growth of the DyDo Group	○ We're implementing activities to ensure that the Group Code of Conduct takes root

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Factors Driving Increases/Decreases in Operating Profit for FY2019 3rd Quarter

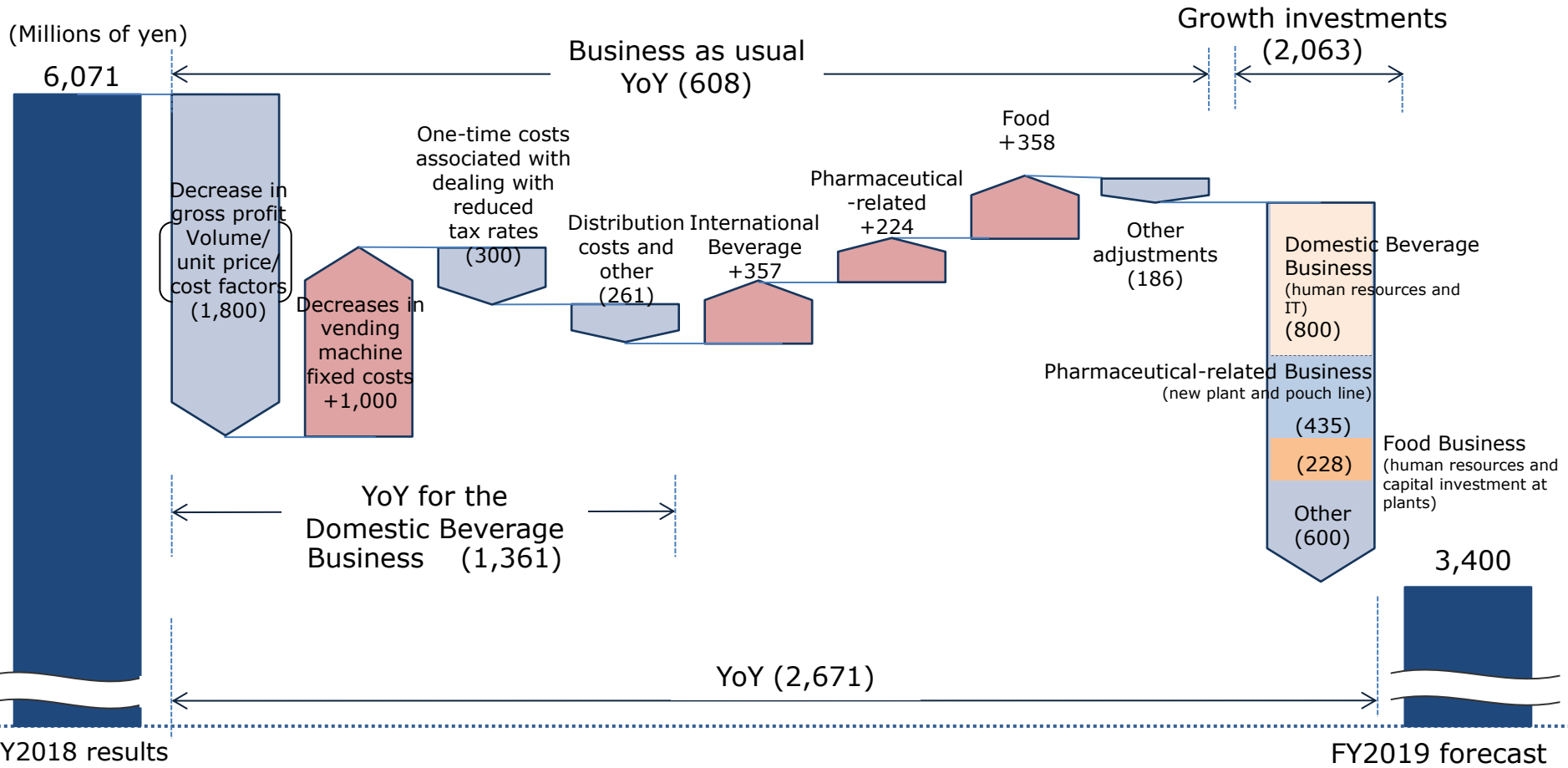
- Declining sales volume due to adverse weather impacted profits in the Domestic Beverage Business
- Outlays associated with preparing for a new plant and a new pouch packaging line grew in the Pharmaceutical-related Business
- Profitability improved significantly as the International Beverage Business returned to profitability and the Food Business enjoyed sales growth



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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, and about 200 million yen in the Food Business)

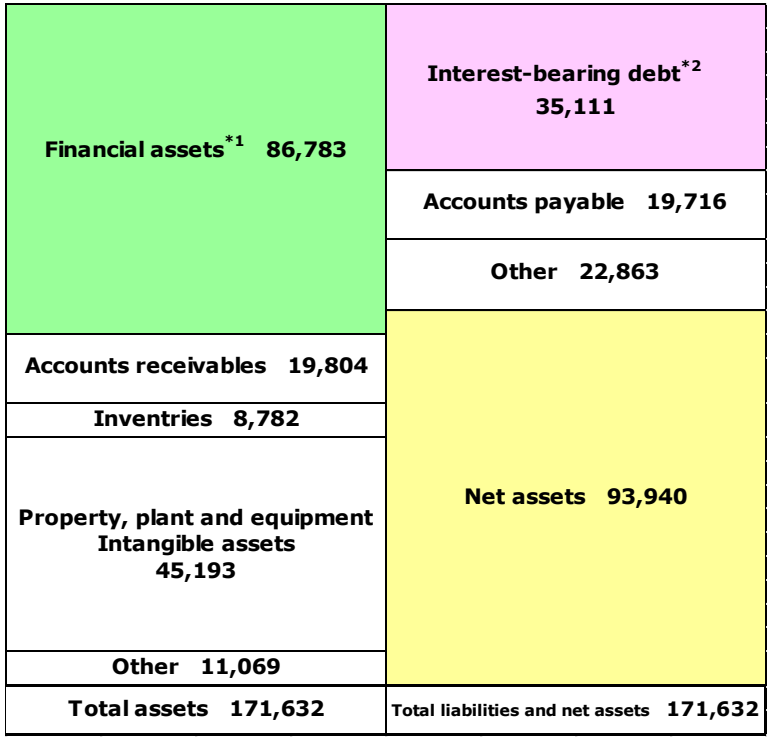


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Financial Standing: Principal Changes in the Consolidated Balance Sheet

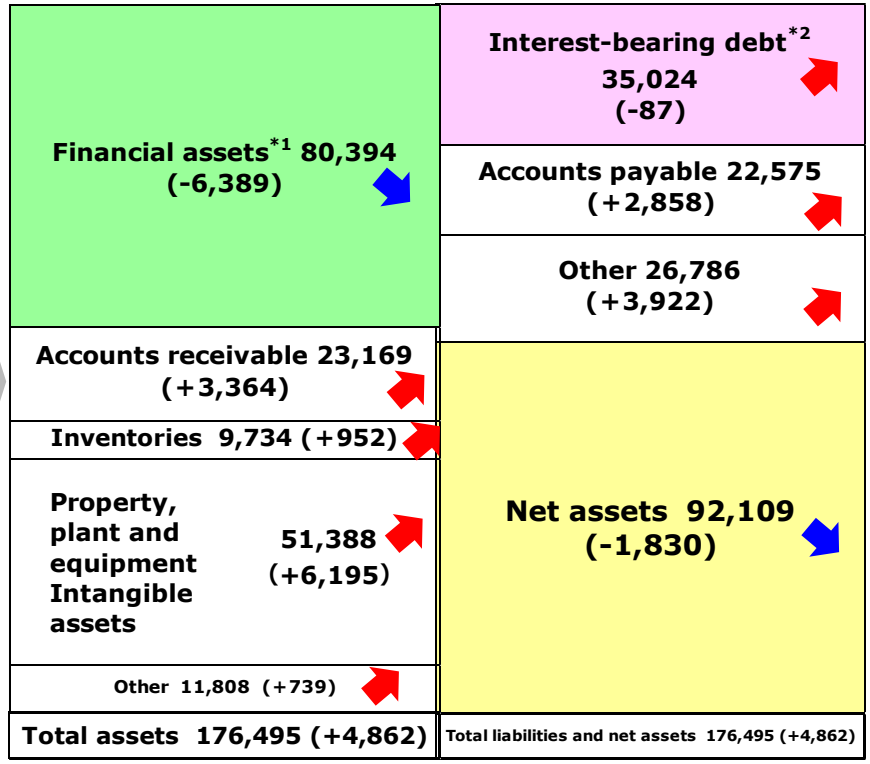
- Tangible fixed assets (buildings, machinery, etc.) increased due to factors including the construction of a new Kanto plant (which was completed in October 2019) by DAIDO *Yakuhin* (Pharmaceutical-related Business)
- Investment securities declined due to factors including fluctuations in the market value of TCI shares

(Millions of yen)



January 20, 2019

(Millions of yen)



October 20, 2019

*1: Cash and deposits, securities, investment securities (excluding shares of subsidiaries), 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 3rd Quarter Results by Segment

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Seasonal Fluctuations by Segment

Net sales/net sales by segment

(Millions of yen)

		1st quater	2nd quater	3rd quater	4th quater	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	45,805	45,486	–	–
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	31,666	32,336	–	–
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	4,606	4,700	–	–
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	2,866	2,852	–	–
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	6,869	5,754	–	–

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

(Millions of yen)

		1st quater	2nd quater	3rd quater	4th quater	Total
Consolidated	FY2018	724	2,555	2,718	73	6,071
		11.9%	*42.1%*	*44.8%*	*1.2%*	*100.0%*
	FY2019	△ 113	2,146	1,936	–	–
Domestic Beverage	FY2018	970	2,446	2,679	1,009	7,106
		13.7%	*34.4%*	*37.7%*	*14.2%*	*100.0%*
	FY2019	(74)	1,750	1,745	–	–
International Beverage	FY2018	(158)	(89)	84	(285)	(449)
		–	–	–	–	*100.0%*
	FY2019	57	182	173	–	–
Pharmaceuti-cal-related	FY2018	356	306	132	52	847
		42.0%	*36.2%*	*15.6%*	*6.2%*	*100.0%*
	FY2019	230	127	69	–	–
Food	FY2018	12	443	263	(130)	587
		2.1%	*75.4%*	*44.8%*	–	*100.0%*
	FY2019	154	595	361	–	–

*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 3rd quater results	Component ratio	FY2019 3rd quater results	Component ratio	% (YoY)	Amount (YoY)	FY2018 results	Component ratio	FY2019 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	95,536	100.0%	93,146	100.0%	(2.5%)	(2,389)	124,879	100.0%	122,350	100.0%	(2.0%)	(2,529)
Operating profit	6,097	6.4%	3,421	3.7%	(43.9%)	(2,676)	7,106	5.7%	4,945	4.0%	(30.4%)	(2,161)

- Weather-related factors such as record-low temperatures in July and typhoons in October impacted sales
- Sales of beverages other than coffee remained strong as the market environment became more challenging due to pricing policies implemented by competitors

	1st quarter	2nd quarter	3rd quarter	Year to date through 3rd quarter	
	Change (%)	Change (%)	Change (%)	Sales volume (thousands of cases)	Change (%)
Coffee beverages	(8.9%)	(12.8%)	(9.7%)	20,591	(10.5%)
Other beverages	7.2%	5.1%	3.3%	20,620	5.0%
Total	(2.6%)	(4.1%)	(3.2%)	41,211	(3.3%)
Change in days of operation compared to previous quarter	(1 day)	(3 days)	(2 days)	(6 days)	

Year to date through 3rd quarter by channel			
Vending machines		Other	
Sales volume (thousands of cases)	Change (%)	Sales volume (thousands of cases)	Change (%)
15,857	(12.7%)	4,733	(1.8%)
17,821	2.0%	2,798	28.9%
33,679	(5.5%)	7,532	7.7%

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Domestic Beverage Business
Strengthening the Product Line (1)

- **We strengthened the product line by launching new products in the coffee category to prepare for the coming season**

  - **For vending machines**

We launched new products under a number of brands in the growing latte market

- ✓ "DyDo Blend Demitasse Latte"
- ✓ "DyDo Blend Rich Latte Supervised by the World's Top Barista*"
- ✓ "DyDo Blend Latte Supervised by the World's Top Barista*"

*Pete Licata, 14th World Barista Championship winner

Launched in early Sep.



  - **For the distribution channel**

We proposed a new coffee product featuring the extravagant aroma of chocolate to the maturing market for coffee sold in plastic bottles

- ✓ "Pierre Hermé × DyDo Blend Cafe au Lait Chocolate Breeze"

➡ The new product made a significant contribution to sales in the distribution channel

Pre-launched at major convenience stores on 8/27



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Domestic Beverage Business
Strengthening the Product Line (2)

- **Sales of products in our "Calorie Limit for the Mature Aged" tea series through the distribution channel continued to be strong**

November 2016 We launched a **pearl barley tea** as DyDo's first functional food product.

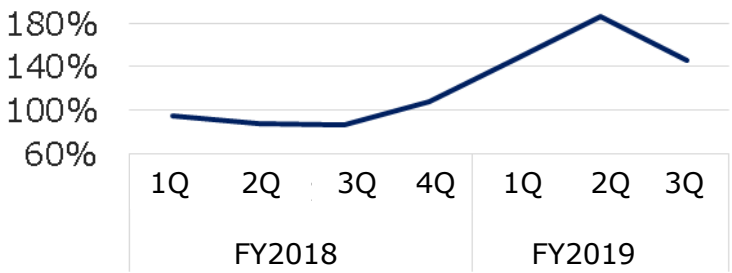
January 2017 Sales during the approximately four months since the product's launch exceeded 10 million units.

August 2017 We launched a **refined-style green tea** as the second product in the series.

March 2019 We redesigned the product's packaging by adopting an original-design bottle with "MOCHI-GOKOCHI (ComforGrip)"

We launched two new products in the series: a **refreshing unsweetened black tea** and a pearl barley blended tea with sprouted rice.

Year-on-year sales volume in the distribution channel



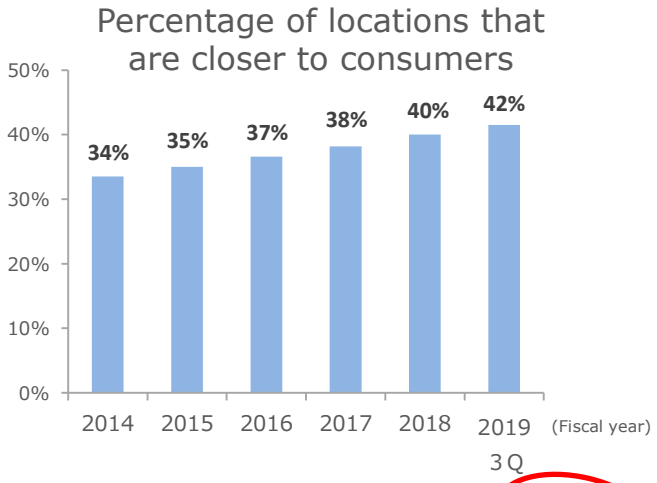


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Initiatives to Establish a Competitive Advantage in the Vending Machine Market

We're working to strengthen development of new vending machine locations and to streamline post-installation operations

- **Strengthening locations like offices that are closer to consumers by enhancing sales structures**
  Strengthening our workforce of development personnel in terms of both quantity and quality
  - ✓ We're increasing the number of personnel overseeing development and sales for new vending machine locations
  - ✓ We're fostering continuous training for such employees by introducing in-house training and sales force automation (SFA)



- **Progress in testing to prepare for developing smart operations**
  We conducted tests at specific sales offices and continued efforts to identify and address operational issues
  - ✓ We're increasing the number of vending machines each staff member operates
  - ✓ We've begun a study to prepare for a roll-out of these measures during the next fiscal year

Complete

Conducting pre-testing at sales offices

Underway

Validating test results and working to identify and address issues at multiple sales offices with different characteristics

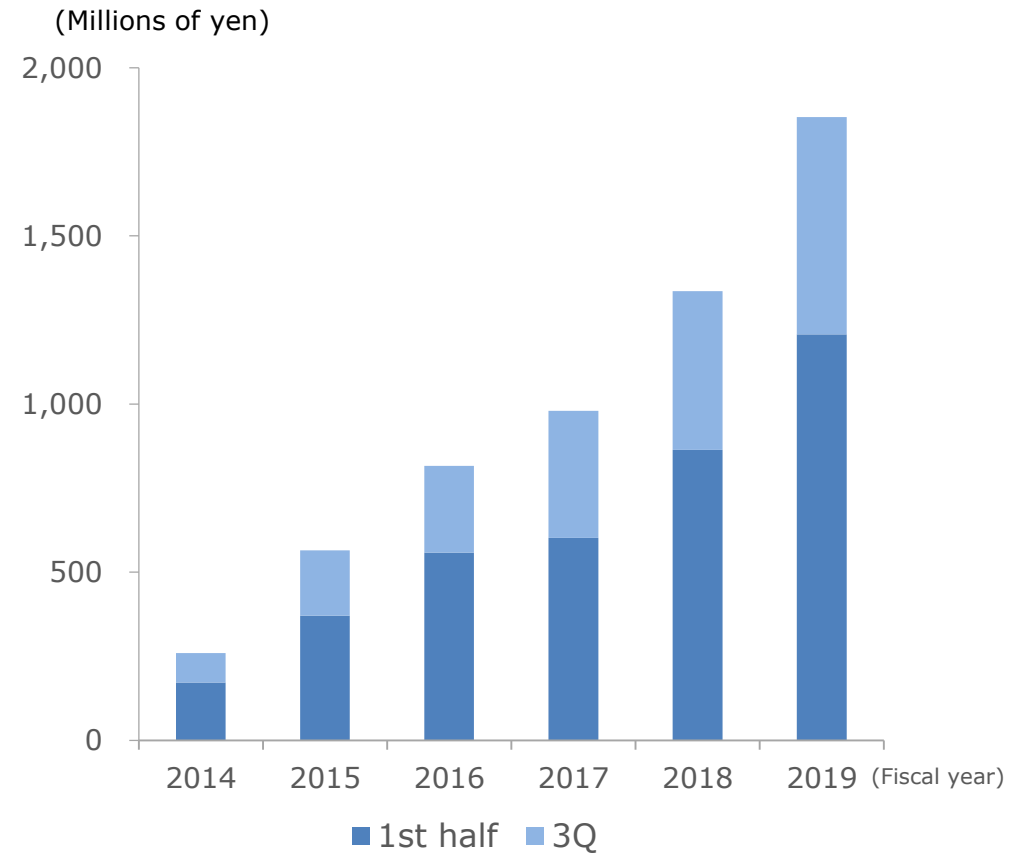
Studying the scale of the project

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Domestic Beverage Business
Progress in the Mail-order Business

The mail-order business grew steadily

- Sales in the mail-order business



- We enhanced the product line, with a focus on core product "Locomo Pro"

Capturing new customers



Growing customer base
+
Increased annual purchase value through cross-selling
+
Continuous customer base growth

Increased sales and profit

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International Beverage Business
Overview by Segment

Overview of the International Beverage Business

(Millions of yen)

	FY2018 3rd quater results	Component ratio	FY2019 3rd quater results	Component ratio	% (YoY)	Amount (YoY)	FY2018 results	Component ratio	FY2019 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	14,001	100.0%	12,709	100.0%	(9.2%)	(1,292)	17,154	100.0%	16,800	100.0%	(2.1%)	(354)
Operating profit (loss)	(164)	–	413	3.3%	–	577	(449)	–	(150)	–	–	299
Amortization of goodwill, etc.	197	–	158	1.2%	(19.7%)	(38)	255	1.5%	196	1.2%	(23.1%)	(59)
Operating profit (loss) after subtracting amortization of goodwill, etc.	(362)	–	254	2.0%	–	616	(704)	–	(347)	–	–	357
JPY per TRY	¥24.15		¥19.40		(¥4.75)		¥23.41		¥18.00		(¥5.41)	
JPY per MYR	¥27.46		¥26.41		(¥1.05)		¥27.34		¥27.00		(¥0.34)	

- Strong performance in the Turkish beverage business helped place the International Beverage Business on a profitable footing
- We ended the joint venture in the Malaysian beverage business and began a new chapter of the business operating via a wholly owned sales subsidiary



"BeFine" yogurt drink



"vida" carbonated beverage

New halal-certified products launched in Malaysia

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Overview of Performance in Major Strategic Areas

Turkish beverage business

- Cumulative sales through the third quarter rose 13% year on year on a local currency basis
- Strong sales of highly profitable mineral water products drove overall performance
- Consumer spending in Turkey is set to slow rapidly in the short term
- We are working to stabilize profits by putting in place structures to expand exports (to the UK and Moscow, where we operate facilities)

Local-currency-basis results			1st quarter	2nd quarter	3rd quarter	4th quatrter	Year
FY2019	Sales, YoY	Quarter	+30%	+17%	+2%		+13%
	Exchange rate (JPY per TRY)	Cumulative results	¥20.57	¥19.63	¥19.40	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**



Staff for our popular home office delivery (HOD) service



Development of structures to expand exports to the UK and Moscow

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Pharmaceutical-related Business
Overview by Segment

Overview of the Pharmaceutical-related Business

(Millions of yen)

	FY2018 3rd quater results	Component ratio	FY2019 3rd quater results	Component ratio	% (YoY)	Amount (Y oY)	FY2018 full-year results	Component ratio	FY2019 full-year earnings forecast	Component ratio	% (YoY)	Amount (Y oY)
Net sales	8,199	100.0%	8,606	100.0%	5.0%	407	10,964	100.0%	11,550	100.0%	5.3%	585
Operating profit	795	9.7%	427	5.0%	(46.3%)	(368)	847	7.7%	636	5.5%	(25.0%)	(211)

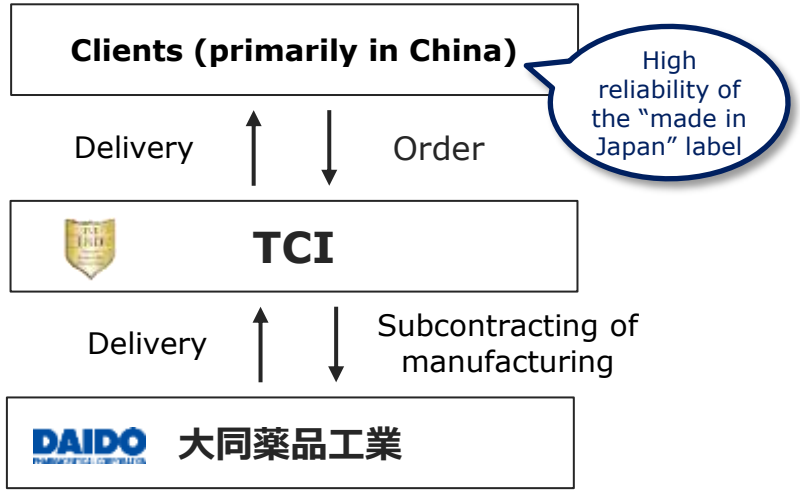
- Orders for beauty drinks for the Chinese market rose thanks to the effects of collaboration with TCI
- The product order mix impacted profits
- Depreciation expenses will rise in the 4th quarter due to the completion of a pouch packaging line at the Nara Plant and of the new Kanto Plant (in Tatebayashi, Gunma Prefecture)



October 10: Dedication ceremony at the Kanto Plant

- Increase in contract manufacturing volume thanks to orders via TCI

The Group expanded orders from clients, particularly in China, by maintaining and developing its capital and operational alliance with TCI, in which it holds a 11.8% stake.



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Pharmaceutical-related Business
Completion of the Kanto Plant and Installation of a New Pouch Line at the Nara Plant

Schedule for Kanto Plant and pouch line completion and start of commercial operations

Kanto Plant
(Investment: About ¥6 billion)

Completion — Commercial operation

← Validation and regulatory approval of launch product

2019 | Sep. | Oct. | 2020 | Feb. | May

No. 3 Plant (new)

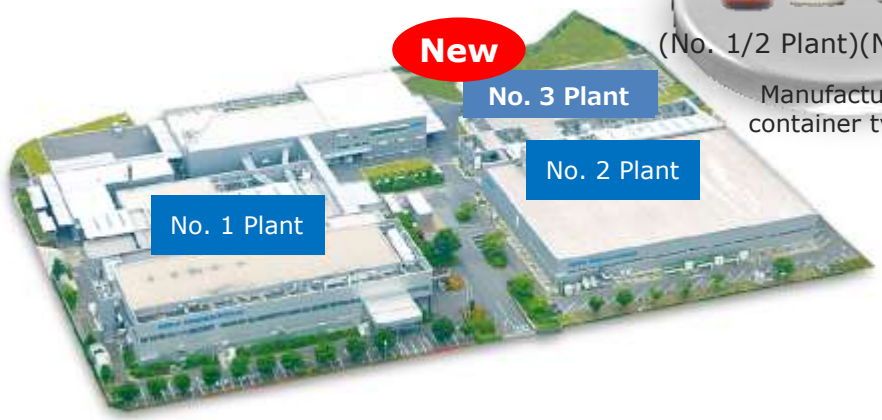
← Testing, validation, etc. →

Pouch line
(Investment: About ¥2 billion)

Completion — Commercial operation



(No. 1/2 Plant)(No. 3 Plant)
Manufactured container types



Nara Plant



Kanto Plant



Manufactured container types

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Food Business
Overview by Segment

Overview of the Food Business

(Millions of yen)

	FY2018 3rd quater results	Component ratio	FY2019 3rd quater results	Component ratio	% (YoY)	Amount (YoY)	FY2018 full-year results	Component ratio	FY2019 full-year earnings forecast	Component ratio	% (YoY)	Amount (YoY)
Net sales	15,934	100.0%	17,022	100.0%	6.8%	1,088	19,114	100.0%	19,850	100.0%	3.8%	735
Operating profit	718	4.5%	1,112	6.5%	54.8%	393	587	3.1%	716	3.6%	21.8%	128
Amortization of goodwill, etc.	264	1.7%	264	1.6%	–	–	352	1.8%	350	1.8%	(0.6%)	(2)
Operating profit after subtracting amortization of goodwill, etc.	454	2.9%	848	5.0%	86.5%	393	235	1.2%	366	1.8%	55.3%	130

- Performance benefited from increased sales of cup jelly products in the medium- and high-priced segment of the market and the launch of new pouch jelly products
- A multifaceted review of costs helped strengthen profitability

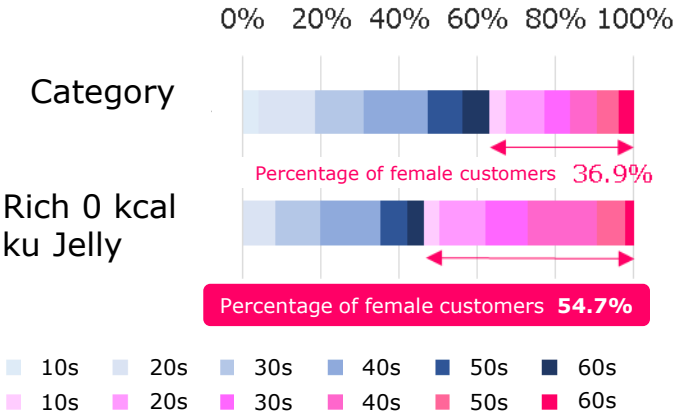




Launched 9/24

"Delicious Konnyaku Jelly Premium+," Tarami's first functional food product

Percentage of pouch packaging customers in the convenience store channel



Functional labeling "Limits increase in neutral fat and blood sugar after eating" "Improves digestion"

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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.