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FY2020 (Year Ending January 20, 2021) 2nd Quarter Financial Highlights

DyDo Group Holdings, Inc.

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

August 27, 2020

Note: This report includes the financial results for the first half of FY2020 (January 21-July20, 2020).

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Note: This report also includes results for the 1st quarter of FY2020.

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1. DyDo Group Growth Strategies

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Social Changes Resulting from the Covid-19 Pandemic

- The outbreak of Covid-19 has spurred changes in consumer awareness and behavior, as well as in the prerequisites for businesses

Health

Changes in awareness of health, disease prevention, and hygiene are occurring

As a result of Covid-19, awareness has soared

Environment

People are more aware of issues facing environmental conservation

Innovation

Major social changes are taking place due to the rapid pace of digital transformation (DX)

With the advent of working from home, the locations in which our core vending machine business can sell drinks are changing

People

Diverse values in regards to working styles are emerging

Major shifts in society can fuel significant reforms in the DyDo Group

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(1) Overview of Group Mission 2030

Group Mission 2030

Integrated Report
For details on our initiatives in FY2019, see pp. 35–42

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 wisdom to adopt new perspectives 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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Group Mission 2030 Basic Policies

- We will constantly follow the basic policies of Group Mission 2030

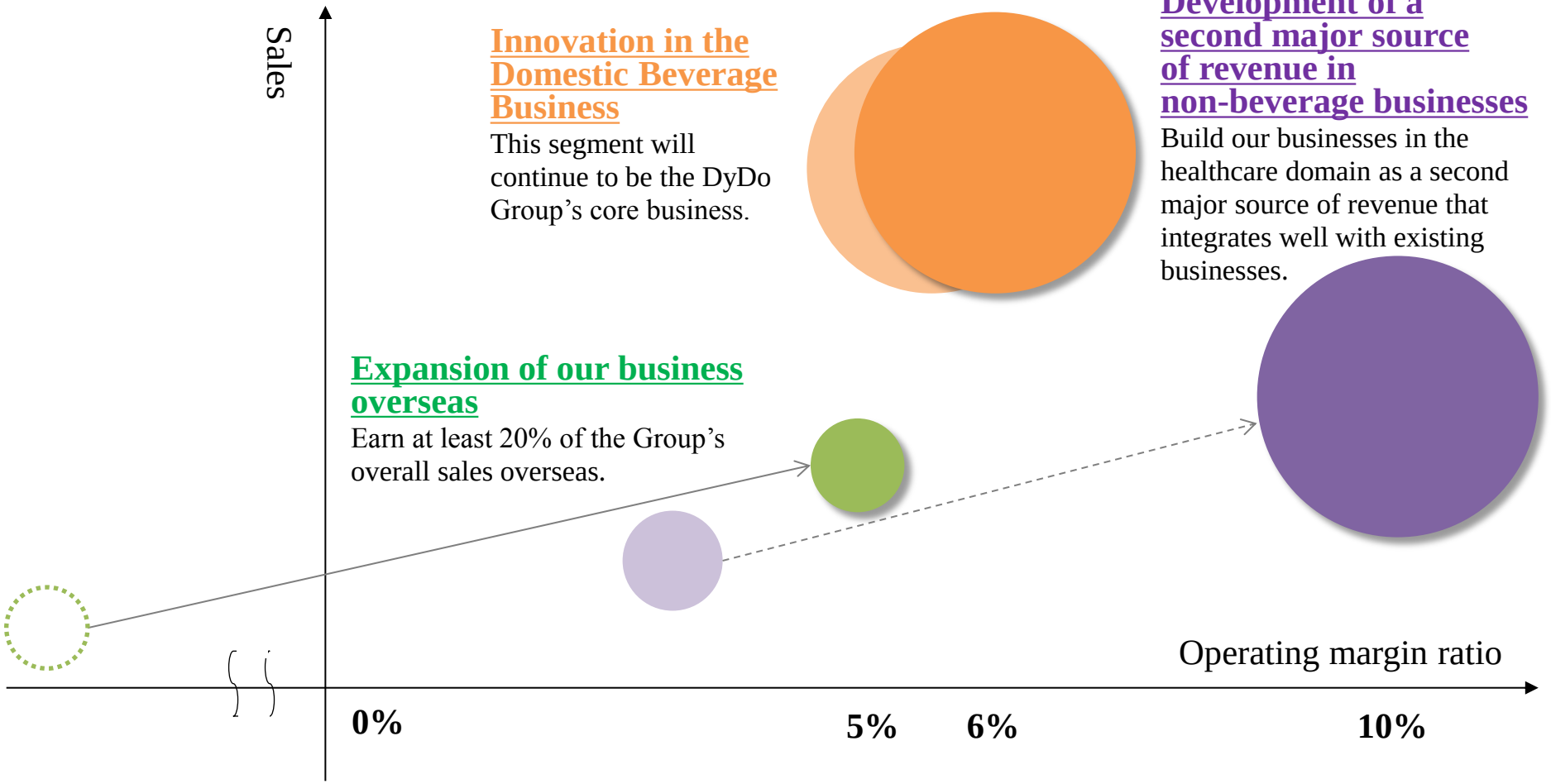


*Figure intended as a general illustration.
The size of each circle represents operating income, with FY2018 and FY2030 indicated by light and dark colors, respectively.

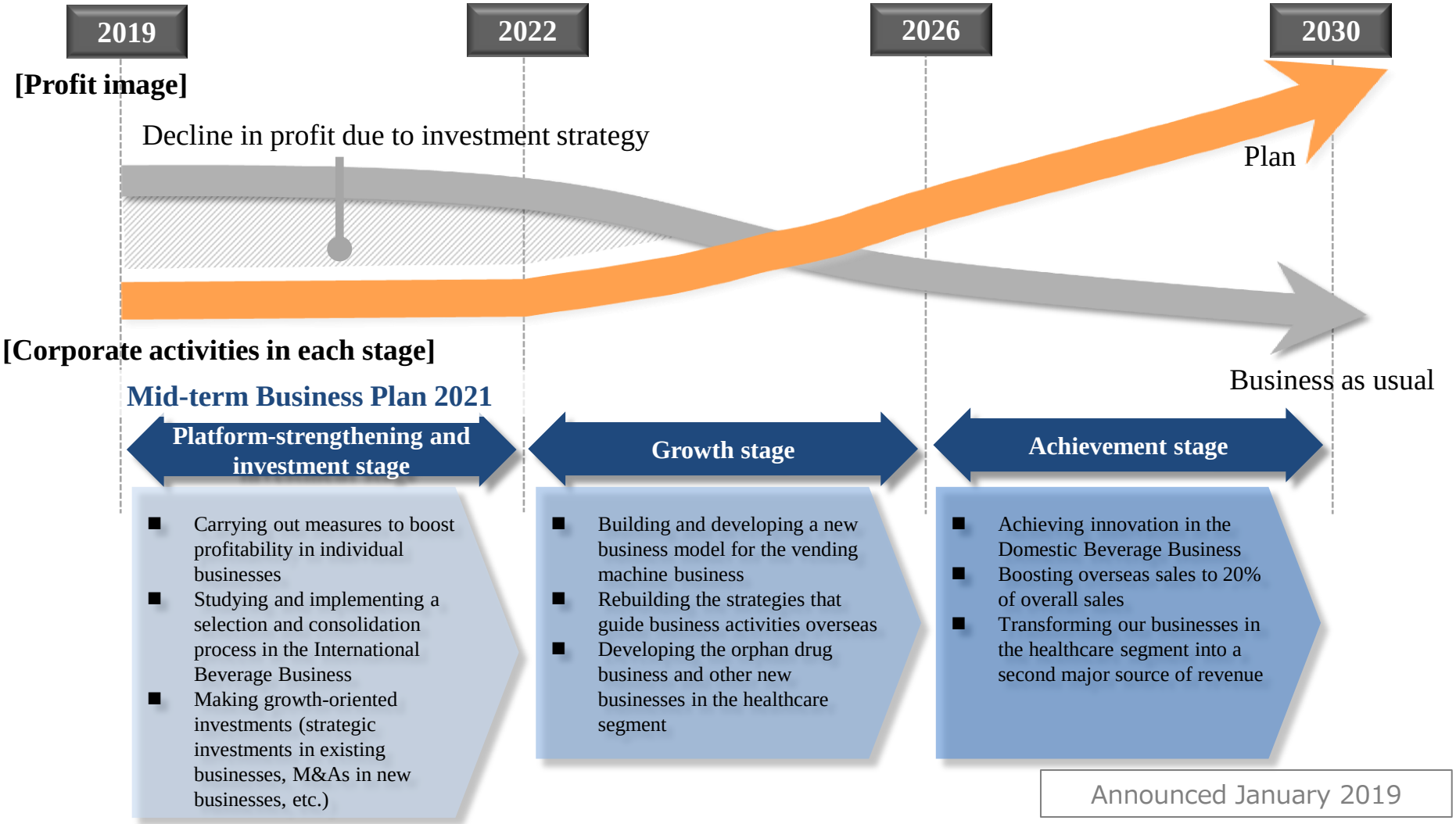
Announced January 2019

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Group Mission 2030 Roadmap

- We will make forward-looking investments that aim to achieve sustainable growth, although this will result in a temporary decline in profits



Announced January 2019

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Investment Strategy and Progress in the Mid-term Business Plan 2021

- There are no changes to the strategic investments outlined in Mid-term Business Plan 2021 (FY2019-2021)

[Investment resources]

Red borders: Growth investments

About ¥36 billion

Surplus funds on balance sheet

¥3 billion of which already converted to treasury stock

Investing surplus funds in new businesses

[Investments in new businesses] — **¥33 billion** — Investigation stage

- M&A investments in the healthcare segment — ¥30 billion
- Investments in launching the orphan drug business — ¥3 billion — Negotiation stage

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

¥40 billion or more

Cumulative operating cash flows over three years created by each business

¥5 billion of which comes from issuing corporate bonds

Reinvesting cash flows in each business

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

(Domestic Beverage Business) — ¥6 billion

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

(Pharmaceutical-Related Business) — ¥6 billion — Implementation completed

- 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** — Implementation stage

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2. Constructing a Sustainable Vending Machine Business Model Focused on Post-COVID-19 Social Changes

Risks and Opportunities in the Vending Machine Business, and the DyDo Group's Responses

- The DyDo Group will make use of changes in society to drive business model reforms, and create a more sustainable business model

(1) Transition to new workstyles

(2) Create a smart operational structure

(3) Contribute to achievement of a recycling-oriented society

Social reforms resulting from Covid-19	Risks and opportunities in the vending machine business
Changing consumer lifestyles and behavior	Advent of working from home requires changes in where we sell Competitors' approaches to the vending machine business are changing
Rapid digital transformation	Values regarding workstyles are changing Society is moving away from work structures that are predicated on long working hours
Changing consumer values	As awareness of health, disease prevention, and hygiene grow, what consumers want from products and services is changing Awareness toward environmental issues, such as plastic waste, is also rising

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(1) Transition to New Workstyles

Change Tasks should no longer require face-to-face meetings

Response **Introduced a new workstyle on June 1**
(completed amendments to work regulations, etc.)

Expected effect A flexible work system will help employees achieve work-life synergy



Concentrate on tasks while working at home, up to three days a week

Prioritize communication with colleagues when in the office



For employees whose work is predominantly indoor office work

Raise productivity of sales activities through flex time and recommending sales staff travel directly between external meetings and home, rather than coming into the office





Promote sales activities that can be done remotely, for example online, by introducing a teleconferencing system, etc.

For employees whose work is predominantly sales activities

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(1) Transition to New Workstyles

Changes

Advent of working from home requires changes in where we sell
Competitors' approaches to the vending machine business are changing

Response **Decided to establish remote sales teams**

Expected effect

The digital transformation in sales activities will drive location development activities toward locations where we can sell our goods



✓ Use online business negotiation tools



✓ Proceed with business negotiations through online meetings



✓ Business negotiations in person, leading to installation

Remote sales → **On-site sales** → **Contract**

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(2) Create a Smart Operations Structure

Past initiatives

We started moving toward smart operations by reordering operations

Change

Change in operational response through shift work, as a result of the declaration of a state of emergency

Response

The smart operational structure is being rolled out firstly through DyDo Beverage Services, the main group company involved in direct sales, including all vending machines being connected to the internet from fiscal 2021

Expected effect

We will be able to put in place a system that uses the digital transformation of vending machine operations to offer customers the products they want

In the future, we will be able to offer not only our own products but also those of other companies

To this point

・All operational tasks are handled by a single person
・Operations are largely decided by that route's particular supervisor, with skill levels varying
⇒ There is a limit to the productivity improvements that can be made

From now

・Using ICT, specialized operations will be handled by the appropriate organization, and tasks will be increasingly specialized
⇒ Tasks will be less dependent on individuals' skill levels, with the average level raised

➡Major improvements in productivity

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(2) Create a Smart Operations Structure

Change

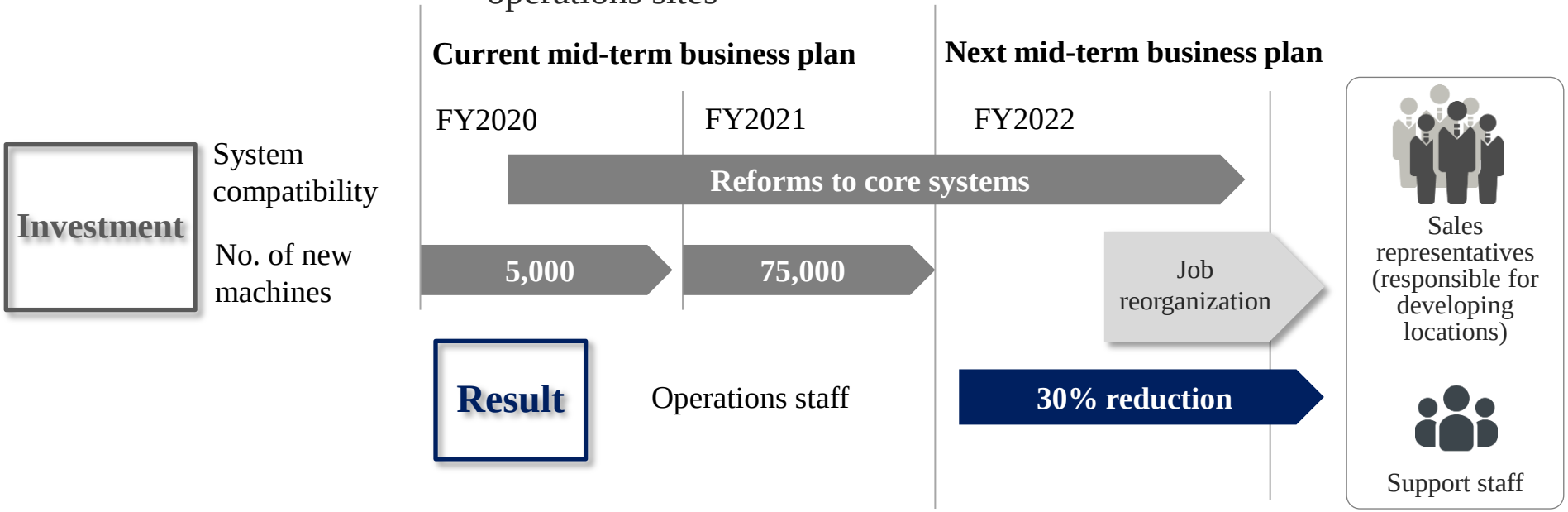
An opportunity to move away from work structures that are predicated on long working hours has presented itself

Response **IoT investment in vending machines, alongside reforms to the core systems**

Expected effect

Greater efficiencies in operational tasks will results in improved working environments, better use of personnel, and greater competitiveness for attracting new, talented employees

➡A future in which we also lead the industry in working styles at operations sites



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(3) Contribute to Achievement of a Recycling-Oriented Society

https://dydo.co.jp/sustainability/eco/ (Japanese only)

Past initiatives

Initiatives to reduce environmental impact in regard to products, operations, and vending machines

Change

People's awareness of problems facing the environment is rising

Response **We formulated our philosophy on ways to reduce our environmental impact, and selected KPIs for the year 2030**

▶ Our philosophy on ways to reduce environmental impact:

We will help to achieve a sustainable, recycling-oriented society by making effective use of resources alongside our employees and other stakeholders, through all major stages of the supply chain

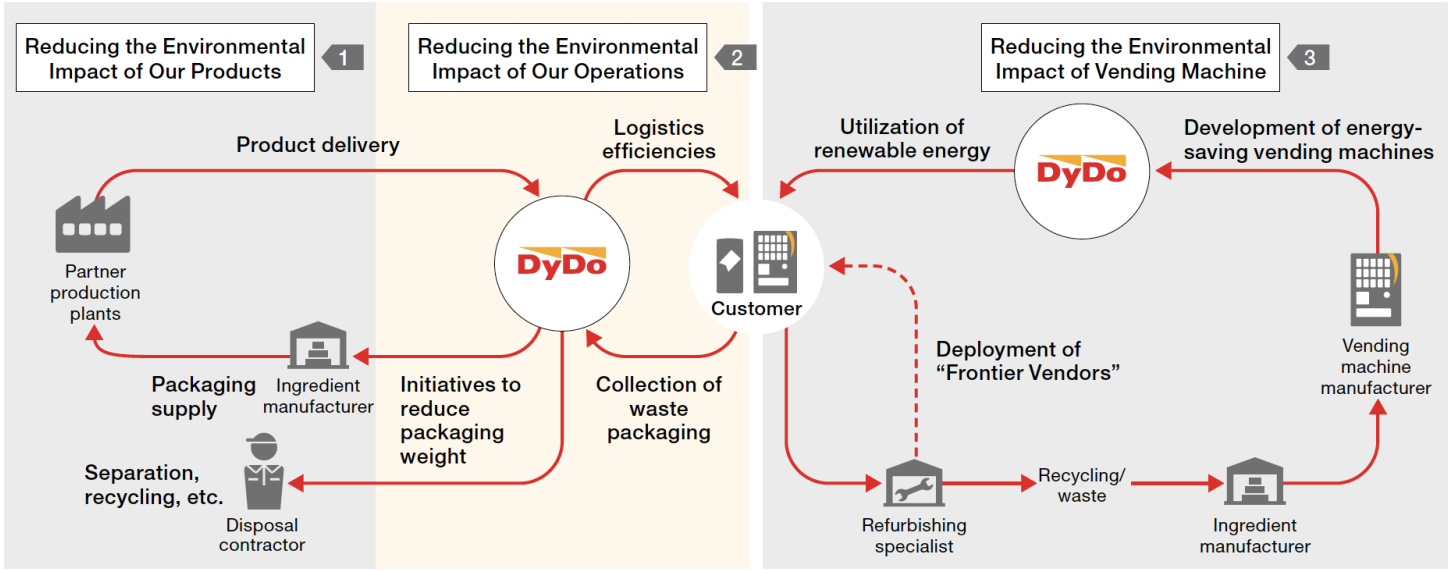
- ✓ We will raise the efficiency of our work processes, including smart operations, and improve the recycling rate for empty containers
- ✓ We will continue to improve the life of our vending machines and minimize waste of iron and other resources, even as we expand our vending machine operations
- ✓ We will provide customers with products that contribute to the effective use of resources

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(3) Contribute to Achievement of a Recycling-Oriented Society

Integrated Report
For details on our initiatives in FY2019, see pp. 37–38

- We set KPIs for our initiatives in the vending machine business



Contributions to achieving the SDGs

Ensure sustainable consumption and production patterns

12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

Conserve and sustainably use the oceans, seas and marine resources

14.1: By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

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(3) Contribute to Achievement of a Recycling-Oriented Society

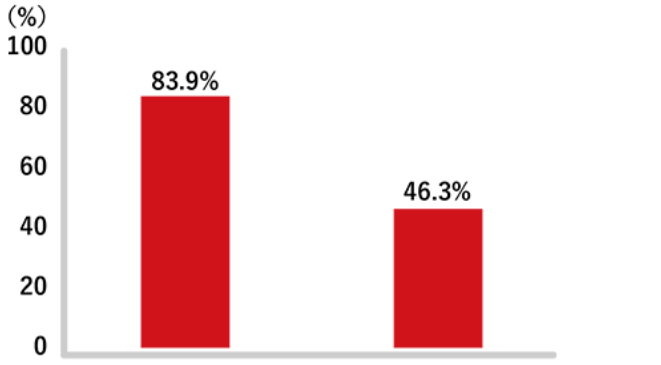
KPI for 2030: Achieve a recycling rate of 100% for empty containers

Expected effect

By improving the recycling rate for our empty containers, we can create a recycling loop and contribute to 100% effective use of plastic bottles

- Initiatives toward a 100% recycling rate:
  - ✓ Placing recycle boxes for empty containers next to our vending machines, and emptying these when we stock up the machines
  - ✓ Promoting recycling and reducing waste alongside our employees and other stakeholders

- Voluntary empty container recycling rates



*1 Amount collected from company container recycling boxes divided by domestic shipments of company products
*2 Collection rate trends published by Council for PET Bottle Recycling



Newly introduced vehicles have twice the capacity for empty containers

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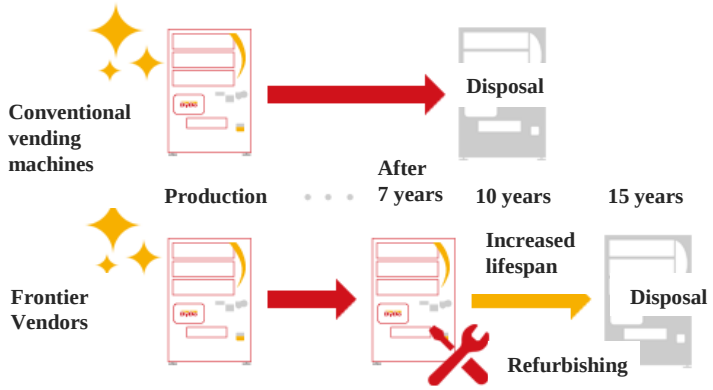
(3) Contribute to Achievement of a Recycling-Oriented Society

KPI for 2030: Achieve a 15-year average useful lifespan (average length of use) for vending machines

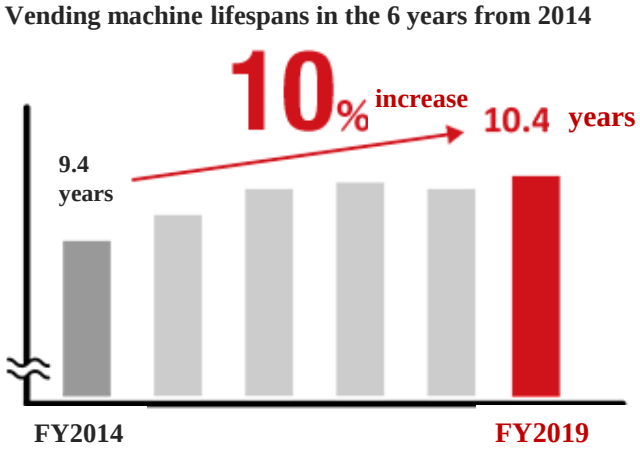
Expected effect

Longer useful lifespans for vending machines will result in less iron used, and greater reuse of components, leading to both less environmental impact and lowered vending machine procurement costs

- Frontier Vendor initiatives
  - ✓ Further strengthening efforts to increase the useful lifespan since 2014
  - ✓ Working to increase useful lifespans by replacing internal components, for which durability varies, as needed, as well as adding the latest functions (“Frontier Vendor” is a term we use for our refurbished vending machines)



- Change in the average useful lifespan of vending machines



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Working Towards the Goals of Group Mission 2030

- Establishing a dominant competitive edge and continually expanding cash flows in the vending machine business
- Making strategic investments in the healthcare domain to create a second major source of revenue
  - Group Mission 2030 basic policies and our business portfolio in 2030

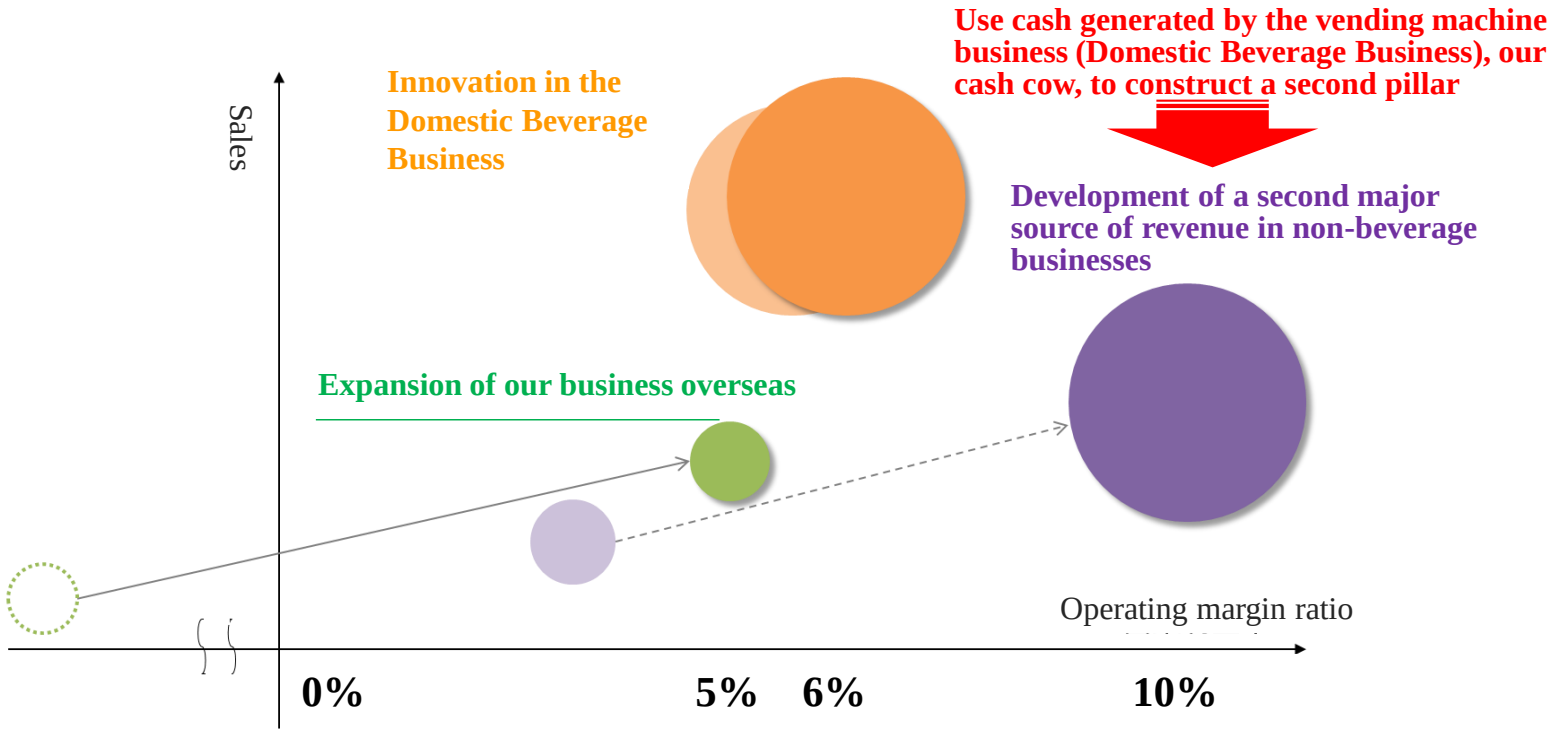


*Figure intended as a general illustration. The size of each circle represents operating income, with FY2018 and FY2030 indicated by light and dark colors, respectively.

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3. FY2020 2nd Quarter Financial Highlights

(1) Impact of the Covid-19 Pandemic on the Company’s Performance

(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

(3) Factors Contributing to Changes in Operating Profit and Main Factors Affecting Balance Sheets and Cash Flows

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(1) Impact of the Covid-19 Pandemic on Business

- Impact on each business, and on financial performance in the 2nd quarter
- Demand is gradually recovering, however we forecast that the negative impact on sales will continue
- We forecast an associated impact in the 3rd quarter in the Pharmaceutical-Related Business, which is involved in the contract business

		January	February	March	April	May	June	July
External environment	(Domestic)			Requests for large-scale events to cancel voluntarily				
					State of emergency ➡ May 25: rescinded			
				Growth of demand for items that make spending time at home more comfortable, mainly at supermarkets and other volume retailers				
				People refraining from going out, or working from home, leads to slump for convenience stores and vending machines				
	(International)				Actual lockdown			
Business activities	Sales/internal affairs				Promotion of working from home and online business negotiations			
	Manufacturing				Operations continued, including at external contractors			
	Overseas-stationed staff				In principle, employees were to return temporarily to Japan			
Impact on performance	Domestic Beverage Business				Bottomed out in April/May, gradual recovery since			
	International Beverage Business (Turkey)				Bottomed out in April/May, gradual recovery since			
	International Beverage Business (Malaysia)				Bottomed out in April/May, recovery delayed			
	Pharmaceutical-Related Business					Impact of stock piling up at partners gradually becoming apparent		
Operating period	Food Business				Despite the change in the mix of sales channels, the impact was minimal			

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(1) Impact of the Covid-19 Pandemic on the Company's Performance

- It is currently unclear when the current situation will be resolved, and there is a possibility that it will affect our future financial performance

	Impact on Q2 performance	Anticipated future impacts
Domestic Beverage Business	・As the tendency to avoid going out and to work from home has been extended, the primary impact has been on sales in the vending machine channel ・Profits have grown thanks to a decline in advertising spending and in depreciation expenses associated with vending machines, etc.	・Sales bottomed out in April/May, but have seen a gradual recovery since. However, it is expected that the change in consumer behavior will have a major impact on the vending machine market
International Beverage Business	Turkey ・While sales opportunities decreased, strong demand for mineral water ensured that sales were similar to the previous year on a lira basis ・Initiatives to strengthen exports to the UK and Russia were delayed Malaysia ・The strict restrictions on movement and behavior during April and May led to a large decrease in sales	Turkey ・The easing of restrictions on leaving the house has meant that sales started recovering in June, but profits will be impacted by the economic situation where it is difficult to adjust prices to account for rapid growth in the cost of raw materials due to exchange rate fluctuations ・Moving to full-scale exports to the UK and Russia will take time Malaysia ・Even after lockdown restrictions are eased, times will be needed before the economy recovers, and this will impact sales and profit
Pharmaceutical -Related Business	・Orders for beauty drinks from customers in China decreased, and people staying at home in Japan, among other factors, has also impacted client companies, which has resulted in fewer orders ・The Kanto Plant started full-scale operations two months later than originally planned, in July	・The outlook for beauty drink orders from customers in China is unclear, and there is the possibility that recovering orders in Japan may take time
Food Business	・While convenience store sales dropped, sales to retailers remained strong, leading to increased profit	・Sales to volume retailers are strong, but there are concerns that the impact of fewer customers visiting convenience stores may continue

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(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

FY2020 2nd Quarter Financial Highlights

- The COVID-19 pandemic has spread globally and this has had an impact on sales in each of our business segments, resulting in consolidated sales during the second quarter totaling ¥77,773 million (down 9.0% year on year)
- A decrease in advertising and promotional costs in the Domestic Beverage Business, and a change in the useful life span of vending machines led to operating profit of ¥2,776 million (up 36.6% year on year)

(Millions of yen)

	Q2 (January 21 to July 20)						Full-year					
	FY2019 results		FY2020 results				FY2019 results		FY2020 outlook			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	85,438	100.0%	77,773	100.0%	(9.0%)	(7,664)	168,256	100.0%	158,000	100.0%	(6.1%)	(10,256)
Operating profit	2,033	2.4%	2,776	3.6%	36.6%	743	2,893	1.7%	1,800	1.1%	(37.8%)	(1,093)
Ordinary profit	1,785	2.1%	2,455	3.2%	37.5%	670	2,857	1.7%	1,700	1.1%	(40.5%)	(1,157)
Net quarterly loss attributable to owners of parent	1,226	1.4%	1,301	1.7%	6.1%	74	1,778	1.1%	500	0.3%	(71.9%)	(1,278)
EPS	74.47		80.44			¥5.97	¥108.00		¥30.91			(¥77.09)
Dividend per share	¥60		¥60			-	¥60		¥60			-

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(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

FY2020 2nd Quarter Consolidated Earnings (by Segment)

- As a result of people staying at home due to the declaration of a state of emergency, revenue dropped in all business segments
- Sales in the Food Business were comparatively strong, which massively improved profitability

(Millions of yen)

	FY2019 2nd quarter	FY2020 2nd quarter			FY2019 results	FY2020 full-year outlook		
			% (YoY)	Amount (YoY)			% (YoY)	Amount (YoY)
Domestic Beverage Business	60,809	54,822	(9.8%)	(5,987)	121,203	114,200	(5.8%)	(7,003)
International Beverage Business	8,009	6,769	(15.5%)	(1,239)	16,004	13,200	(17.5%)	(2,804)
Pharmaceutical-Related Business	5,753	5,409	(6.0%)	(343)	11,097	10,600	(4.5%)	(497)
Food Business	11,268	11,184	(0.7%)	(83)	20,643	20,700	0.3%	56
Other	—	—	—	—	—	—	—	—
Adjustment	(402)	(413)	—	(11)	(693)	(700)	—	(6)
Total net sales	85,438	77,773	(9.0%)	(7,664)	168,256	158,000	(6.1%)	(10,256)
Domestic Beverage Business	1,675	2,793	66.7%	1,118	3,948	4,680	18.5%	731
International Beverage Business	133	(41)	—	(174)	(306)	(250)	—	56
Pharmaceutical-Related Business	358	(63)	—	(421)	210	(440)	—	(650)
Food Business	574	857	49.4%	283	464	770	65.7%	305
Other	—	(75)	—	(75)	(148)	(840)	—	(691)
Adjustment	(707)	(694)	—	13	(1,275)	(2,120)	—	(844)
Total operating profit	2,033	2,776	36.6%	743	2,893	1,800	(37.8%)	(1,093)
Total depreciation expenses	4,805	3,084	(35.8%)	(1,721)	9,647	6,830	(29.2%)	(2,817)

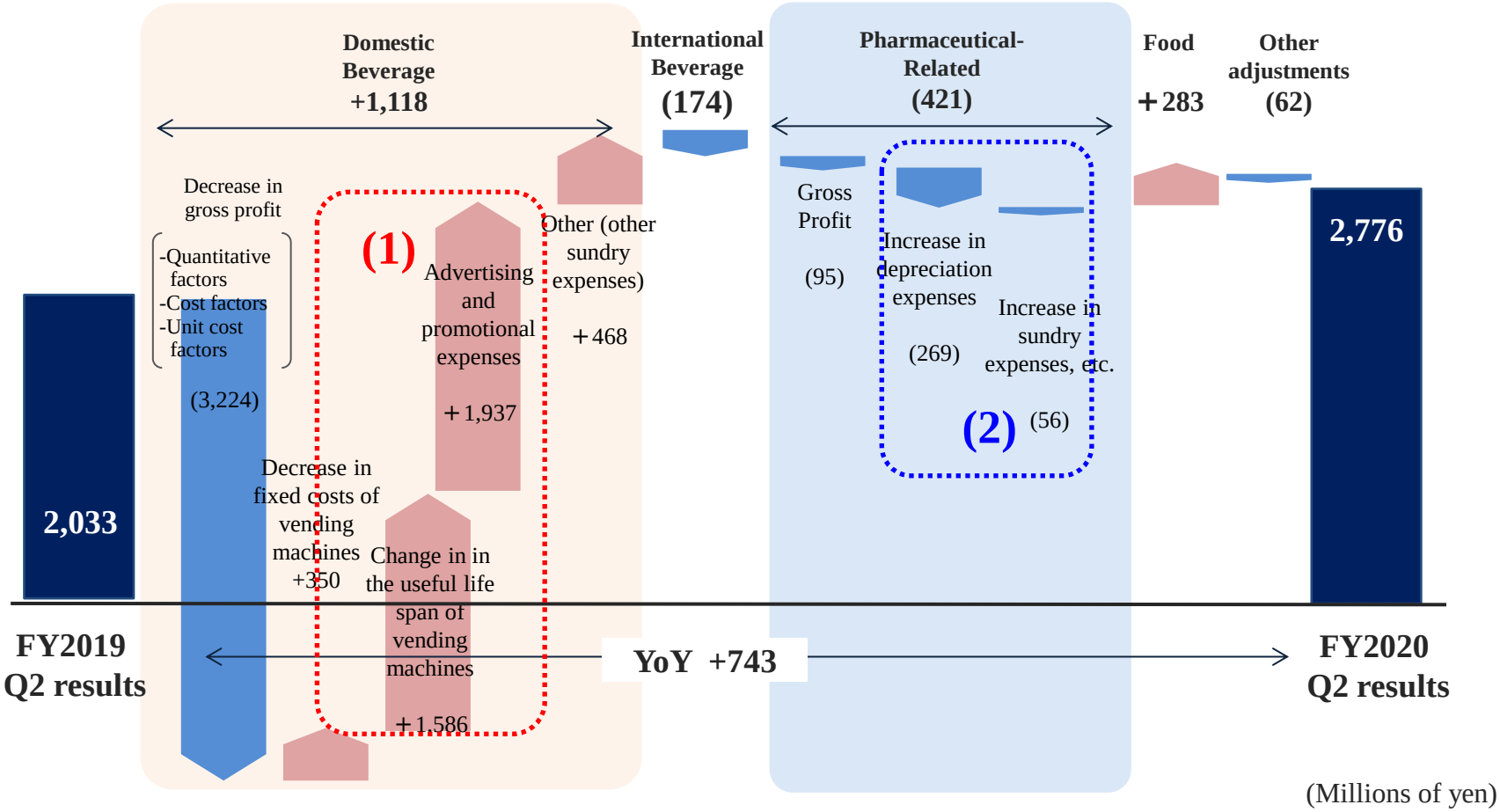
"Other" represents the orphan drug business, which is not included in the reported segments.

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(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

Factors Contributing to Changes in Operating Profit in FY2020 2nd Quarter

- In the Domestic Beverage Business, a change in the useful life span of vending machines, the decrease in costs for sales promotions and advertising, and other factors led to an increase in profit (1)
- In the Pharmaceutical-Related Business, the completion of the Kanto Plant (in October 2019) and other factors led to an increase in depreciation expenses, etc. (2)



(Millions of yen)

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(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

Full-year Performance Outlook

- We will announce the full-year outlook, which in the 1st Quarter Financial Highlight we designated as “undetermined”
- At present, the COVID-19 pandemic is alternating between phases of spreading and phases of returning to normal, yet we are taking it that the domestic and international economies will gradually recover
- We have forecast a set level of impact on sales and profit resulting from Covid-19 will continue

(Millions of yen)

	FY2019 results		FY2020 full-year outlook (Announced August 27)				Compared to initial announcement		Ref: initial announcement	
		Component ratio		Component ratio	YoY %	YoY Amount	%	Amount		Amount (YoY)
Net sales	168,256	100.0%	158,000	100.0%	(6.1%)	(10,256)	(6.5%)	(11,000)	169,000	743
Operating profit	2,893	1.7%	1,800	1.1%	(37.8%)	(1,093)	(21.7%)	(500)	2,300	(593)
Ordinary profit	2,857	1.7%	1,700	1.1%	(40.5%)	(1,157)	(29.2%)	(700)	2,400	(457)
Net profit attributable to owners of parent	1,778	1.1%	500	0.3%	(71.9%)	(1,278)	(64.3%)	(900)	1,400	(378)
EPS	¥108		¥30.91			(¥77.09)			¥84.99	(¥23.01)
Dividend per share	¥60		¥60			-			¥60	-

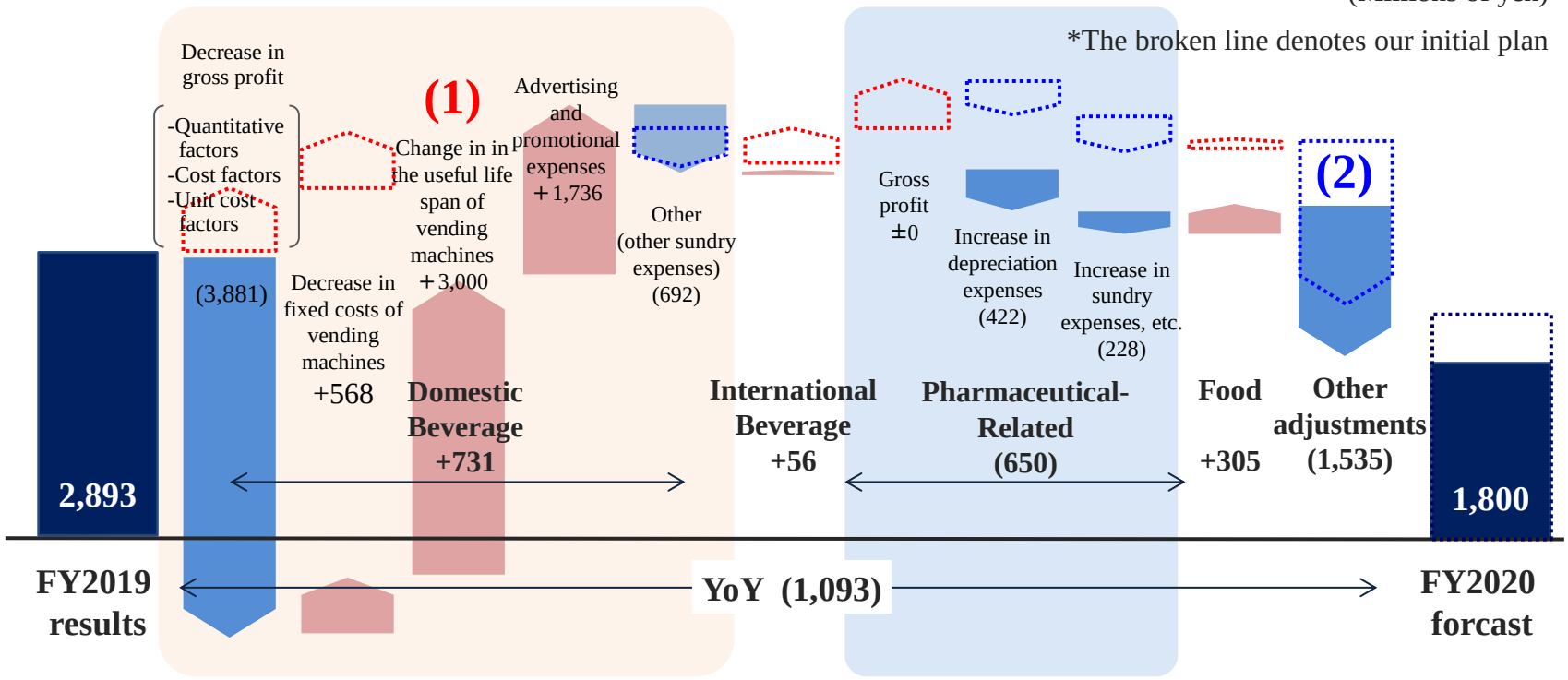
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(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

Factors Contributing to Changes in Operating Profit in the FY2020 Full-year Performance Outlook: Compared to the Previous Year

- Total operating profit for existing businesses (Domestic Beverage Business, International Beverage Business, Pharmaceutical-Related Business, and Food Business) increased by ¥442 million year on year
- In the Domestic Beverage Business, measures to strengthen vending machine locations and expand smart operations led to increased expenses, but depreciation and other expenses broadly fell **(1)**
- We estimate that costs associated with implementing our growth strategies in the healthcare segment will increase **(2)**

(Millions of yen)



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(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

Financial Position: Principal Changes in the Consolidated Balance Sheet

- The principal factor behind the increase in financial assets and interest-bearing debt was our issuance of a total of ¥20 billion of bonds payable (bond redemption of ¥15 billion scheduled for October 2020)
- Net assets decreased due to the acquisition of treasury stock and other factors

(Millions of yen)

Financial assets*1	73,240	Interest-bearing debt*2	33,713
Accounts receival	18,497	Accounts payable	18,623
Inventories	8,444	Other	21,835
Property, plant and equipment Intangible assets	50,831	Net assets	89,210
Other	12,369		
Total assets	163,383	**Total liabilities and net assets**	163,383

January 20, 2020

(Millions of yen)
Figures in the lower level show increase/decrease year on year

Financial assets*1	86,349 *13,108*	Interest-bearing debt*2	54,299 *20,585*
Accounts receival	21,122 *2,624*	Accounts payable	21,016 *2,392*
Inventories	10,808 *2,363*	Other	20,503 *(1,331)*
Property, plant and equipment Intangible assets	51,001 *170*	Net assets	85,444 *(3,766)*
Other	11,982 *(387)*		
Total assets	**181,263** *17,880*	**Total liabilities and net assets**	**181,263** *17,880*

July 20, 2020

***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**

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(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

Major Changes in Free Cash Flows

- We will work to recover operational cash flows by strengthening the foundations of our vending machine business

(Millions of yen)

	FY2019	FY2020	Amount (YoY)
EBITDA (operating profit + depreciation expenses + amortization of goodwill)	7,035	6,050	(985)
Working capital cash flow increase (decrease)	(2,852)	(2,948)	(96)
Other	756	(1,123)	(1,879)
Cash flow from operating activities (a)	4,940	1,979	(2,961)
Purchase of property, plant and equipment and intangible assets (b)	(6,021)	(4,673)	1,348
Free cash flow (a-b)	(1,081)	(2,694)	(1,613)

■ Investment in equipment and facilities

(Millions of yen)

	FY2019	FY2020	Amount (YoY)
Domestic Beverage Business	4,003	3,097	(906)
International Beverage Business	176	442	265
Pharfmaceutical-Related Business	3,314	244	(3,070)
Food Business	919	475	(443)
All companies (incl. Other)	316	74	(241)
Total	8,731	4,334	(4,397)

■ Depreciation expenses

(Millions of yen)

FY2019	FY2020	Amount (YoY)
3,648	1,710	(1,937)
336	258	(78)
249	518	269
375	399	24
197	197	0
4,805	3,084	(1,721)

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4. Overview by Segment for FY2020 2nd Quarter

(1) Domestic Beverage Business
(2) International Beverage Business
(3) Pharmaceutical-Related Business
(4) Food Business
(5) Other (DyDo Pharma)

(1) Domestic Beverage Business
Overview by Segment

Integrated Report
For details on the business model, see pp. 21–24

- From April, in line with the declaration of a state of emergency and since, people have increasingly avoided leaving their homes, and this has had an impact on sales

(Millions of yen)

	FY2019 2Q results		FY2020 2Q results				FY2019 results		FY2020 outlook			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	60,809	–	54,822	–	(9.8%)	(5,987)	121,203	–	114,200	–	(5.8%)	(7,003)
Operating profit	1,675	2.8%	2,793	5.1%	66.7%	1,118	3,948	3.3%	4,680	4.1%	18.5%	731
Depreciating expenses	3,648		1,710		(53.1%)	(1,937)	7,148		3,580		(49.9%)	(3,568)

(Accounting period under review: January 21 to July 20)

Review of the first half of FY2020 and future outlook

- ✓ Sales will drop considerably from last year, due to the greater tendency for people to stay at home
- ✓ A change in the useful life span of vending machines, and reduced advertising and promotional costs, have resulted in increased profit
- ✓ Working toward a strengthened foundation for the vending machine business, by actively investing in personnel, increasing our installations in prime locations, and controlling our sales activities, we are moving toward having a larger number of operating vending machines, despite numbers having decreased in recent years

Issues and future actions

- ✓ We are prioritizing initiatives that address new vending machine locations, to achieve a V-shaped recovery in fiscal 2021
- ✓ Link the changes in the external environment to reforms in employee awareness of changes in the external environment
- ✓ By strengthening remote sales, we will increase the productivity of development activities for new installation locations
- ✓ We will promote digital transformation, and reform operational tasks

pp. 11–14

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(1) Domestic Beverage Business

Trends in the Beverage Market and Future Actions

- Under the state of a declaration of emergency, vending machine and convenience store sales are tight across the board
- As a high proportion of our vending machines are located in rural areas, there has been less of a depressing impact on our vending machines than the industry average

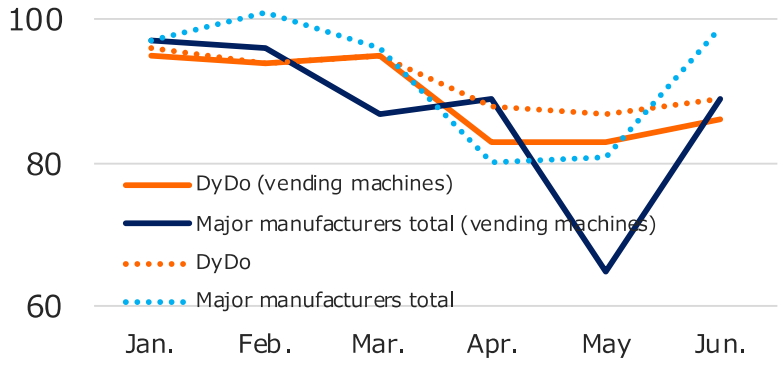
Future actions

Strengthening new installation location development

- ✓ Work to reinforce the sales structure so that it can accelerate measures aimed at securing prime locations is progressing
- ✓ Initiatives are underway that prioritize strengthening the foundations of our vending machine network, with an eye to FY2021

➡Maintaining locations where sales are expected to return, while developing locations where new demand is expected

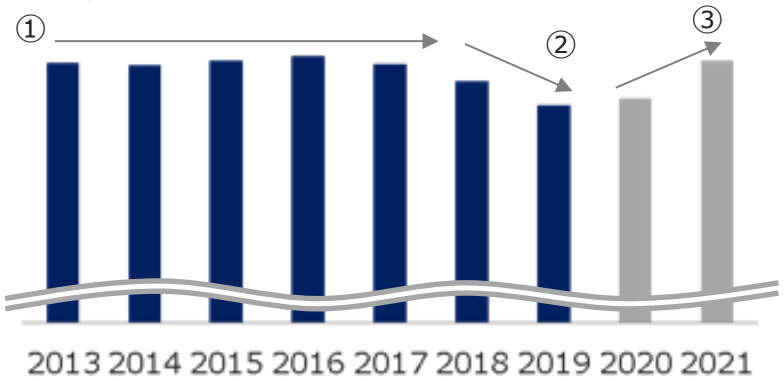
- Year on year comparison on the soft drink market (based on units shipped)



Source: Food Marketing Research Center

- Change in no. of vending machine for the end of each fiscal year

① Vending machine numbers are roughly the same as they were ten years previously
② In line with labor shortages, our vending machines are decreasing in rural areas
③ Recover/maintain conventional standards



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(1) Domestic Beverage Business

New Initiatives to Increase the Number of Vending Machines

- We have begun verification tests of a facial recognition payment service that utilizes NEC facial recognition technology
  - ✓ Useful in locations like the office where workers don't carry their wallets or phones on them
  - ✓ Allows purchases in locations like factories or data centers where workers are not allowed to take in personal belongings



Press release (July 6, 2020)

https://www.dydo.co.jp/corporate/news/ (Japanese only)

- Anti-viral measures for vending machines
  - ✓ Parts of vending machines that customers touch are receiving an anti-viral coating





- Coating will be applied to the areas indicated by red boxes
- Vending machines that have been treated with the anti-viral coating will display this sticker

Press release (August 25, 2020)

https://www.dydo.co.jp/corporate/news/

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(1) Domestic Beverage Business

Product Strategy for Autumn/Winter FY2020

- To commemorate 45 years of DyDo Blend Original from the DyDo Blend range, we collaborated with the hugely popular TV anime *Demon Slayer* (*Kimetsu no Yaiba*)
- We plan to invigorate the stay-on-tab canned coffee market

October 5: Launch of seasonal limited edition

DyDo Blend ダイドーブレンド × 鬼滅の刃





DyDo Blend
DyDo Blend Coffee Original

All 12 varieties



DyDo Blend
Zeppin Low Sugar

All 8 varieties



DyDo Blend
Zeppin Café au Lait

All 8 varieties

- Special packaging



The wording at the bottom of the special packaging encapsulates the shared beliefs of *Demon Slayer*, and its approach of standing up to demons, and DyDo Blend, which takes on the challenge of unleashing the deliciousness of blend coffee

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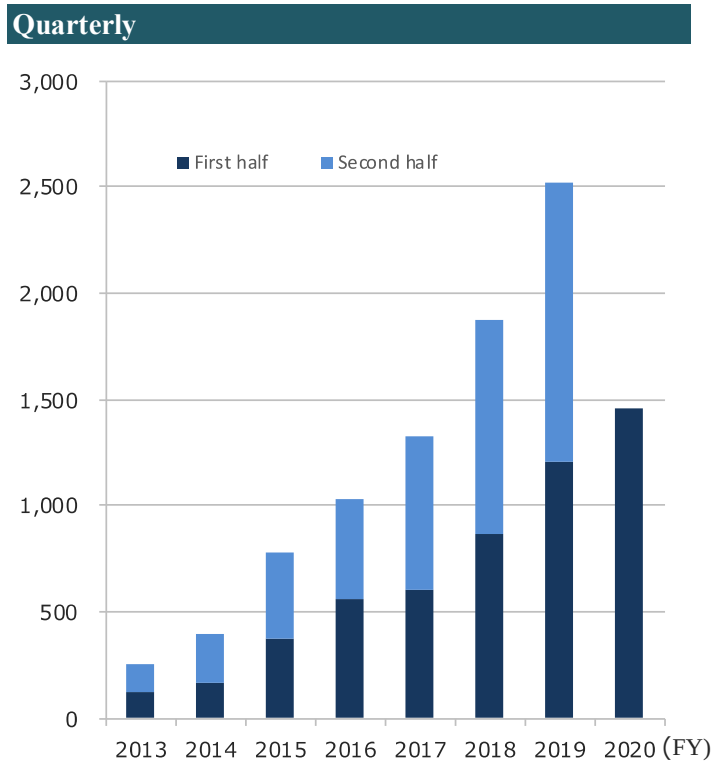
(1) Domestic Beverage Business

Progress in the Home Shopping Sales Channel

- There has been steady growth in the home shopping sales channel
  - ✓ The number of regular customers has steadily increased, and growth continues in both sales and profit
  - ✓ We have enhanced measures that target new customers and ensure that they become regulars

● Changes in sales in the home shopping sales channel

(Millions of yen)

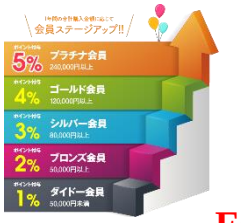


● The flagship channel product, “Locomo Pro,” is driving the growth of the customer base



Iki Iki Tsushin, the members club magazine





The flagship product is advertised online, and via TV and newspapers, and has helped us acquire new customers

↓

We’ve created stronger relationships with our customers through communication, such as through our members club magazine or the points system

↓

Established customer base, growth in sales and profit

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(2) International Beverage Business
Overview by Segment

Integrated Report
For details on the business model, see pp. 25–26

- We have factored in the impact of COVID-19 on the second quarter, the decreasing value of the Turkish lira, and the slump in sales in Malaysia into our performance outlook

(Millions of yen)

	FY2019 2Q results		FY2020 2Q results				FY2019 results		FY2020 outlook			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	8,009	–	6,769	–	(15.5%)	(1,239)	16,004	–	13,200	–	(17.5%)	(2,804)
Operating profit	240	3.0%	48	0.7%	(79.8%)	(191)	(95)	(0.6%)	(53)	–	–	42
Amortization of goodwill, etc.	107	1.3%	90	1.3%	(15.7%)	(16)	210	1.3%	196	1.5%	(6.5%)	(13)
Operating profit after subtracting amortization of goodwill, etc.	133	1.7%	(41)	(0.6%)	–	(174)	-306	(1.9%)	(250)	–	–	56
Turkish lira	¥19.63		¥16.55		(¥3.08)		¥19.26		¥15.00		(¥4.26)	
Malaysian ringgit	¥26.72		¥25.42		(¥1.30)		¥26.39		¥25.50		(¥0.89)	

(Accounting period under review: January 1 to June 30)

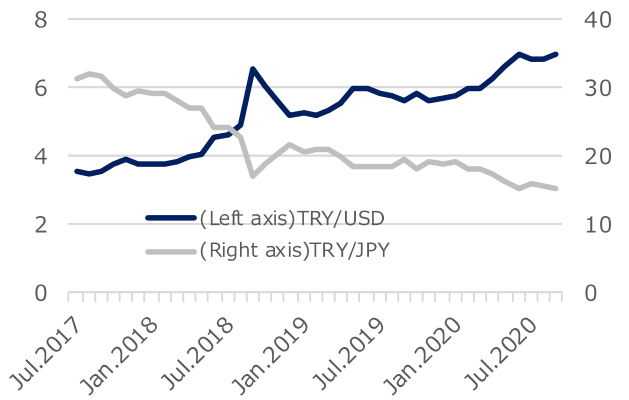
Review of the first half of FY2020 and future outlook

- ✓ Since June, the Turkish economy has been starting to recover, while economic activity in Malaysia has been delayed
- ✓ We have reviewed our forecast for the exchange rate with the Turkish lira (the original forecast of ¥18 to the lira was changed to ¥15)
- ✓ We have factored in a drop in sales resulting from slow recovery of the Malaysian economy

Issues and future actions

- ✓ We will work to secure profit in the Turkish beverage business through cost controls
- ✓ We will pay close attention to the Malaysian beverage business

● Changes in exchange rates



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(2) International Beverage Business

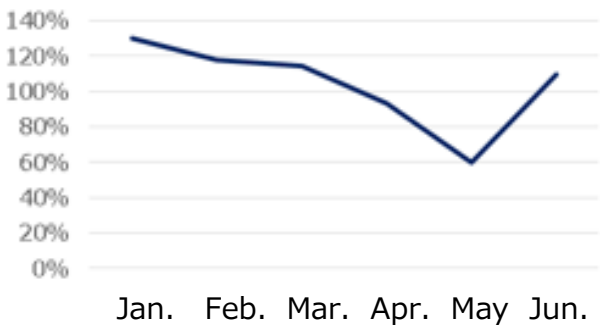
Overview of the Turkish Business

- In the first quarter, business went well, but in the second quarter the impact of Covid-19 is apparent

  - ✓ Sales in the local currency for the second quarter fell 15% year on year (a cumulative total of -1.3%)
  - ✓ As the Covid-19 pandemic has spread, the Turkish lira has continued to lose value. Raw materials have shot up in price, and it is currently very difficult to pass on that increase to the sales price. We will work to secure profit through cost-cutting measures and improvement to work tasks
  - ✓ Work on exporting to the UK and Russia has been delayed
  - ✓ The full-year outlook on a local currency basis supports our initial calculations

Local-currency-basis results			1st quarter	2nd quarter	3rd quarter	4th quarter	Year
FY2020	Sales, YoY	Quarter	+19%	(15%)			(1%)
	Exchange rate (JPY per TRY)	Cumulative results	17.48 yen	16.55 yen			15.00 yen
FY2019	Sales, YoY	Quarter	+30%	+17%	+2%	+15%	+14%
	Exchange rate (JPY per TRY)	Cumulative results	20.57 yen	19.63 yen	19.40 yen	19.26 yen	19.26 yen

● Changes on a local currency basis compared to the same month last year





Mineral water brand, “Saka”

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(2) International Beverage Business

Overview of the Malaysian Business

- We dissolved our joint venture with Mamee-Double Decker, and made the sales company into a wholly-owned subsidiary

2015
Invested in the soft drinks department of a major local confectionery manufacturer and launched the Malaysian business (51% ownership of the sales company, 49% of the manufacturing company)
Utilized our joint venture partner's sales network, and predominantly sold existing brands

2018
Increased ownership of the sales company (to 90%), and strengthened development of original brands

2019
Dissolved the joint venture, and gradually shifted to handling our own brands

2020
We aim to increase revenue and improve profitability by expanding sales of our own brands

- ✓ While our initial moves went well, the impact of COVID-19 means that even after the Malaysian government rescinded its movement control order sales have continued to drop
- ✓ Our forecast predicts that with the market in the situation it is, and with a normal situation seemingly distant, it will take time to recover sales



Yogurt drink, "BeFine," a product that has received halal certification in Malaysia

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(3) Pharmaceutical-Related Business
Overview by Segment

Integrated Report
For details on the business model, see pp. 27–28

As an OEM business, Covid-19 is gradually making its presence felt

(Millions of yen)

	FY2019 2Q results		FY2020 2Q results				FY2019 results		FY2020 outlook			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	5,753	–	5,409	–	(6.0%)	(343)	11,097	–	10,600	–	(4.5%)	(497)
Operating profit	358	6.2%	(63)	(1.2%)	–	(421)	210	1.9%	(440)	–	–	(650)
Depreciation expenses	249		518		108.2%	269	696		1,200		72.4%	503

(Accounting period under review: January 21 to July 20)

Review of the first half of FY2020 and future outlook

- ✓ The decrease in beauty drinks orders for export products destined for China through TCI that has resulted from the spread of Covid-19 has had a major impact and orders for products for the domestic market have also fallen
- ✓ With the new pouch line at the Nara Plant (installed in September 2019, began operations in February 2020) and completion of the Kanto Plant (October 2019, began operations in July 2020), depreciation expenses rose
- ✓ As a result of people avoiding going out, and working from home, sales at our customers' stores decreased. Stock at warehouses and other storage facilities have piled up, and this will continue to have an impact on our performance in the third quarter
- ✓ Beauty drinks for the Chinese market are facing increasingly fierce competition in China, and their future seems unclear

Issues and future actions

- ✓ We will aim for efficient operations at both the Nara and Kanto Plants and across four production lines, and focus efforts on receiving orders
- ✓ We will undertake initiatives to enhance our quality control system and to strengthen our internal affairs, such as by improving our production technologies. We will also work on enhancing our corporate essence

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(4) Food Business
Overview by Segment

Integrated Report
For details on the business model, see pp. 29–30

- The impact of Covid-10 has been relatively minor, and our solid performance is forecast to continue in the future

(Millions of yen)

	FY2019 2Q results		FY2020 2Q results				FY2019 results		FY2020 outlook			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Componen ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	11,268	–	11,184	–	(0.7%)	(83)	20,643	–	20,700	–	0.3%	56
Operating profit	750	6.7%	1,033	9.2%	37.8%	283	816	4.0%	1,122	5.4%	37.4%	305
Amortization of goodwill, etc.	176	1.6%	176	1.6%	0.0%	0	352	1.7%	352	1.7%	0.1%	0
Operating profit after subtracting amortization of goodwill, etc.	574	5.1%	857	7.7%	49.4%	283	464	2.3%	770	3.7%	65.7%	305

(Accounting period under review: January 1 to June 30)

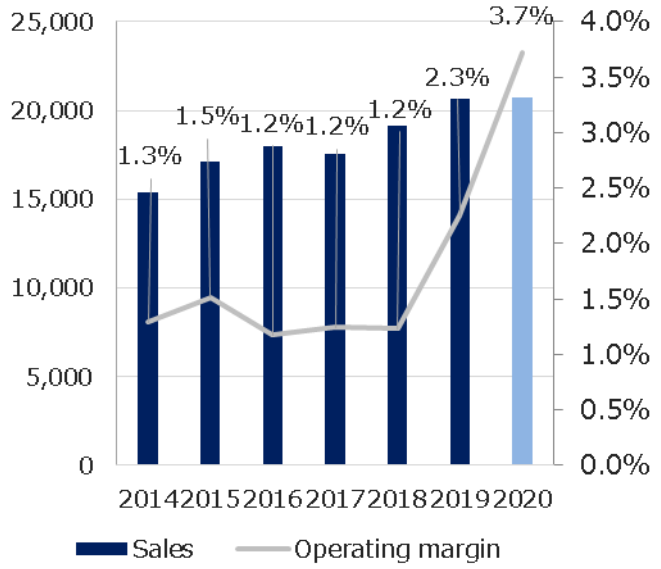
Review of the first half of FY2020 and future outlook

- ✓ Sales in the convenience store channel have decreased as the number of visitors to the stores has dropped. This decrease is negated, however, by increased sales in supermarkets and other volume retailers
- ✓ Due to a decrease in the cost of sales and changes in the mix of sales channels we use, sales promotion expenses were lower (our performance outlook has been amended to reflect this) and our profit higher

Issues and future actions

- ✓ We will continue with initiatives to increase productivity and aim to increase our revenue power

● Changes in operating margin



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(5) Other
Progress by DyDo Pharma

Integrated Report
For details on DyDo Pharma, see p. 42

- A return to the original medicine business to resolve societal issues

March 2018

Announced our entry into the orphan drug business

→ Employed specialists with proven results in the healthcare industry

January 2019

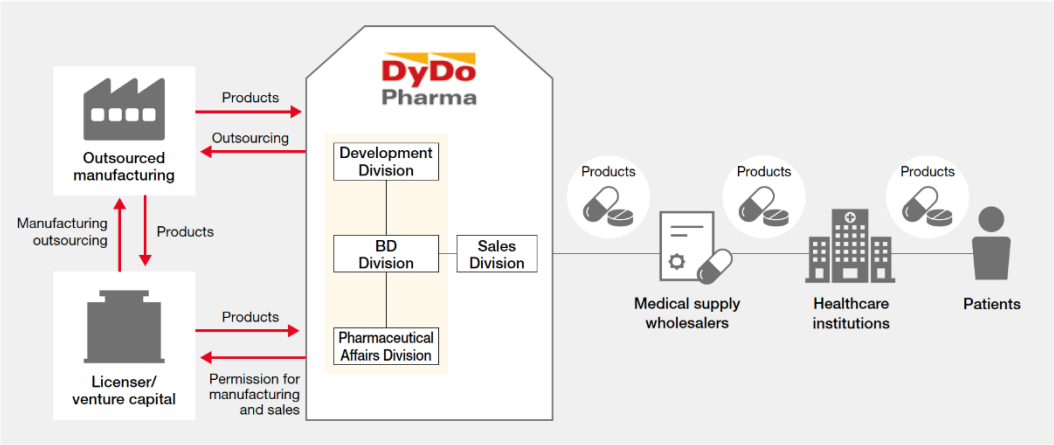
Established DyDo Pharma, Inc.

August 2019

Began business activities

● DyDo Pharma business model

- ✓ Aiming to develop and receive approval in Japan for pharmaceuticals that have been developed abroad
- ✓ Contract manufacture of pharmaceuticals to outside organizations for a lean business model



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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	FY2019	39,633	45,805	45,486	37,331	168,256
		23.6%	***27.2%***	***27.0%***	***22.2%***	***100.0%***
	FY2020	37,413	40,359	—	—	—
Domestic Beverage	FY2019	29,143	31,666	32,336	28,056	121,203
		24.0%	***26.1%***	***26.7%***	***23.1%***	***100.0%***
	FY2020	26,662	28,160	—	—	—
International Beverage	FY2019	3,402	4,606	4,700	3,295	16,004
		21.3%	*28.8%*	*29.4%*	*20.6%*	*100.0%*
	FY2020	3,551	3,218	—	—	—
Pharmaceutical-Related	FY2019	2,887	2,866	2,852	2,491	11,097
		26.0%	***25.8%***	***25.7%***	***22.4%***	***100.0%***
	FY2020	2,900	2,509	—	—	—
Food	FY2019	4,398	6,869	5,754	3,621	20,643
		21.3%	***33.3%***	***27.9%***	***17.6%***	***100.0%***
	FY2020	4,497	6,687	—	—	—
Other	FY2019	—	—	—	—	—
		—	—	—	—	—
	FY2020	—	—	—	—	—

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

(Millions of yen)

		1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Consolidated	FY2019	(113)	2,146	1,936	(1,076)	2,893
		—	***74.2%***	***66.9%***	—	***100.0%***
	FY2020	741	2,034	—	—	—
Domestic Beverage	FY2019	(74)	1,750	1,745	527	3,948
		—	***44.3%***	***44.2%***	***13.4%***	***100.0%***
	FY2020	870	1,922	—	—	—
International Beverage	FY2019	57	182	173	(509)	(95)
		—	—	—	—	*100.0%*
	FY2020	110	(61)	—	—	—
Pharmaceutical-Related	FY2019	230	127	69	(216)	210
		109.2%	***60.6%***	***32.9%***	—	***100.0%***
	FY2020	(8)	(55)	—	—	—
Food	FY2019	154	595	361	(295)	816
		18.9%	***72.9%***	***44.3%***	—	***100.0%***
	FY2020	287	746	—	—	—
Other	FY2019	—	0	(103)	58	(45)
		—	—	—	—	***100.0%***
	FY2020	(39)	(35)	—	—	—

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

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5. Working toward Sustainable Growth

(1) Aiming to Increase Corporate Value by Promoting ESG Management
(2) Initiatives to Bring About ESG Management (Next-generation Workshops)

(1) Aiming to Increase Corporate Value by Promoting ESG Management

- We are working to increase corporate officers' and employees' understanding as a step toward implementing ESG management

Put in place a system

- Established the ESG Promotion Group (January 2019)
- Established the Group ESG Committee (January 2020)

Analyze current situation

- Work in conjunction with the existing Group Risk Management Committee to grasp the societal issues and risks facing each of the operating companies (every six months from April 2019)
- Conduct questionnaires with stakeholders (as needed)

Consolidate awareness

- Conducted group ESG training for corporate officers from each of the operating and companies, inviting institutional investors (August 2019)
- Share information with employees (as needed)

➡

- ✓ At DyDo, the concepts espoused by ESG management have always been part of our corporate culture, evident in our spirit of striving for happiness and prosperity together
- ✓ In the future, alongside reacquainting ourselves with the links with our businesses, we will foster an awareness of the need for reforms that match the external environment

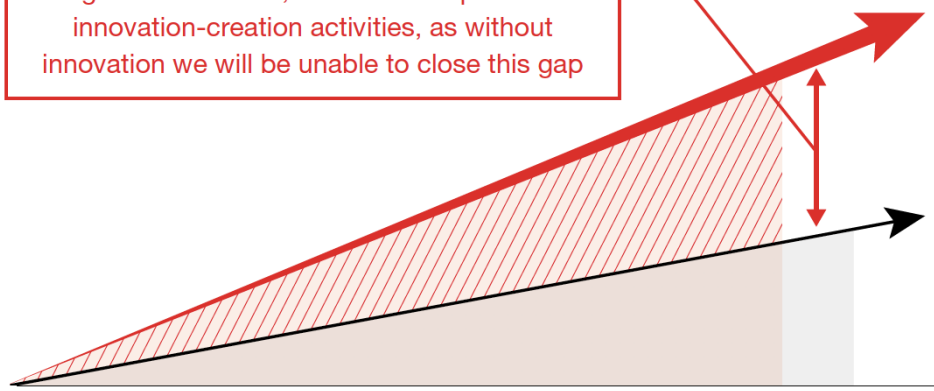
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(1) Aiming to Increase Corporate Value by Promoting ESG Management

Integrated Report
For details on the ESG Committee, see pp. 43–44

- There is a gap between the value that can be created by taking the approach outlined in Group Mission 2030, "For DyDo Group to create enjoyable, healthy lifestyles for people around the world," and the value that can be created by merely improving our existing businesses
- By accelerating initiatives aimed at innovation, we can close that gap
- To create a system to promote such initiatives, we established the ESG Committee in January 2020

Closing the gap between where we are and where we want to be
Our next mid-term business plan, which will begin in fiscal 2022, will look to improve our innovation-creation activities, as without innovation we will be unable to close this gap



Where, and what, we want to be
For DyDo Group to create enjoyable, healthy lifestyles for people around the world

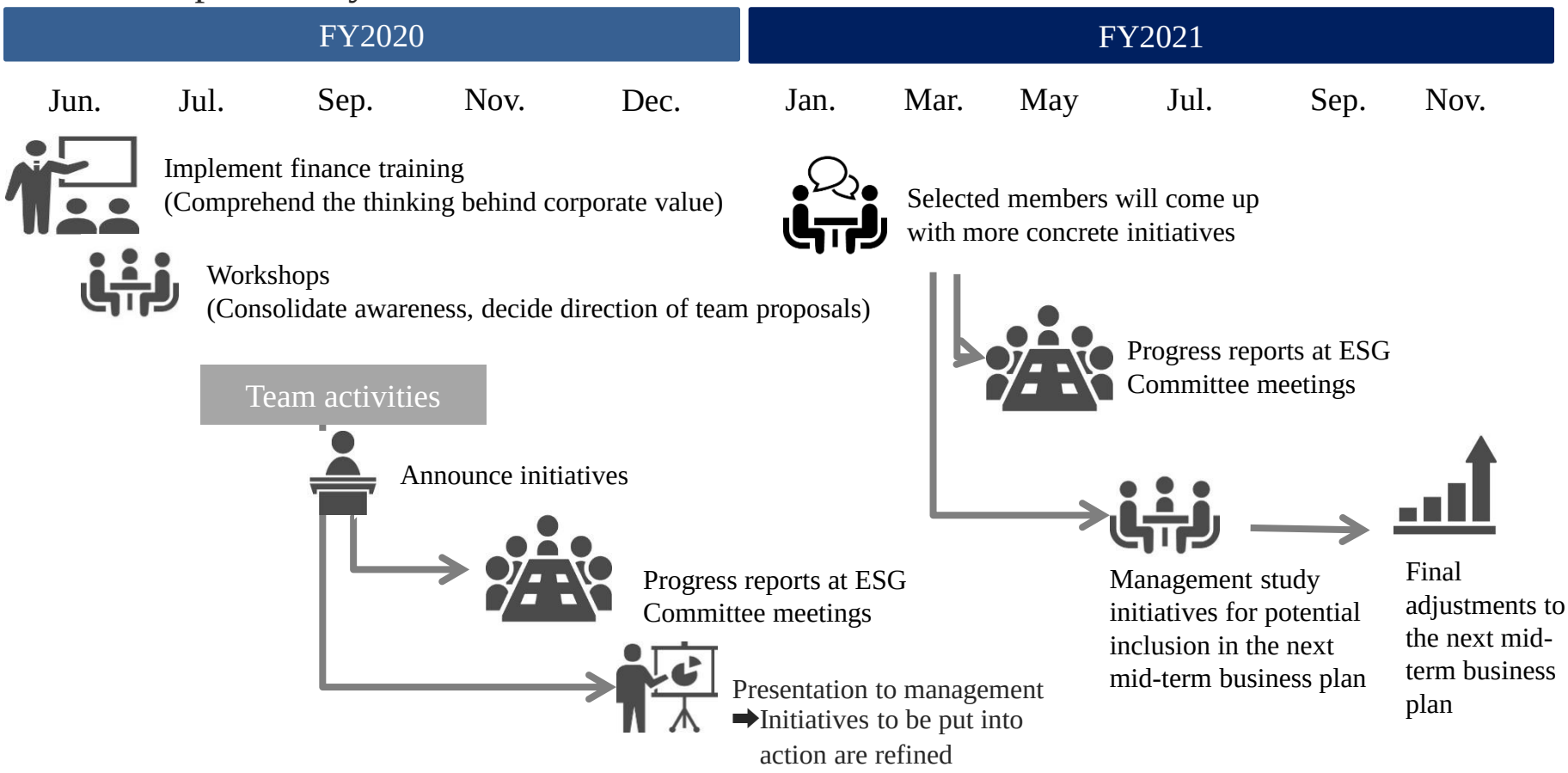
The level of value we can create by improving our existing businesses
Under our current ESG program and its continuous improvements this is the amount of value we can create

- ✓ Increase the quality and number of new activities to expand business opportunities
- ✓ Increase the number of innovation-related activities
- ✓ Study activities initiated by employees
- ✓ Conduct investigations based on a long-term profit perspective

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(2) Initiatives to Bring About ESG Management (Next-generation Workshops)

- Employees who will be the next generation of managers look at ways to close the gap outlined previously



This process should lead to effective innovation-related activities (initiatives to close the gap, adopting KPIs) in the next mid-term business plan (from FY2022)

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Reference Materials

- The following webpages have been provided to help deepen understanding of the DyDo Group. To learn more, please click on the links below.



- DyDo Group Holdings Integrated Report 2020

  https://www.dydo-ghd.co.jp/en/ir/data/integrated_report



- FY2020 2nd Quarter Supplementary Material for Financial Results

  https://www.dydo-ghd.co.jp/en/ir/data/earnings



- DyDo Group Holdings website

  https://www.dydo-ghd.co.jp/en/



- DyDo DRINCO (Domestic Beverage Business) website

  https://www.dydo.co.jp/ (Japanese only)

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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 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.