



President

T. Takamatsu

Tomiya Takamatsu

To Our Stakeholders,

***Offering delicious products for sound mind and body*—as a sustainable company, this is how we frame the contributions DyDo provides toward the building of a rich and vibrant society.**

The roots of our group lie in a post-war business model of salesmen visiting homes and leaving medicine on a “use first, pay later” basis. From there, we began manufacturing pharmaceuticals and energy drinks, and then switched to our current core business of selling canned coffee from vending machines. Through this process we have striven to achieve happiness and prosperity together with all our stakeholders, and taken on all sorts of challenges, without fearing failure, to create value that matches the times and environments in which we find ourselves.

In the decade prior to my becoming president in 2014, a number of sea changes in Japan had a major effect on vending machine businesses, including the introduction of the “taspo” age verification system,

for vending machines selling cigarettes, in 2008 and the full-scale start of fresh coffee sales at convenience stores in 2013. Such developments turned consumers toward convenience stores, a competing sales channel to vending machines. Although the number of vending machines had been increasing until that time, the sales of soft drinks from vending machines started to decline. We have thus been taking various measures to restructure our vending machine business, but it has been difficult to avoid a sense of stagnation at the company due to uncertainty about the future of the industry. Another major societal change in Japan was the raising of the consumption tax in April 2014, the first time in 17 years, which caused the soft drink industry to reevaluate its entire revenue model. In such times as these, I felt it more important than ever to revise our Group Philosophy, Group Vision, and Group Slogan to share our key values with all stakeholders so that the group could stay on track toward sustainable growth. *The DyDo Group strives to achieve happiness and prosperity together with people and society as a whole. To realize this, we will continue our dynamic efforts to take on new challenges.* This philosophy expresses our aim to continue maintaining a spirit that has existed since the company's founding—the idea of harmonious coexistence and mutual prosperity—and our determination to take dynamic action to meet the ongoing challenges of changing times. I have talked with our employees on numerous occasions to ensure that they understand this philosophy and vision and that everyone shares the same determination. Through efforts over the last four years, I feel that we have established a corporate culture of eager commitment and a foundation for growth, while issues that we must tackle in order to continuously grow have been coming to light.

Many excellent companies in Japan with a long history in business are on a path of sustained growth. What they have in common is a shared understanding with their stakeholders based on founding principles, plus an early awareness of environmental, social and governance (ESG) issues. Essentially, these companies have been continuously enhancing their corporate value by working on solutions to social issues that will take us as a society into a new age.

We have only been in business for a little more than 40 years, but I want to ensure that the group continues to grow sustainably for another 100 years. As rapid changes in the business environment become the norm, and while little significant growth in the vending machine business can be expected, we see steady growth in healthcare-related markets. Healthy lifestyles are obviously a growing global trend, and our group slogan—*Offering delicious products for sound mind and body*—is aimed squarely at this trend. To sustain this offer to society, our business must provide new value to customers by presenting solutions to social issues and by contributing toward the building of a rich and vibrant society.

Health will be the key concept that brings down barriers between our business units, from drinks and food (dessert jellies) to pharmaceuticals. We will be obliged to combine accumulated expertise from the existing areas of the business to build the healthcare business and develop products that inspire great fondness for years to come. We must go beyond merely the pursuit of delicious taste to delicious taste that contributes to daily health. This will require an investment in intangible assets, namely, our personnel strategy, which holds the key to our future success. Let us seize this opportunity as the business climate undergoes a major transformation, and with a group-wide focus on healthcare-related markets as a growth area, we will create new value. I am confident that we can take on this challenge as a corporate group and continue to provide healthy products and services as we publicly declare that we are *offering delicious products for sound mind and body*.

History of Value Creation in the DyDo Group

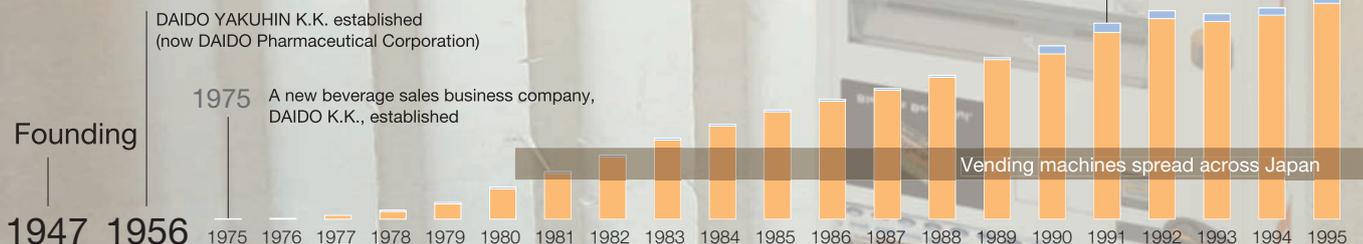
Pioneering the Next Generation by Always Taking Up New Challenges

The DyDo Group started out in the Japanese “use first, pay later” medicine business, which values relationships with individual customers. From there, the group has expanded its business by constantly taking up all sorts of challenges, with the top priority of “striving to achieve happiness and prosperity together.” We shifted to a holding company structure in January 2017, and we are accelerating steps to meet the challenge of creating corporate value for the next generation.



● Sales Progress

- Domestic Beverage Business
- Pharmaceutical-Related Business
- Food Business
- International Beverage Business



Adhering to a Mindset of Always Considering the Customer

1940s A spirit of striving to achieve happiness and prosperity together, passed down from our founding business

The history of the DyDo Group began when our founder took up the “use first, pay later” medicine business as a personal business after World War II. This business is called *okigusuri*, and was a medicine sales system unique to Japan, in use for more than 300 years. With this system, medicine boxes were placed in each home. Customers used remedies such as cold medicine and stomach medicine when needed, and payment was collected later. This system can be regarded as the forerunner of today’s vending machine business, where a vending machine is first installed at a location where it is needed, and a variety of products are provided, so that customers can buy them any time, when needed. Due to the nature of the business, our founder visited each home, kept detailed records of information such as customer names and the brands and amount used of each medicine, and on that basis grew the business by proposing health management to address the unique perspective of each home. This was the origin of the DyDo Group’s approach of making suggestions tailored to each customer by making the best use of sales data.



Founder
Tomio Takamatsu

With the growth of this “use first, pay later” medicine business, the company was incorporated. DAIDO YAKUHIN K.K. (today’s DAIDO Pharmaceutical Corporation) was established, and after obtaining licensing for manufacturing and sales of pharmaceuticals two years later, we built a new plant. We first manufactured ampules (liquid medication sealed in a small glass container), and then moved on to manufacturing today’s drinkable preparations with caps.



Medicine box



Drinkable preparations at the time

On the other hand, sales channels for the “use first, pay later” medicine business broadened from homes to offices, and as sales grew with demand for drinkable preparations, Japan entered a period of high economic growth.



Growing Dramatically by Grasping the Needs of the Times

1970s Vending machines became our core business

During Japan's period of high economic growth, our group also achieved major growth. Driving this were sales of drinkable preparations and beverages, primarily canned coffee, which is currently the mainstay product of our group.

With the sudden increase in automobile traffic, in addition to the offices of companies which were previously customers for our "use first, pay later" medicine business, we expanded our focus at first to truck drivers as a new customer segment, due to their pressing need to stay awake while driving, and began sales of drinkable preparations by installing showcases at parking facilities along national highways.

After that, we turned to canned coffee, a new product on the scene expected to have the same effects, and made an early decision to enter the field, launching a beverage sales business selling coffee as a new business of DAIDO Pharmaceutical Corporation.

At the time, we had almost no ready know-how regarding manufacturing of canned coffee or soft drinks, and it was a major challenge to take up the manufacturing and sale of canned coffee. In all processes, such as selection of ingredients used and examination of manufacturing methods, we were in a situation where nothing could be achieved without the cooperation of outside manufacturing plants and producers of ingredients and materials. This led us to opt for joint development with affiliated manufacturers. The taste of canned coffee changes if the water or manufacturing environment is different, even if the blend of beans is the same. We repeated a process of trial and error together with affiliated manufacturers by, for example, changing the degree of roasting and extraction temperature at each plant, and as a result, we finally achieved a product we could be proud of, one that would meet customer needs. This was the birth of DyDo Jamaican Blend Coffee in 1973. At the time, 250g cans were the mainstream, but we were convinced that our product, which pursued "genuine

delicious taste" could deliver fully satisfying quality and taste in a smaller volume, and it was decided to sell coffee in 190g short cans.

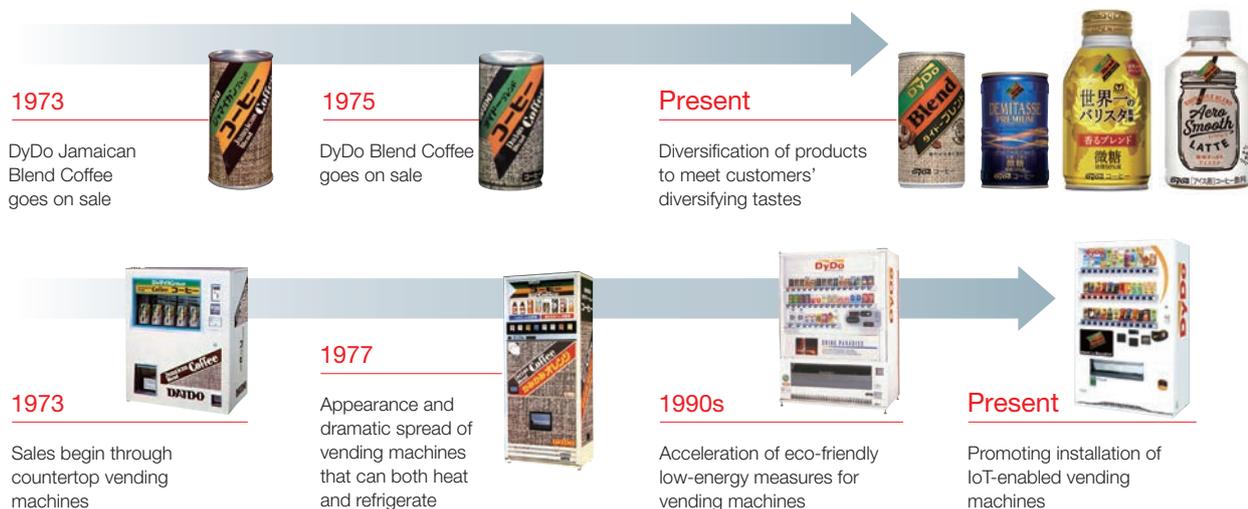
After the launch, sales steadily grew, and canned coffee sales became our second mainstay. Seizing that opportunity, a new beverage sales business company, DAIDO K.K., was established in 1975. With the founding of this beverage company, DyDo Jamaican Blend Coffee evolved into DyDo Blend Coffee, and even today its legacy continues as the flagship product of our group. We are committed to never using flavoring agents in our coffee, and it has attracted tremendous support from customers due to its understanding of their needs.

At the same time, vending machines enabling simultaneous sales of both hot and cold canned drinks appeared. Our group foresaw that this would be an effective sales tool for canned coffee, which customers want to drink hot or cold, depending on their taste, and we replaced our previous showcases with vending machines, and entered in earnest into the vending machine business.

In order to expand sales channels and meet dramatically growing demand amidst the explosive dissemination of vending machines in Japan, our group developed its regionally-based sales activities and promoted the expansion of its vending machines with a network of companies in regions throughout Japan. We then organized the special operators throughout Japan who handle our products as the DyDo Vending Partner Association ("Kyo-eikai"), promoting the sharing of vending machine deployment methods and operational know-how, and establishing an organized sales structure.

By taking up challenges which respond to current trends and cooperating with companies in each region, we can provide an operation system boasting the highest quality in the industry and a nationwide network of approximately 280,000 vending machines.

For details on the business model, see [P 19](#) [P 20](#) [P 21](#)



As Retail Outlets Always Near to the Customer

The DyDo Group began with the “use first, pay later” medicine business and shifted to the vending machine business which is our current core business. At first glance, our growth may appear to be a history of changes in business category. However, our group has consistently worked to develop a sales network through which we can provide the products customers need based on the location. Generally speaking, manufacturers develop their own products and seek out sales channels to sell them, but our group has gone a different way, striving to achieve happiness and prosperity together with our customers. We see vending machines as our retail outlets and as our point of contact with customers, and to serve those functions, they must be places that motivate the customer to want to visit again. This idea is what has led to our group’s unique position in the industry.

There are a number of important elements for making the vending machines which are our retail outlets more attractive. First is the vending machine installation location. We recommend installation at locations enabling easy use by customers at any time, and we have built a vending

machine network currently composed of approximately 280,000 machines nationwide.

Next, to pursue attractiveness as retail outlets, we have strengthened vending machine features, e.g., a talking feature for delivering fun to the customer, a roulette feature for winning an extra drink from the vending machine for free, energy-saving functions to protect the environment, and universal design to enable easy use by all customers.

Boosting customer satisfaction with the delivered product is also an important role of these machines that serve as our retail outlets. For that reason, we are committed to making our flagship coffee drinks without the use of any flavoring agents, and we aim to provide “genuine delicious taste” to our customers. By maintaining retail outlets with a fresh and neat profile, and conducting operations which tailor product offerings to suit the season and location, we work to ensure that customers can use our vending machines at any time, pleasantly, easily, and with reasonable pricing.

In this way, we constantly pursue customer satisfaction, and for all of the elements of our retail outlets—vending machines, products, services, and location—we ensure that our retail outlets motivate the customer to want to come and purchase again, and we thereby burnish the value of our business.

Making vending machines that are appealing as retail outlets



- IoT-enabled features
- Talking feature
- Roulette feature for winning a free product
- Universal design
- Energy-saving features

Providing products with high customer satisfaction

Pursuing “genuine delicious taste” by never using flavoring agents in our flagship coffee drinks



A product lineup that appeals to the diverse tastes of our customers

Four Commitments to the Vending Machines that are Our Retail Outlets

Working to improve service as a retail outlet



- Tailoring products to suit the season and location
- Maintaining a fresh and neat impression

Improving convenience as a retail outlet

Installing at locations that can be easily used by the customer at any time



No. of vending machines in Japan
Approx.
280,000

Company Line Changes for Greater Growth

1990s DAIDO Pharmaceutical Corporation becomes a specialist contract manufacturer of drinkable preparations

Alongside the large growth achieved by DyDo DRINCO, the founding business DAIDO Pharmaceutical Corporation also greatly changed the business model with which it operates. To make use of the efficiency increases of our production lines, in addition to producing our own drinkable preparations we also gradually started accepting contract manufacturing of other companies' products. In the midst of the functional drink boom, and the resulting increase in production, in 1992 we moved to our newly established factory in the city of Katsuragi, Nara Prefecture. With this change, we both transitioned from manufacturing our own brand of drinkable preparations, to a specialist contract manufacturer of other, primarily pharmaceutical, companies' drinkable preparations; and accelerated steps to meet challenges aimed at further growth.

Using the expertise we had accrued in the development and manufacturing of our own products, we were able to skillfully respond to changes in the industry while steadily building a record of results as a contract manufacturer. An even greater leap forward came courtesy of reforms to the Pharmaceutical Affairs Law in 1999. The softening of regulations meant that some drinkable preparations that were deemed quasi-drugs, with only a mild medicinal effect, that could previously only be

sold at pharmacies, were permitted to be sold at convenience stores or through vending machines. In the same year, we started operations at our Plant 2 with an assembly predominantly geared toward the manufacture of 100 ml drinks preparations, and put in place a system to accept orders from a major company whose products were popular at retailers such as convenience stores and pharmacy chains. In the following year, we started sales of our nutritional drinks through DyDo DRINCO vending machines, and expanded our sales avenues.

In the 2000s, beauty drinks (collagen drinks) aimed at women appeared, and started a boom for the drinks, during which DAIDO Pharmaceutical Corporation's dealings with cosmetics companies increased. Thanks to participation in various different industries' drinkable preparations markets, and as a partner company with innovative suggestions and product development, and an excellent quality assurance system cultivated by contract manufacturing for numerous pharmaceutical companies, we became established as a leading Japanese contract manufacturer in the current industry.

For details on the business model, see [P 23](#)



Strengthening Our Group's Capabilities, and Making Even Greater Strides

2012 Brought Tarami, number one in market share for fruit dessert jellies, under our banner

In 2012, with the aim of creating a new source of profits, we acquired all of the shares of Tarami, a company with outstanding name recognition and overwhelming brand strength in the fruit dessert jelly market, and the company was made into a consolidated subsidiary.

Tarami continues to provide products which generate surprise and wonder in response to the multifaceted needs of customers, thereby ensuring that its position at the top of the industry is solid, developing and strengthening jelly with the goal of long-term growth.

For details on the business model, see [P 24](#)



"Fruits Healthy"
Konnyaku Mandarin Orange



"TOROKERU AJIWAI"
Mandarin Orange Gelee

To the Next Stage of Growth

2013 Accelerated international expansion; striving for dramatic top line growth

The foundation of our group's business has been selling canned coffee through vending machines in Japan, but we are accelerating international expansion with the aim of achieving dramatic top line growth. By making use of know-how cultivated in Japan, we are expanding our field of business to the world, using methods suited to the characteristics of each country and region.

In 2013, we established a wholly-owned subsidiary, DyDo DRINCO RUS, LLC, in the Moscow market as among economically advanced countries, Russia had the lowest rate of vending machine dissemination and strong potential for future growth. We are striving to expand the vending machine business that we have developed in Japan into Moscow, actively promoting the installation of vending machines in cooperation with local partners, and taking up the challenge of achieving greater penetration in the Russian market.

In addition, we entered the Malaysian market in December 2015 and the Turkish market in February 2016, thereby obtaining East and West strategic bases in the Sharia law-observing Islamic world, which is expected to show further economic growth in the future.

Through a joint venture with the Malaysian company Mamee-Double Decker (M) Sdn. Bhd., which has the top share of foods such as snacks and instant noodles, we entered the Malaysian soft drinks market and are accelerating the development of new, high-quality products that cater to the Malaysian health trend by utilizing DyDo in Japan's product development expertise.

In Turkey, we acquired shares in the soft drinks department of Yildiz Holdings A. Ş., which has Turkey's biggest confectionery manufacturers under its umbrella, which allowed us to enter the Turkish market, where a rapidly increasing population has led to predictions of a growing soft drinks market. Since that acquisition, alongside steady putting in place of our foundation business, we have been promoting acquisition as a central pillar of our international business such as through acquiring manufacturing companies that produce mineral water, for which demand has increased dramatically, in December 2017.

In future, through utilizing our strategic bases in locations such as Turkey, Malaysia, Russia, and China, we will make huge leaps in growth a reality, reforming them such that their profits benefit the DyDo Group.

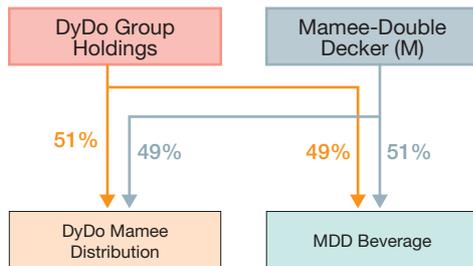
For details on the Turkish business model, see [P 22](#)

● International Beverage Businesses Capital Organization

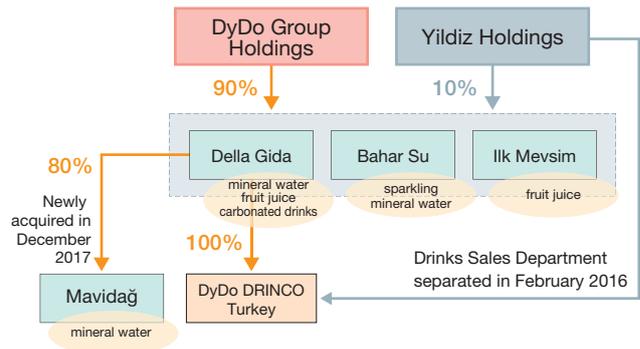
■ Manufacturing companies ■ Sales and marketing companies

○ Manufactured items *Figures show percentage of shares and voting rights owned

• Malaysia



• Turkey



2017 Transition to a holding company structure

In January 2017, we transitioned to a holding company structure. Our objectives were to bolster the group's management system through stronger governance, develop an organizational structure which can nimbly respond to investment in new business areas, and strengthen and nurture our International Beverage Business by exhibiting synergy with

our Domestic Beverage Business. This was the beginning of DyDo Group Holdings.

This transition to a holding company structure is positioned as the first step toward dramatic growth in the future, and the DyDo Group continues to meet the challenge of creating corporate value for the next generation.