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

March 15, 2019

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

Domestic Beverage Business

Q1: The company has indicated in its outlook for FY2019 that it expects the gross margin in the Domestic Beverage Business to worsen compared to FY2018. How do you see the market environment in the beverage industry and DyDo's position in it?

A1: One characteristic of the market environment is that the vending machine business, which is our primary sales channel, has been shrinking in recent years. Further, it started to become markedly more difficult to hire and retain operations personnel around the second half of FY2018 due to a labor shortage in Japan. Particularly in rural areas, where we're increasingly removing vending machines from unprofitable locations due to the limited number of personnel we can dedicate to vending machine operations. We expect this trend to continue for the time being, and as a result we foresee a contraction in sales as well as in gross margin in the vending machine channel during this fiscal year. That's one reason that we see the competitive environment in the industry intensifying, and we will redouble efforts to boost our market share and ensure profitability in that environment. To that end, we will work hard to implement smart operational structures, meaning mechanisms that will allow us to realize a dramatic improvement in operational productivity, under the current Mid-term Business Plan.

Q2: Improving per-machine performance will be an essential part of improving profitability over the medium and long term. How will you accomplish this? Will smart operational structures lead to larger market share? Is reducing the number of vending machines DyDo operates an option over the medium and long term?

A2: The decline in sales during FY2018 was not caused primarily by a fall in per-machine performance, but rather a reduction in the number of vending machines we operate. I believe that to boost per-machine performance we will need to build smart operational structures that will give us capabilities such as enhancing our product line with location-optimized offerings, and a key consideration will be securing locations that can be expected to deliver high performance. To that end, we work to increase the percentage of vending machines in secure locations like offices that are close to consumers, which can be expected to yield consistently high sales more reliably than outdoor suburban locations, from the current level of about 40% to about 50% while keeping the total number of machines steady.

Mid-term Business Plan 2021

Q3. The company's ability to generate operating cash flows of 40 billion yen over three years as outlined in the plan will be key to funding growth investments, but FY2018 yielded a little less than 11 billion yen in that regard. What can you tell us about the company's assumption of being able to generate 40 billion yen of cash as profit levels fall, for example in terms of expected improvements in operating capital from the development of smart operational structures?

A3: The most important aspect of our implementation of the Mid-term Business Plan 2021 will be our ability to generate operating cash flows according to plan. The ability to generate stable cash flows through our vending machine business is one of the Group's strengths, although those cash flows shrinked during FY2018 due in part to the decline in gross margin that accompanied falling sales from vending machines. To generate operating cash flows in excess of 13 billion yen every year, the first step will be to strengthen vending machine location development, maintain sales, and ensure profit.

Q4: Expenses associated with growth investments look as if they will grow under the Mid-term Business Plan 2021, so I wonder if it is appropriate to use a profit level on par with FY2019, the plan's first year, for its second and third years in light of those investments. What level of profit are you aiming for over the medium term? In particular, medium-term profit targets for the Domestic Beverage Business do not differ significantly from their current levels; what kind of return do you expect to see?

A4: Although we expect profitability to decline during FY2019 and FY2020, we're going to have to generate results from investments so that we can reverse the profit picture by FY2021, the final fiscal year of the Mid-term Business Plan. Over the medium and long term, we will maintain an overall operating margin of at least 3% in our existing businesses, as indicated in the plan's guidelines. To achieve that number, we will steadily move our International Beverage Business onto a profitable footing. With regard to the Domestic Beverage Business, we will maintain current profitability even as it becomes structurally more difficult to generate profit in the industry by staking out competitive advantages, for example by building smart operational structures, and putting in place a platform capable of delivering stable profit over the medium and long term.

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

Vision

Q5: Do you expect the vending machine industry to be operating under the current paradigm, in which beverage manufacturers manage and operate their own vending machines, in 2030, or will we see a reorganization?

A5: It's hard to imagine that the current paradigm will continue as-is. Instead, I expect to see a consolidation in the number of companies that operate their own vending machines. To ensure that we will be one of the remaining companies, we will secure competitive advantages, for example by building smart operational structures and strengthening new vending machine location development, so that we can maintain our share in a shrinking vending machine market.

Q6: What is your vision as president for 2030? In particular, how do you foresee DyDo's position in the vending machine market during the 2030s after having achieving a competitive position in that market?

A6: We've drawn on our origins as a household pharmaceutical distributor and expanded our operations by establishing DAIDO Pharmaceutical as a pharmaceutical company; going forward, we want to continue to help people enjoy healthy lives. Although I believe that convenience is the greatest value provided by vending machines, we as a Group will strive to contribute to healthy and enjoyable lifestyles by positioning ourselves even closer to customers and offering non-beverage products and services.

Note
These materials were prepared by DyDo Group Holdings Inc. as a summary of questions asked and answers provided during its financial briefing for FY2018 (year ended January 2019) 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.