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March 14, 2018

DyDo Group Holdings, Inc.
Summary of Principal Questions and Answers
from the FY2017 (Ended January 21, 2018) Financial Briefing Held on March 6, 2018

Overall operations

Q1. There's a gap between the targets set forth in the Mid-term Business Plan and this year's performance outlook. Is the company considering any M&As this year to fill in that gap?

A1. We have been searching for an M&A opportunity that would allow us to obtain a new business valued at 20 to 30 billion yen, but it is unclear whether we will be able to complete such a transaction during the current fiscal year. The operating margin outlook of 3.3% in our performance outlook for the current year represents a minimum anticipated level of performance, and we see room to improve profitability in our existing businesses. We need to increase our gross margin in order to improve profitability, and to that end we are working to increase sales beyond the figures included in the performance outlook as we strive to achieve the 4% operating margin target in the Mid-term Business Plan.

Q2. How should the company adjust its future business portfolio while vending machine fixed costs are decreasing? How will the company make choices and determine its focus as it rebuilds its business portfolio?

A2. Laying a foundation for future growth is one of the key themes identified in the Mid-term Business Plan, and we have focused on securing a foothold for establishing international businesses and a healthcare business. While it is not the case that all areas of operations and businesses are proceeding smoothly, neither did we envision at the outset that we would achieve success across the board. Our plan has always been to ascertain which fields would contribute to future growth and then to narrow our focus to those areas of operations. One issue that we will address in the next Mid-term Business Plan will be the need to prioritize the businesses that we have secured to date and then identify how to accumulate operations that will contribute more to the bottom line.

Domestic Beverage Business

Q3. Where does the company see the industry as a whole moving in terms of pricing and sales?

A3. Although sales in the beverage industry remained steady and pricing maintained some semblance of order through the first half of 2017, the situation subsequently changed significantly due to factors such as torrential rainfall in August. While we anticipate sales volume for the industry as a whole during FY2018 to be on par with that of the previous fiscal year, we fear that price competition will intensify since companies have set sales targets that significantly exceed their performance during the previous year.

Q4. How much does the company expect profitability to improve as a result of initiatives to improve the productivity of vending machine operations?

A4. Although we worked to reduce overtime work during FY2017 for purposes of workforce retention, total productivity ended up on par with that of the previous fiscal year because we had to increase the size of the workforce slightly to make up for those hours. We retained a sufficient workforce overall, but there are shortages in some regions, so we will work to boost productivity going forward by optimizing personnel assignments to resolve that issue.

Q5. Does the company plan to turn to alliances with other companies as one way to increase the productivity of its operations?

A5. Because bold initiatives are needed to achieve our goal of consolidating operations, we believe the hurdles facing such alliances are high. As a result, currently these efforts have been limited to exchanging column space in vending machines and offering certain products from other manufacturers as part of our product line.

International Beverage Business

Q6. When will the International Beverage Business turn the corner to profitability? To what extent does the company envision the business will contribute to profits?

A6. Operations in Russia and Malaysia in particular have diverged significantly from our plans at the time we entered those markets due to factors including changes in the business environment, leading us to review those plans. Although we are pursuing reforms with the goal of making operations in each region profitable within two to three years, we are aware that we need to make a careful assessment of whether it will be possible to implement our revised plans.

Orphan Drug Business

Q7. Could you explain why the company decided to enter the orphan drug business? In addition, could you clarify the investment and return that the company expects to see in the segment?

A7. Since we plan to start operations in July 2019, we will announce a detailed business strategy at a reasonable time. The orphan drug market is valued at several hundred billion yen, with sales of individual drugs ranging from several hundred million to several billion yen. Since our goal will be to launch one or two products each year, both the scale of the business and the associated costs will be relatively limited. Our business traces its roots back to Daido Pharmaceutical Corporation, so in a sense, you could say that we are returning to those origins. The decision to enter the medicinal drug market was also precipitated by a desire to become a company capable of providing products and services to customers not covered by the domains of the beverage, food, and other products that we currently supply. Our entry into the orphan drug market constitutes an attempt to establish a foothold for that larger effort.

Q8. What strengths does the company expect to deploy as it enters the orphan pharmaceutical business?

A8. The intensity of our commitment is a major strength. As we look at the changes underway in the world, we find that there are domains that are going unaddressed by our existing businesses, and as a result we are seeking to expand those business domains. We are working in our existing businesses to develop products that will help lengthen healthy lifespan, and we believe that the pharmaceutical business domain is a logical extension of those initiatives. We are not planning to simply take advantage of our current strengths in entering new businesses, but rather to carefully and deliberately pursue our plans while hiring outside human resources with relevant expertise.

Note

These materials were prepared by DyDo Group Holdings Inc. as a summary of questions asked and answers provided during its financial briefing for the second quarter of FY2017 (year ending January 2018) from the standpoint of fair disclosure. (Questions and answers are presented in no particular order, and they have been supplemented and revised for clarity.) DyDo Group Holdings Inc. makes no warranty as to the accuracy or completeness of the information provided, which is subject to change without notice. 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 greatly from these due to unforeseen factors, the economic situation and other risks. This document is not intended to solicit any