こころとからだに、
おいしいものを。

Offering delicious products
for the sound mind and body

September 13, 2018

DyDo Group Holdings, Inc.
Summary of Questions and Answers
from the FY2018 (Ending January 2019) 2nd Quarter Financial Briefing

Domestic Beverage Business

Q1. What is the outlook for growth in the market for coffee sold in plastic bottles and for sales of ¥100 products sold exclusively in vending machines during and after the next fiscal year, and how do you plan to deal with those developments?

A1. The market for coffee sold in plastic bottles has exhibited significant growth thanks to companies' active introductions of new products in the segment. However, we feel that overall growth is slowing as the struggle among brands for dominance nears a conclusion, with the top two brands remaining in stores. Having given those coffee beverages a try, consumers are returning to coffee products sold in bottle-shaped cans and cans out of a desire for authentic coffee flavor. Recognizing the need to improve profitability by increasing canned coffee sales as a percentage of our total revenue, we're working to leverage those products by redesigning the packaging for "DyDo Blend Coffee" products and introducing "DyDo Blend Coffee GINREI." In addition, even though we believe the fad involving coffee sold in plastic bottles is nearing the end of its run, the result is that a reasonably large market has been established for such products. Consequently, we're developing products that we'll be able to launch in vending machines next spring. Competing companies are selling low-priced products in the vending machine channel to combat price strategies in the retail channel, and we plan to develop a line of products that will yield profits even when sold at low prices, including by leveraging the canned coffee products that are a major source of profit for us.

Q2. Sales volume declined significantly in the vending machine channel and in the coffee category during the second quarter. If the impact of coffee sold in plastic bottles has mostly peaked, how much of a recovery can we expect to see?

A2. Although we've been challenged by the impact of coffee sold in plastic bottles from competing companies in the coffee category, performance in the soft drink category has been improving, due in part to the effects of an unusually hot summer. During the second half of the year and beyond, our goal will be to keep sales volume on par with that of last year by orchestrating a recovery in sales, which we will accomplish by launching new canned coffee products and by covering for lower sales in that segment with strong performance in the soft drink category. We'll also work to improve quality by capturing favorable locations for vending machine so that we can maintain sales per machine. We're focusing our efforts on proposal-based sales targeting companies with the goal of increasing the percentage of vending machines installed in indoor locations such as offices and manufacturing plants from the current 40% to about 50%, and the indoor location percentage is growing by about 3% to 4% per year.

Q3. What factors are driving performance in the mail-order channel, and what are DyDo's strengths in that area? In addition, what level of growth can be expected over the medium and long term?

A3. The mail-order channel is growing into a business of a certain scale, and it turned the corner to profitability during the first half. Based on the fact that customers who have a history of purchasing our beverages are also purchasing supplements as they grow older, the brand strength and consumer trust that we have developed through our beverage business are manifesting themselves as key strengths. Now that more than five years has passed since we launched the business, we believe that the accumulation of expertise is a key factor driving performance in the channel. For the time being, we will strive to secure stable profits by steadily growing our top line while keeping selling, general and administrative expenses to their current level. Our next Mid-Term Business Plan will treat the channel as a means of securing stable profits and new customer demographics.

International Beverage Business

Q4. What can you tell us about competitors' price trends and the steps being taken by DyDo in response to changes in the business environment in Turkey, for example weakness in the Turkish lira and the special consumption tax that was introduced this year?

A4. Competitors are raising their prices, and our sales continue to rise steadily as we make fine-grained pricing adjustments while monitoring those actions. Nonetheless, we're going to be focusing on exports to nearby countries because factors such as soaring raw material costs caused by the sudden weakening of the Turkish lira are making it difficult to improve profits in the short term through our domestic business in Turkey alone. Although exports currently account for about 10% of overall sales, we're working to quickly increase that percentage to 20% or even 30% if possible. Sales of Saka mineral water are growing particularly briskly in European countries where there are large populations of Turkish immigrants, for example in England and Germany. Sales of carbonated beverages are starting to exhibit growth in the Middle East, so we'll be working to strengthen performance there as well.

Q5. Would it be accurate to conclude that there's still room to raise prices in Turkey?

A5. At the present time, consumption is brisk, and we're not seeing any conspicuous move toward reluctance on the part of consumers in response to rising prices. When I personally reviewed the situation in stores during a visit to the country in July, I observed strong sales and concluded that there is room for additional price increases.

こころとからだに、
おいしいものを。

DyDo

Offering delicious products
for the sound mind and body

New businesses

Q6. What can you tell us about the latest developments with regard to M&As in the healthcare domain?

A6. This is the one of the biggest issues remaining under the current Mid-Term Business Plan. We're working to narrow down a long list of potential targets, and we plan to continue studying our options under the next Mid-Term Business Plan.