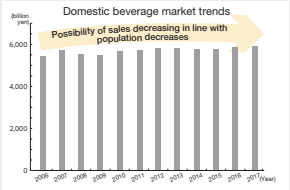
Direction of the DyDo Group

The times, and the operating environment in which the DyDo Group finds itself, are changing. If we wish to still be in business in a hundred years' time, we cannot merely carry on along the same path we've always trod, instead it will require us, too, to continually adapt. By taking advantage of the strengths we have forged along the way, we aim to position ourselves to take on whatever the future has in store.

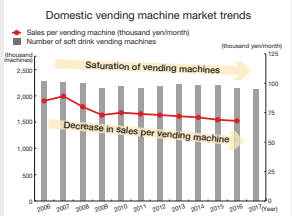
The Status of the DyDo Group

Changes in the DyDo Group's Operating Environment

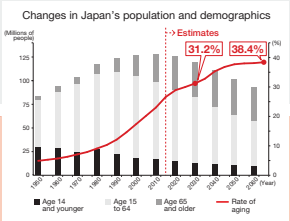
Threats



Importance of investment to guarantee space on retailers' shelves will increase



As a highly profitable sales channel, the competition over the best locations for vending machines will intensify



There is a likelihood that it will become more difficult to secure personnel to operate the vending machines, and labor costs may rise

Opportunities

Growth in the healthcare-related market

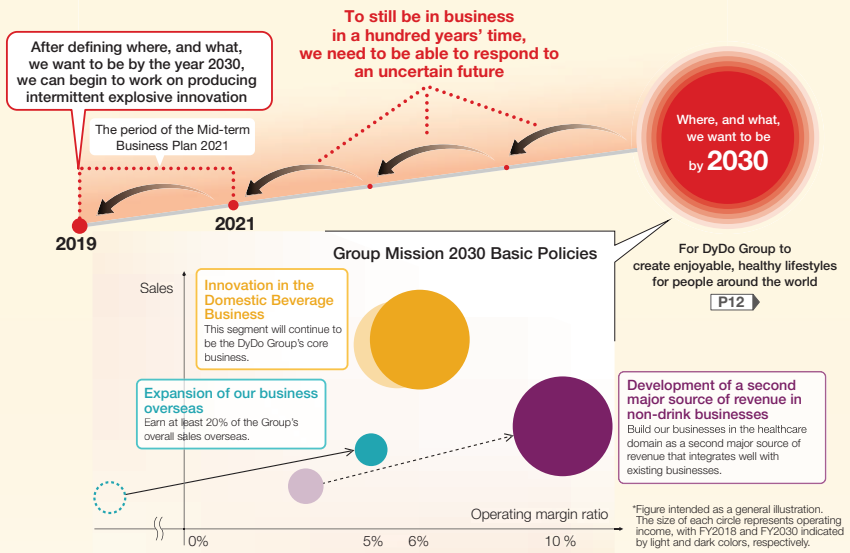
Advances in technology

Strengths the DyDo Group has developed P03-06

Strengths

- Unique business models based on supplying the delicious flavor customers want in locations that are familiar and convenient P25
- Stable cash flows created by invisible assets (i.e., the vending machine business model) P13
- Ability to develop and manufacture pharmaceuticals and quasi-drugs on a contract basis; broad customer base as a manufacturer of products ranging from pharmaceuticals to cosmetics P31
- Technology to create delicious jelly products P33

What the DyDo Group Needs to Achieve



To be a company that can continue expanding, improvements in profitability in terms of sales growth are necessary

In order to improve profitability, we need to be able to continually produce capital that can be used for investments

What we hope to achieve through our ESG measures

Create value through resolving societal issues

- Respond to future labor shortages with technology

Turning risk into opportunity

Secure our primacy in the shrinking vending machine market, which we will keep as the group's core business P16/P27

- Open up markets that cater to people's ever-longer lifespans

Taking these opportunities, utilizing our strengths

Construct a second pillar for the group in the healthcare sector, which integrates well with our existing businesses P17-18

Build a foundation for growth

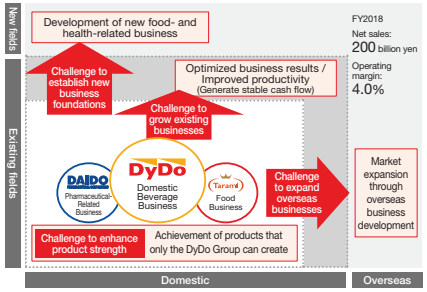
- Work ceaselessly to improve our human resources strategy and corporate governance P19-20 P35-48

For DyDo Group to create enjoyable, healthy lifestyles for people around the world

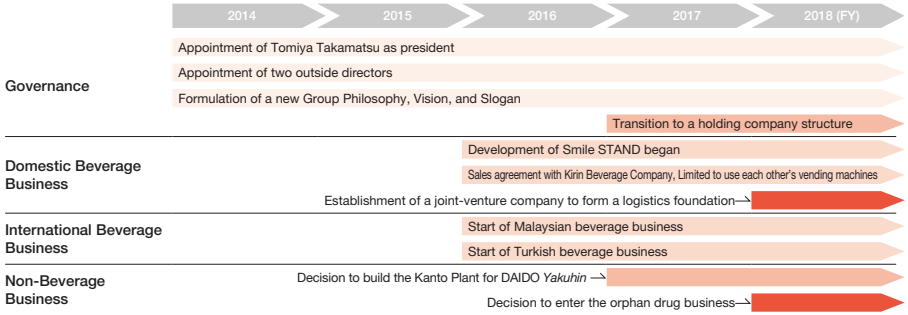
Looking Back on Our Previous Mid-Term Business Plan "Challenge the Next Stage"

The five-year mid-term business plan "Challenge the Next Stage" that began in 2014, when I was appointed as president, has now ended. In line with our Group Philosophy and Vision, put in place at the same time as the mid-term business plan, we have tackled reforms in corporate governance, as well as dealing with challenges across our various businesses. We have accelerated sales through expanding our business overseas in regions such as Turkey and Malaysia, and have established the foundations for future growth with the development of a group-wide framework through initiatives such as the transition to a holding company structure. In terms of our results, despite working to restructure fixed costs in the vending machine channel and improve profitability, we were unable to achieve sales growth in the Domestic Beverage Business. This, and our inability to acquire new businesses that can drive future growth through M&A, are major issues for us, and ones that we are making efforts to address as quickly as possible.

Previous Mid-term Business Plan "Challenge the Next Stage"



Reforms during the previous mid-term business plan "Challenge the Next Stage"



Challenge to Grow Existing Businesses

In the vending machine channel, the principal sales channel for the Domestic Beverage Business, we have worked to reduce fixed costs with a focus on vending machine procurement costs. Although sales were sluggish, we have successfully generated profits and stable cash flows. In addition, we are actively installing vending machines close to where customers are, such as in the office or near a station. The proportion of these locations has gradually increased. On the other hand, the trend of declining sales per vending machine continued. Our inability to improve profitability through sales growth was the main reason why we did not achieve the operating profit margin targeted in our mid-term business plan. We recognize that this is a major issue that we will need to address.

In the Pharmaceutical-related Business, sales have been on a rising trend with orders expanding, including products for overseas markets. We will launch our new Kanto Plant (Tatebayashi, Gunma Prefecture) in 2020 and are steadily receiving orders ahead of its operational launch.

In the Food Business, sales growth has been strong over the past five years and ahead of the market. However, many issues remain with profitability.

Although the measures required for each business are different, we continue to work on improving profitability in line with our sales growth.

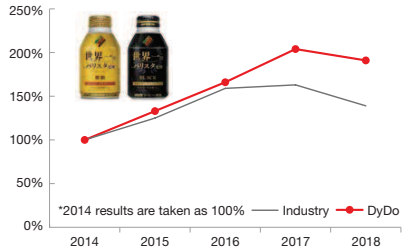
Challenge to Enhance Product Strength

We have been successful in strengthening our product capabilities. As an example from among our mainstay coffee products, we have raised awareness of our "Supervised by the World's Top Barista*" series and now consider it to be well-established in the bottle-can coffee market. Our commitment to authentic tasting coffee without the use of added flavorings has been well-received by the market. In addition, products in the "Calorie Limit for the Mature Aged" tea series developed jointly with FANCL are now well established in the distribution channel.

In the future, we expect customer preferences to continue to diversify, with health awareness growing ever stronger. At the same time as strengthening our vending machine product lineup to meet changing needs, we believe that creating an image that equates DyDo with health is of critical importance in the distribution channel. We develop products matched to the requirements of each channel, be it distribution or vending machines, for example.

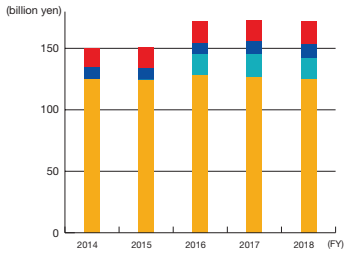
*Pete Licata, 14th World Barista Championship winner

Trends in manufacture and sales quantities of bottle cans of coffee (compiled by DyDo Group)

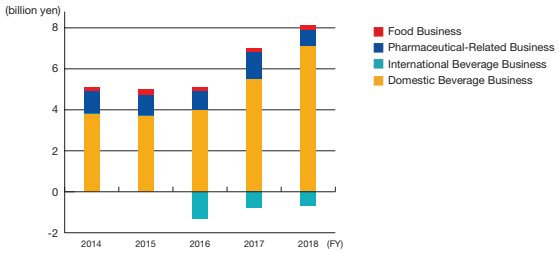


Profit trends by segment during the previous mid-term business plan

Net Sales



Segment Profits



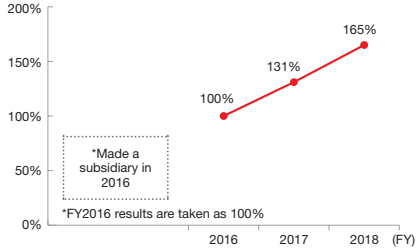
*From FY2017, changes were made to reporting segments and the Beverage Sales Division was split between the Domestic Beverage Business and International Beverage Business (results for FY2015 have been adjusted to fit the new reporting segments, results for the Domestic Beverage Business to FY2015 include results for Russia and China)
*Includes internal sales between segments

Challenge to Expand Overseas Businesses

Overseas, we expanded into Malaysia in 2015 and Turkey in 2016. International sales now make up more than 10% of sales for the entire group. Our core Turkish beverage business continues to grow strongly on a local currency basis. This business has been developed through M&A activity focused on brands that are well-known in Turkey, along with their manufacturing plants. Following acquisition, we have taken initiatives such as rebuilding the sales network, transferring control of production lines and acquiring new mineral water plants, which is a rapidly growing sector of the market. DyDo's strong leadership of these facilities after acquisition has led to the successful business we have today. Clearly, however, there are economic risks in Turkey associated with sudden exchange rate fluctuations. Therefore, we continue to strengthen our export business to protect it against currency movements and to build a solid foundation for growth. We are committed to fostering this as a core operation within the International Beverage Business.

On the other hand, our presence in other countries, such as Malaysia, Russia and China, remains small at present and profitability is still a challenge. We need to restructure our operations in these countries, as well as reviewing our business strategy there.

Trends in sales in the Turkish beverage business (based on local currency)



Challenge to Establish New Business Foundations

The group aims for new business development related to food and health and has looked for M&A opportunities, but it has been hard to find projects that meet our investment criteria. This has been the principal reason for the shortfall in our sales relative to the objective of the mid-term business plan.

However, as we look for new projects with synergies with our existing businesses, the direction of our M&A activity is becoming clearer, with priority given to projects that can generate synergies with DAIDO *Yakuhin*. That is why we have decided to enter the orphan drug market and in future we will focus specifically on the healthcare sector. We have built a solid foundation for constructive dialogue within the company, based on qualitative and quantitative investment criteria. We consider this to be a key achievement in terms of improving corporate governance for the next step of our growth.

Results and Next Steps from Challenge the Next Stage

	Result	Next Step
Challenge to grow existing businesses	• We reformed the fixed cost structure in the vending machine channel • We furthered our IoT-enabled vending machine strategy • We increased sales in the Pharmaceutical-Related Business and Food Business	• Improve profitability through sustainable sales growth • Improve sales per individual vending machine • Promote the installation of vending machines in offices
Challenge to enhance product strength	• We fixed the brand position for "Supervised by the World's Top Barista*" and "Calorie Limit for the Mature Aged" tea series	• Deal with the diversification of customer values and consumption behaviour • Develop products that earn customers' empathy
Challenge to expand overseas businesses	• We acquired strategic bases in the Sharia law-observing Islamic world (Turkey and Malaysia)	• Reform our business in Malaysia, Russia, and China
Challenge to establish new business foundations	• We decided to enter the orphan drug business • We made our health food and supplement mail order business profitable	• Pioneer new markets to accommodate the increase in healthy lifespan • Accelerate new business expansion through strategic investments

*Pete Licata, 14th World Barista Championship winner

For DyDo Group to Create Enjoyable, Healthy Lifestyles for People around the World

Over the five-year period of the previous mid-term business plan we experienced a dramatic shift in the world situation and the environment, well beyond our original expectations.

And there is no doubt that the pace of change will accelerate even further over the next 10 years. In Japan especially, there are significant demographic shifts underway. As longevity increases, we believe a longer life will only be a richer life if accompanied by a healthy lifestyle. In line with the Group Slogan, "Offering delicious products for sound mind and body," the DyDo Group's mission is to provide valuable products that contribute to a healthy lifestyle.

We expect the healthcare market to expand steadily over the next 10 years and the boundaries between beverages, food and pharmaceuticals, which are all business areas of the group, to become increasingly blurred. Although the Domestic Beverage Business, centered on vending machines, will remain our core activity, we will acquire and integrate healthcare-related businesses, creating new markets in line with our mission to establish the healthcare sector as the second major source of profit for our group.

In this period of major changes, and with the expansion of the group's businesses, it is critical that we outline a clear roadmap for our future strategic direction. We have established the Group Mission 2030 to clarify our objectives for the year 2030 in line with our business policy, "For DyDo Group to create enjoyable, healthy lifestyles for people around the world."

To achieve this, we must further refine the strengths we have cultivated so far. We must evolve by integrating capabilities which up till now have been developed within our respective businesses. Finally, we must address those resources we lack, if necessary through M&A.

Group Mission 2030

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 society.

Taking the lead in social reform

We will take the lead in social reform, going beyond conventional wisdoms to adopt new perspectives for achieving a sustainable society.

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 our people.

Connecting people to people

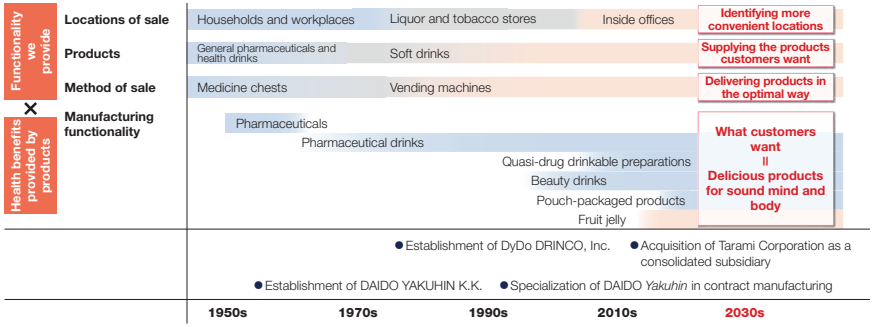
We will seek out new ways to form mutually beneficial relationships with stakeholders, both old and new, within and outside the company, working flexibly with them and respecting the diversity of their values and abilities.

Domestic Beverage Business's Unique Business Model Generates Stable Cash Flows

As mentioned in the History of Corporate Value Creation section of this report, the group's first business was the "use first, pay later" drug business. Times have changed and the sale of beverages, in particular canned coffee sold through vending machines, is now our mainstay business. Since the company was founded, the products we handle and the locations we sell them at have changed, but the actual business model has remained consistent.

This model enables customers to make a purchase anytime they want, in other words, it is the capability to deliver in the closest and most convenient location for the customer. This ability to deliver the taste that customers want in surroundings that are familiar to them is a characteristic of the DyDo Group which is not found in typical beverage makers.

Changes in DyDo Group's business and future goals



The core vending machine business is a business model that can efficiently generate cash flow. (For details on the business model, see pp. 25–6) We are one of the leading companies in the industry in terms of the number of machines we manage. These vending machines are directly managed by group companies and by vending machine operators organized as partner companies ("Kyoeikai"). The structure of the Kyoeikai is one of the sources of the unique strengths of our business. In a nutshell, the Kyoeikai consists of operators responsible for managing DyDo's vending machines in each region of Japan. We do not, however, see these operators simply as wholesalers who sell DyDo DRINCO products. A dedicated DyDo DRINCO manager oversees each Kyoeikai company as part of an integrated sales structure, giving guidance on-site and sharing sales data and operational expertise accumulated through direct sales activities, notwithstanding the investment relationship that we have with these companies. Initiatives such as ensuring the machines never run out and are stocked up at all times with a comprehensive range of products according to their individual location, and keeping the area around the vending machines clean at all times, may be par for the course but lead to sales. We are proud of our status as industry leaders in terms of the operational standards of the company and the Kyoeikai, underpinning our ability to generate sales growth and maintain sales at high levels.

The fixed assets included in our balance sheet are just the vending machines but, in fact, the business' cash flows are derived from the vending machine network, with the capital of our customer base and the capital of our organization, supporting the network in its direct sales and Kyoeikai sales, as well as our human capital of staff who operate more than 2,000 vending machines all over the country. These invisible assets form our capability to deliver and generate our cash flow. We consider this business model to be our greatest strength and know we must further refine it in the future.

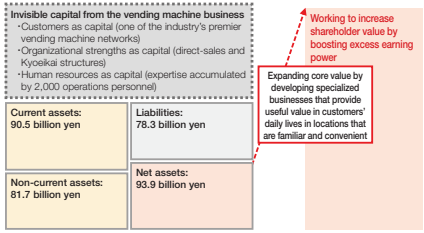
It is our belief that the principal value of a vending machine is in its convenience. Recently, the trading environment for vending machines has become more difficult, reflecting competition with businesses such as convenience stores and drug stores that vie with vending machines in terms of convenient locations, and the impact of staff shortages. Notwithstanding this, we believe there are measures we can take.

The distribution business has shifted from a time when department stores dominated the Japanese market to the current era of supermarkets and convenience stores. The long-term trend is for a gradual shrinkage in retailer size and trading areas. Against this backdrop, we believe that the value of familiar retail formats, such as vending machines, is due a reappraisal. We are involved in price competition with competing stores, but if customers are to select DyDo, which has more vending points than any major convenience store chain, as their "go-to outlet" we need to increase the value we offer. Vending machines are currently simply devices from which you can buy a drink anytime you are thirsty. However, if we were to take the notion of convenience to the next level, then ultimately, we might want to create a vending machine that could walk over to your seat in the office as needed, or that was effectively an in-home convenience store.

In formulating the Group Mission 2030, we brought in employees in their 30s and 40s from both the domestic and overseas beverages departments, as well as other group companies, to talk about future changes in the business environment and to formulate an approach for the company in response to these. Some unique and rather interesting ideas emerged during our discussions on the future of vending machines. For example, the notion that a vending machine is like a "mother." In other words, we should think of a vending machine affectionately as something that is always close at hand. We value it because we know it always has our best interests at heart, even if it may sometimes annoy us! This goes right to the heart of the essential value of vending machines. It is very reassuring to know that we have young employees who can think "outside of the box" like this.

Our aim is to further enhance the core value of our business, refining its capability to deliver to the customer, focusing on convenience and breaking free from current sales approaches and products to evolve into a business that is more familiar to customers and useful for their everyday lives.

Stable cash flows created by invisible assets



*Figures correct as of the end of FY2018

Leveraging the Group's Strengths to Grow Non-Beverage Business

The medicine sector, which was the basis of our original business, is in the DNA of the group. DAIDO *Yakuhin* is responsible for our Pharmaceutical-related Business and is developed from the group's original drug distribution business. It is our oldest company. We first manufactured ampules (liquid medication sealed in a small glass container), and then began manufacturing drinkable preparations. As times have changed, we have moved to being a contract manufacturer specializing in pharmaceutical and drinkable preparations. We have now established a leading position in the industry. The barriers to entry in drug manufacturing are high. We believe the steady growth in DAIDO *Yakuhin's* profile as a specialist contract manufacturer reflects the continued enhancement of its development capabilities and customer appreciation of its quality control systems. Moreover, the customer base of major pharmaceutical and cosmetic manufacturers that we have acquired is also a great asset to our group.

In 2012 we acquired Tarami and made it a subsidiary of the DyDo Group in the expectation that it would play a vital part in bringing together the group's drinks, food and pharmaceutical businesses in future. Tarami's greatest value lies in its jelly manufacturing technology which maximizes the taste of the fruit. Over the past five years, through strong sales growth and marked outperformance of the market, Tarami has gained the leading market share in the industry with a taste that is very highly thought of by its customers. This adaptable jelly-making technology will naturally drive Tarami's growth in future, but it is also a capability which we believe could be effectively applied to the pharmaceuticals business.

Refining Strengths and Turning Changes in the Business Environment into Growth Opportunities

At present, the Domestic Beverage Business, which is the core of the group, is generally referred to as being a drinks manufacturer with a position in the bottom half of the market. Also, from the point of view of manufacturing capabilities, it is a "fabless" business (we have no plants of our own), and this high dependence on external partnerships could be something of a weakness. However, this weakness reflects a concentration of management resources, and we believe our unique strength lies in the value we place on our relationships with our business partners. On the other hand, in the non-beverage business, our internal resources are not sufficient for the development of a second pillar of growth. We strive for steady growth not just through refining our strengths and turning threats into opportunities, but also though capturing external human resources and promoting new partnerships in order to resolve our weaknesses and ensure that we take advantage of those opportunities.

DyDo Group SWOT

Strengths

- Unique business models based on supplying the delicious flavor customers want in locations that are familiar and convenient
- Stable cash flows created by invisible assets (i.e., the vending machine business model)
- Ability to develop and manufacture pharmaceuticals and quasi-drugs on a contract basis; broad customer base as a manufacturer of products ranging from pharmaceuticals to cosmetics
- Technology for creating delicious jelly products

Weaknesses

- Position in the bottom half of the market as a drink manufacturer
- Inadequate human resources with expertise in the healthcare and IT fields
- Dependence on outside resources in areas such as ingredient procurement and R&D functionality

Opportunities

- Ensuring competitive advantages as the vending machine market shrinks
- Expanding contract manufacturing opportunities by establishing a new pouch line
- Growth in the health care market
- Advances in technology

Threats

- Inadequate personnel to oversee vending machine operations
- Changes in the purchasing habits of consumers

Challenges Faced in Pursuit of the Group Mission 2030

We recognize that the group faces a number of challenges in improving its profitability and efficiency.

In recent years, although progress has been made in the Domestic Beverage Business, our core business, in terms of profitability through various cost initiatives, the continued decline in revenue remains an issue from the previous mid-term business plan as I outlined at the start. Although there has been improvement, we do not believe that our results are as yet at satisfactory levels. We need to become a more robust and resilient group by improving operating profit performance in each of our business domains as well as in domestic beverages. Therefore, as a fundamental policy, Group Mission 2030 sets out an operating profit margin target that each business segment should aim for.

In addition, improving capital efficiency as at the end of fiscal 2018 is a major issue for us. As well as improving profitability, we are focused on improving the rate of total asset turnover. We will convert our capital resources into effective assets by diverting surplus funds accumulated in our existing businesses to the healthcare field, which we have defined as a new business area.

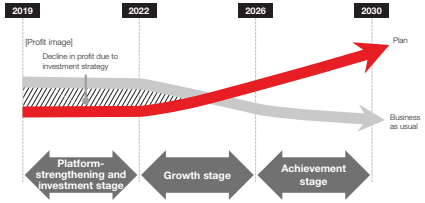
To bring this about, we have drawn up a roadmap that divides the 12 years up to 2030 into three stages. The trading environment for the core vending machine business remains tough. If we continue running the business in the same way as before, it is inevitable that profits will gradually decline. Naturally, return on sales and total asset turnover will also decline.

Therefore, the next three years from now will be the "Platform-strengthening and investment stage." During this period a temporary decline in profits is envisaged. We then expect the investments made during this period to come to fruition in the subsequent "Growth Stage" and "Achievement Stage."

Measures to improve capital efficiency

	Results	Direction	Policy
Operating margin	3.5%	↗	Improvement in operating margin in all business domains •Domestic Beverage Business 5.7% → 6% •International Beverage Business Loss → 5% •Pharmaceutical-Related Business 7.7% } 10% •Food Business 1.2%
Total asset turnover	1.0x	↗	Improvement in asset efficiency through M&A in the healthcare sector (effective use of surplus assets)
Financial leverage	1.9x	→	Balance between financial soundness, growth investment, and shareholder returns taken into consideration as we managed our balance sheets

Roadmap



Basic Policies of the Mid-Term Business Plan 2021

There are three policies for the "Platform-strengthening and investment stage." First of all, in the core Domestic Beverage Business, it is necessary to increase our cash flow generation capability to continue to generate the financial resources for the future growth of the group.

Second, with regard to overseas expansion, we are selecting and consolidating businesses in each country based on the key issues highlighted previously. We are working to create synergies between our business facilities and are also reviewing the viability of these businesses depending on the progress of our strategy.

And third, we are making investments for growth in order to achieve Group Mission 2030. This investment for growth is targeted not only at new businesses, but is also systematically aimed at rejuvenating growth in our existing businesses.

Balancing Foundation Reinforcements and Strategic Investments

- Focusing on improving profits and implementing robust management
  - Working to maximize cash flows by undertaking measures to improve profits in each business
  - Expanding products and services designed to pursue delicious flavor and health
- Making judgments about business continuity to facilitate strategic management
  - Selecting and consolidating strategic facilities in the International Beverage Business
- Implementing a growth strategy to achieve Group Mission 2030
  - Implementing an investment strategy to facilitate the growth of businesses and the creation of new businesses in the healthcare sector
  - Implementing a human resources strategy to spur the ongoing growth of the DyDo Group

Investment Strategy

[Investment resources]

¥40 billion or more
Cumulative operating cash flows over three years created by each business

Reinvesting cash flows in each business

New investments to grow existing businesses ¥12 billion
(Domestic Beverage Business) ¥6 billion — Investment Strategy 1
•IoT investments to streamline operations
•Investments to create businesses that utilize vending machines
(Pharmaceutical-Related Business) ¥6 billion — Investment Strategy 2
•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

About ¥36 billion
Surplus funds on balance sheet

Investing surplus funds in new businesses

Investments in new businesses ¥33 billion
•M&A investments in the health care segment ¥30 billion — Investment Strategy 3
•Investments in launching the orphan drug business ¥3 billion — Investment Strategy 4

Return of profits to shareholders through stable dividends ¥3 billion

Investment Strategy 1
Establish a Vending Machine Operating System Capable of Sustainable Growth

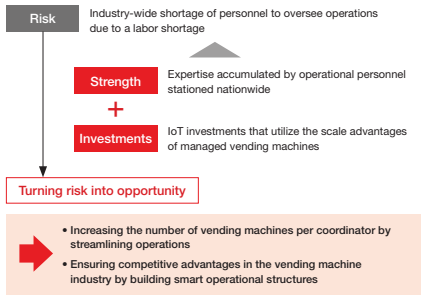
In order for the group to continue growing in the medium to long term, we consider the next three years to be a critical period. To ensure the longevity of the group, we need to build a second pillar in the healthcare sector. However, in order to realize this, first and foremost, it is essential for our existing businesses, especially vending machines, our core business, to maintain their strong cash generative capabilities. Nevertheless, the trading environment for vending machines remains extremely difficult. The value of vending machines, "convenience," has been diminished by the increase in competing retail formats with the rise of convenience stores and drug stores, and sales have remained sluggish. In the previous mid-term business plan, we worked to improve profit margins through cost reductions centered on a review of vending machine procurement methods. There is, however, a limit to the tangible reforms we can implement.

Against this backdrop, problems that have emerged since 2018 have tended to originate from logistical issues as the industry, as a whole, contracts in response to decreasing demand. These problems include a decline in the number of vending machines in the overall industry and a shortage of personnel to operate them due to the shrinking workforce in Japan; issues which then result in sales loss.

Fortunately, at our direct sales subsidiaries, these are not yet major issues. However, as labor shortages increase, this issue is critical and unavoidable. From now on, we need to implement intangible reforms, in other words to further improve the efficiency of our running of our vending machines. Our strength is that we, including those managed by the Kyoeikai, have one of the largest number of vending machines in the industry. We believe we are of sufficient size to make IoT investments that leverage the scale advantages of this infrastructure. Through IoT support we will maximize the productivity of operational employees and increase the number of vending machines that can be managed by each individual. Establishing smart operations enables us to effectively maintain our leading vending machine network even in an environment where labor is in short supply.

Furthermore, in this kind of environment, we believe that other companies in the industry will adopt different strategies towards vending machines. There are things that we can do precisely because we have placed such a strong emphasis on vending machines as a driver of the company. We aim to refine our operational strengths both in terms of quality and quantity, to establish our overwhelming superiority over other companies, and to increase our presence in the shrinking vending machine market. We will maintain vending machines' high cash generation capabilities to enable the business to play a fundamental role as the driving force for the development of the group's second pillar of growth.

Establishing smart operations in the Domestic Beverage Business



Investment Strategy 2

Establishing a Leading Position as a Pharmaceuticals Contract Manufacturer

Although the Pharmaceutical-related Business, for which DAIDO *Yakuhin* is responsible, accounts for less than 10% of sales of the entire group, this is a business where steady growth can be anticipated through carefully planned investment. The principal asset of this business is its customer base, built up through the contract manufacturing of pharmaceutical and quasi-drug drinkable preparations sold by pharmaceutical and cosmetic manufacturers, primarily major domestic companies. These products require regulatory approval for manufacturing, and barriers to entry in this industry are high.

The energy drink market, like soft drinks, is a market that cannot expect major growth in Japan. As such, specialists in contract manufacturing like us have even more of an opportunity to increase our market share even more.

We decided to establish the Kanto Plant in Tatebayashi, Gunma Prefecture in 2018. It is due to start operations in 2020 and will be our second plant after the Nara Plant. Orders are steadily building and we are making good progress in preparing the ground for manufacturing new lines as well as gaining regulatory approval. We are also anticipating growth as orders build up to meet demand for manufacturing beauty drinks in Japan for Chinese manufacturers through our collaboration with Taiwan's TCI Co., Ltd., in which we have a stake. Like DAIDO *Yakuhin*, TCI is also a contract manufacturer for drinkable preparations and other products.

We are adding a production line for pouch products at our Nara Plant as the pouch market is expanding, mainly in food products. By entering into this field with our expertise on pharmaceuticals and quasi-drugs, we are responding to the needs of pharmaceutical and cosmetic manufacturers who are largely existing customers of our group already. In this way we will further strengthen our position as a contract manufacturer.

Expanding the range of products we can manufacture in the Pharmaceutical-Related Business

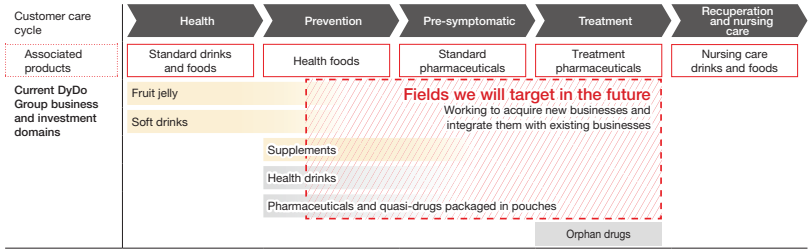
Investment Strategy 3

Strengthening and Expanding the Healthcare Field at the Core of Our Existing Businesses

We believe DAIDO *Yakuhin* is central to the development of the second pillar of our growth. In the previous mid-term business plan we explored the possibility of M&A for acquiring new business pillars in the food and health sectors in which we operate. The phrase "food and health" actually covers a wide range of different industries. In considering different projects, as well as thinking about the likely profitability of a new business, it is important to take account of the potential for synergies with our existing businesses. The fields we plan to concentrate on are businesses associated with preventive medicines or pre-symptomatic treatment; these go one step further than conventional products, such as drinks and jellies, that support body and mind. These are also areas in which DAIDO *Yakuhin's* Pharmaceutical-related Business has an active presence, given that medicine was its founding business.

In addition to manufacturing pouch products and drinkable preparations, we are planning to acquire pharmaceutical or quasi-drug tablet production capabilities through M&A. We aim to develop our contract manufacturing to meet demand for a variety of formats from the pharmaceutical and cosmetic manufacturers that are already established as our existing customers.

M&A investments in the healthcare sector



We also need to strengthen our home shopping supplement business, which we are developing as part of DyDo DRINCO. We still have only a limited number of products to drive future growth at present, so as well as in-house development, we are looking to M&A to add new core products to our portfolio.

We shall utilize what we have learned from previous M&A and it goes without saying that we will disclose our strategy and KPIs fully, along with the expected timeline for achieving these, to keep shareholders and investors informed and to secure their backing.

These measures will be an extension of our existing business areas, but in future we will also look to develop into markets beyond pharmaceuticals, drinks and food, and to develop pillars of growth in the non-beverage business of the healthcare sector.

Investment Strategy 4

Entry into Orphan Drugs Market in Line with our Philosophy

When we first announced our intention to enter the orphan drugs market in 2018 a number of investors asked us, "Why is DyDo Group, which is primarily a seller of canned coffee via vending machines, entering a non-related sector like this?"

Certainly, from the perspective of the current business portfolio, this looks like a non-related sector. However, the medicine sector was our original business at the time of our founding. We aim to be of use to those who need help so the concept of convenience is at the heart of what we do.

However, it is not realistic to simply enter the OTC or prescription drug sector. Although the major pharma groups are making inroads in the field of medicines for rare diseases, known as "orphan drugs," there are 5,000 to 7,000 different diseases of this type and there are many diseases for which patients have no treatment. On the other hand, since the sector benefits from priority support from the government in aspects such as the approval process and price setting, we believe this is a field where barriers to entry can be quite low, even for newcomers such as ourselves.

We established DyDo Pharma, Inc. in January 2019 and are steadily hiring staff and exploring potential pipelines as a good quality pipeline is the key to success in this industry. Our fundamental approach is to target drugs that have been approved abroad but not yet introduced in Japan and to utilize an external contractor for matters related to clinical trials, production or sales where we do not have the necessary experience ourselves. Although this represents a major challenge, first of all, we aim to build a track record in the so-called "ultra-orphan" sector, where there are very few patients. We will look to build the company's reputation through a steady approach in this socially significant business area.

We are not expecting to achieve results in just five, or ten, years' time, but are adopting a very long-term perspective in our management approach. This involves substantial investments, so naturally it is incumbent on us to pursue this business in a way that satisfies our stakeholders in the share market. To this end we are working on the reform of corporate governance as our key management priority. We are addressing gaps in our knowledge of certain highly specialized fields through the establishment of an Advisory Board. With regard to the Board of Directors we are committed to improving the supervisory function and management transparency in the execution of our business through incorporating the perspective of outside directors with a wide range of experience, not solely in medicine.

(For details on our governance reforms, see p. 37)

Making Investments According to Our Guidelines

The three-year mid-term business plan is aimed at improving the profitability of our existing businesses. It takes into account a temporary decline in profits, and in our view provides a platform for comprehensive investment for the future. We decided that it was not appropriate to set numerical targets since the achievement of our business goals requires more than simply hitting quantitative sales and profit targets set in advance.

Although the stock market may be uncomfortable with the anticipated sharp short-term reduction in profits, we ask our stakeholders to understand that the time is now right for us to focus on building the foundations for the company to achieve sustainable growth in future. I, too, am committed to tackling this and will disclose the progress that we make on this in a timely and appropriate manner.

Mid-term Business Plan 2021 guidelines

	Guidelines
Sales	• Organic growth in existing businesses along with new M&As
Operating margin	• Operating margin in existing businesses (3%) minus investment strategy costs plus profit/loss from new M&As • Transition of the International Beverage Business to profitability
Cash flows	• Operating cash flows created by existing businesses: ¥40 billion or greater • Capital investment necessary in existing businesses: About ¥28 billion
Investment strategy	• Growth investments in existing businesses: About ¥12 billion • Investment in the healthcare sector to execute new M&As: About ¥30 billion • Launch of the orphan drug business: About ¥3 billion
Return to shareholders	• Return of profits to shareholders through stable dividends

Strengthening our Human Resources

Above all, it is the employees of the group who will achieve the strategies and measures outlined so far. Naturally, as a company, we create an environment that maximizes the capability of each and every one of our employees. However, I believe individual effort is also required by our employees in order to remain strongly motivated for growth and improved productivity and in both morning meetings and on the company intranet I encourage employees to cherish learning and health.

First of all, I would like our employees to refine the skills and knowledge they need in their current field of specialization, for instance in the sales, marketing or administration departments. In Japan, as well as elsewhere, I expect working practices involving the regular assignment of staff to a range of different roles to increase. Therefore it is important that staff continue to refine their skills to enable them to work wherever they are needed in a professional capacity. At the same time, even if their current role and duties become redundant within the company, I encourage staff to deepen their skills by looking for opportunities in related areas of the company so that it remains an environment where they can continue to make an active contribution. Employees should continue to pursue opportunities in new areas of interest even where they do not have any experience. I would like them to consider their career paths carefully and to continue to improve their skills, looking to occasionally make major changes.

I see the ideal employee as someone who puts their best foot forward, both on the job and in their private lives. And it is through this kind of employee we will find sustainable growth of our group. We will continue to expand our systems and reform employee awareness, and strive to build strong human resources at the DyDo Group, so that it remains robust and continues to grow, driven by the energy of all of our employees.

Human Resources Strategy

Strengthening Management Structures to Achieve the Group Mission 2030

Securing human capital

- Strengthening holding company functions and hiring career employees who can make an immediate contribution to new businesses
- Hiring new graduates based on future needs

Fostering the development of human resources

- Training a new generation of management candidates
- Training workers to perform global jobs
- Training specialists

Assigning and transferring human resources

- Reallocating management resources in an optimal manner through transfers between Group companies
- Accumulating new expertise by seconding employees to outside companies

Human Resources Strategy to Demonstrate the Power of the Individual

The group's human resources strategy for growth focuses on securing human capital, fostering the development of human resources who will be responsible for the future of the company, and properly assigning and transferring human resources.

First, we must secure human capital and further strengthen the holding company functions of the group. Because our business expansion has to date been dependent on the advancement of the vending machine business, we have tended to focus on the human resources we have built up in that area. In the last few years in the Domestic Beverage Business, the company has actively sought to recruit external personnel with expertise in marketing and overseas business fields. This has helped to foster positive interactions throughout the company. From now on in the holding company, we will actively hire experienced career professionals to help us develop in new business areas such as prescription drugs.

Of course, we also need to improve the skills of our current employees. We are fostering the next generation of leaders who will drive the group forward and developing human resources who can play an active role in our international business. We will focus on training personnel with advanced specialist knowledge and expertise to provide these employees with the support they need.

Also, until now, personnel transfers have tended to be within the framework of each of the operating companies. From now on, as we cultivate new growth pillars across the boundaries of the beverage, food and pharmaceutical businesses, we see a need for revitalizing our organization and our human resources through group-wide transfers that go beyond existing organizational structures. Thus, in addition to seeking the right people to fill positions through in-house recruitment, we are also considering seconding our staff to external companies to acquire insights and expertise that cannot be found within the group alone.

Aiming for Growth under a New Code of Conduct

In 2014, when I became president of the company, we updated our Group Philosophy, Vision and Action Guidelines, and committed ourselves to the previous mid-term business plan. Over the past five years, the company has expanded its business domains and now consists of four business segments. We are also planning to add a new prescription drugs business. A look at our regional profile shows that DyDo has expanded globally, in places such as Turkey, Malaysia, China and Russia.

Under these circumstances, even if the businesses and the countries we operate in vary, we believed it was necessary to formulate a new Code of Conduct to share our ethical values throughout the group. This will help the company to be united in trying to achieve the Group Philosophy ("Creating happiness and prosperity, together with people and with society. To achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way.") and to realize the Group Vision. To the same end, we also replaced our Action Guidelines with the Code of Conduct.

In formulating this Code of Conduct, we consulted with our employees, principally those aged 30 or below who will be responsible for the future of the DyDo Group across its various business segments. With employees from different businesses all across the group participating in formulating this Code of Conduct, we are moving away from being a business focused on DyDo DRINCO towards having a more group-wide focus to help achieve the objective envisaged in Group Mission 2030, "For DyDo Group to create enjoyable, healthy lifestyles for people around the world." In doing so, we have established a solid foundation on which every DyDo employee can base their day-to-day conduct.

Based on this new Code of Conduct, the entire group will work together to achieve Group Mission 2030, aiming for sustainable growth and the improvement of corporate value over the medium to long term.

(For details on the formulation of the Group Code of Conduct, see p. 48)

Group Code of Conduct

Together with our customers.

- We will provide safe, reliable products and services through our commitment to flavor and quality.
- We will act with the customer as our priority at all times and be sincere in our responses to customer feedback.
- We will be creative and inventive, bringing surprise and delight to our customers.

Together with society.

- We will communicate actively with our colleagues and stakeholders.
- We will respond flexibly to changes in the times and environment for the sake of sustainable growth.
- We will appreciate the local community at all times and engage enthusiastically in community service.
- We will strive to lessen our burden on the environment and use finite resources effectively.
- We will disclose information in a timely and appropriate manner to ensure fairness and transparency.
- We will handle confidential information, including personal information, and company assets appropriately.
- We will behave in an ethical manner, upholding relevant laws, regulations and socially acceptable practices.
- We will work to prevent corruption and avoid relationships with antisocial forces.

Together with the next generation.

- Without adhering to rigid stereotypes, we will treat others with deference at all times, and respect all individuals and their diverse values.
- We will not be satisfied with the status quo, and will look for better ways of doing things, starting with what is right in front of us.
- We will approach our work with a sense of playfulness; this will lead to fresh and original ideas and generate new value.
- We will be sensitive to the signs of change in the world around us and take the lead in initiating reform.

Together with our people.

- We will strive to remain healthy in body and mind so we can do good work.
- We will be united as a team, allowing each individual to demonstrate his or her own strengths.
- We will be happy for our colleagues when they succeed, and praise them for taking on challenges when they fail.
- We will take pride and responsibility in our actions, and behave toward all others in ways we can be proud of.

Our Capital Policy

The DyDo Group stands at a significant juncture, but my goal is to ensure that we can set the company moving forward into the next generation and generations to come after them. Furthermore, I would like to see us deliver products that customers want, in more convenient locations, by the best methods possible. To do so, we need to evolve our core vending machine business and invest in a second pillar of earnings. With regard to internal reserves, we will systematically make strategic investments that will lead to ongoing profit growth, aiming to increase dividends over the medium term through achieving sustainable profit growth driven by sales.

Dialogue: President and Outside Directors

Achieving Our Group Mission 2030

President and Representative Director
Tomiya Takamatsu

Independent Outside Director
Shinji Mori

Independent Outside Director
Masataka Inoue

Moving to establish dominance in the vending machine business

Takamatsu In January 2019, we formulated a new Group Mission and commenced a three-year mid-term business plan. Our biggest issue is how to survive the tough conditions we face—in terms of our current performance and the challenging market environment—in the vending machine field that is our core business. I feel the key question is how to establish a system to improve productivity and overwhelm competitors, by using IT and reexamining operations to boost the quality of vending machine operations, which is where our strength lies.

Inoue I think the approach used to formulate the mid-term business plan was a major step forward compared to last time. The previous plan looked at the conditions at the time and aimed to achieve growth through a concept of "more & better." The new plan, in contrast, employs a "vision-driven approach" aimed at creating a system to overwhelm competitors, as the president says. However, at present, DyDo hasn't completely ascertained what it needs to do in order to achieve overwhelming dominance—in other words, what type of company it needs to become. It is important to first identify the specifics of the level you wish to achieve, and then plan out how to get there based on a determined program. A program created in this way links the vision of what the company should be to the mid-term business plan, and then to plans for individual fiscal years. In addition, the tasks each employee should do are clarified within that sequence of links. Also, precisely because the plan includes a determined program, it is possible to provide overall supervision, and the PDCA cycle can also be utilized. During this fiscal year, I hope this will be refined into a more specific plan.

Mori In the current Group Mission, you have outlined the shape of the company in 2030, but at that time I believe the roles required of vending machines will be different in urban areas and rural areas, which are becoming depopulated. In urban areas, it will be critical to fine tune your current strategy, while in rural areas you will need to play the role of social infrastructure. In depopulated areas in particular, DyDo will have to carefully examine the significance of vending machines—selling household items, pharmaceuticals, and other daily necessities. I want them to also play a social role, and if you take that route, I believe we will see many new possibilities for business.

Takamatsu Strength in rural areas is a DyDo advantage, and helping to maintain social infrastructure in rural areas by leveraging vending machines as bases of operations, matches where we want to be in 2030. To achieve this, I believe we must build the operational system that is our objective over these three years, and promote advancements so we can play this role even in rural areas where efficiency will inevitably drop. Keeping an eye on our future objectives, we will steadily work on what we need to do now.

Aiming to build a second mainstay business with the non-beverage business

Takamatsu Business development in the non-beverage business did not yield adequate results in the previous mid-term business plan. As a result of discussion and investigation within the company, it was found that many items did not reach the execution stage. I think, though, that the expertise we developed investigating these new businesses will prove to be a foundation for growth.

Inoue Many enthusiastically examined ideas were incorporated based on a shared understanding that efforts are needed in new businesses to achieve group growth. However, the important points in new investment and M&A, I believe, are strategic significance—the meaning an idea has for achieving the Group Vision or mid-term business plan—and the ability to yield a return that improves shareholder value. When companies start to examine M&A, they sometimes make it a goal to "just do something" rather than focusing on the specific content. At such times, I want the company to return to the fundamental points: strategic significance and return. It is also our role to point out when that perspective is lost.

Mori M&A is indispensable as a company grows. In order to oversee integrated companies with different backgrounds and corporate cultures, it is crucial to have a system within the company enabling guidance, oversight, and cooperation, as well as the human resources to carry that out. Naturally, I would like you to improve the level of review at the execution stage, but also implement post merger integration strategies, and steadily develop personnel to achieve these objectives.

Systematically incorporating the ESG perspective into management

Mori In the coming 10 years, the ESG perspective will steadily increase in importance as a management viewpoint. What efforts are being made to ensure continuous growth of the company?

Takamatsu Our Group Philosophy is striving to achieve happiness and prosperity together with stakeholders, and in every aspect of our business we are acting with an ESG perspective. However, at present we have not achieved systematic management for the group overall. First, we are ascertaining the current situation, confirming what has been done and what is inadequate, identifying the issues, and preparing to utilize the PDCA cycle starting from FY2020. We would like to formulate basic policy suited to our new vision, identify implementation issues, devise strategy, establish KPIs, and gradually raise our level.

Developing human resources

Mori Development of human resources is also a theme in the current plan. What are your ideas as president regarding how education is, or will be, conducted, including in group companies?

Takamatsu For new and younger employees, we have worked to raise standards through training and on-the-job training. Interaction between groups still hasn't made much progress, but going forward we want to make efforts on that point through our holding company.

Inoue An efficient method for training younger personnel is entrusting them with small-scale business. If the scale is small, it's easier to see the structure as a whole. In such an environment, I believe it is possible to foster a management mindset—through having a vision, creating a plan, and employing the PDCA cycle. Naturally, basic training must be provided, to impart knowledge about marketing and accounting, before entrusting them with business. They also need guidance in how to utilize the PDCA cycle.

Takamatsu I believe we must further improve the capabilities of managers in their 30s and 40s, and those who will go on to become the next generation of executives. In addition to improving skills in their own specialized fields, they need to further improve their management skills so they can train their subordinates and produce results as a team.

Mori At one company, after a screening process, employees are provided with opportunities to learn management and accounting. This also serves as training, enabling the person to utilize the PDCA cycle for the organization. It may be good to provide opportunities for employees to study intensively for about one year.

Inoue First, it is important to have a good understanding of what management is. Management is establishing a vision, and utilizing the PDCA cycle to realize it, and if a person accumulates knowledge and experience while putting that into practice, they will become a strong human resource. I'm repeating myself, but there can be no general supervision without a program and the PDCA cycle will not work with a plan that does not allow general supervision. Conducting plan formulation training in line with the determined plan, where forecasts and plans are clearly delineated, I think, is perhaps the crux.

Takamatsu If someone is entrusted with one business domain, they will become capable of management to some extent, even if they are not aware of it. However, even without that sort of environment, I believe it will make the organization stronger if each employee can be constantly aware of PDCA when they act.

Uniting the group in pursuit of growth based on the new Code of Conduct

Mori A Group Code of Conduct has also been newly established. I've heard this was created through discussions by the younger generation based on proposals from longer-serving employees, and I have high regard for this drafting process. The content was likely developed by considering what needs to be done as the DyDo Group moves into the future, and above all, I feel it is extremely meaningful that this content was finished through a bottom-up process.

Takamatsu The next issue is activities to ensure that this new code takes. It is important that employees are constantly considering the code, and I believe this is a way of thinking to rely on when something suddenly crops up, or when one is unable to make a decision on the spot. We will work to spread awareness of the code, to be used as a foundational approach, both in Japan and internationally, in all areas of our business.

All employees of the group will work to bring about the Group Philosophy and Group Vision by following the Group Code of Conduct in their actions, and will strive for sustained growth and improvement of corporate value.