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おいしいものを。



Supplementary Materials for the FY2019 (Year Ending January 20, 2020)  
3rd Quarter Financial Highlights

# **The DyDo Group's Business Model and Growth Strategy**

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**DyDo Group Holdings, Inc.**  
**(1st Section of the Tokyo Stock Exchange: 2590)**

**November 26, 2019**

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## □ The Business Model of DyDo Group

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# Significance of the DyDo Group

- ▶ Offering delicious products for sound mind and body

## DyDo Group Corporate 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.**

## DyDo Group Corporate Vision

### **Together with our customers.**

With our high-quality products, we will offer our customers excitement and enhanced wellness, with distinctive delicious flavors that only DyDo can.

### **Together with society.**

Bringing together all DyDo's resources in the entire Group's product development and corporate activities, we will help build a rich and vibrant society.

### **Together with the next generation.**

We will create a "DyDo Standard" for the next generation that transcends national borders and conventional frameworks.

### **Together with our people.**

We will tirelessly embrace the "DyDo Challenge" of bringing happiness to all whose lives are touched by the DyDo Group.

## Group Slogan

こころとからだに、  
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Offering delicious products  
for sound mind and body

ここからだに、  
おいしいものを。



# DyDo Group History

(Billions of yen) 200

- ◆ Overseas expansion
- Expansion of vending machine business within Moscow
- Entry into the Turkish and Malaysian markets



- Acquisition of Tarami Corporation

- Establishment of DyDo DRINCO, Inc. and launch of DyDo blend coffee



- HOT& COLD vending machine



- Launch of Demitasse Coffee



- Introduction of point card



- Introduction of talking vending machines with different dialects



- Launch of MIU



- Strengthening of the DyDo Blend brand



- Launch of the "DyDo Blend Supervised by the World's Top Barista" series



- Smile STAND



100



- Establishment as household pharmaceutical distributor and start of manufacture of drinkable preparations



- Start sales of drinkable preparations and canned coffee at gas station



- Relocation of the plant to a new facility in Katsuragi, Nara Prefecture



- Full-scale involvement in OEM following relaxation of regulations for quasi-drugs



- Expansion of orders of beauty health drink



- Expansion of products sold in the Chinese market through a capital and operational alliance with TCI of Taiwan

\*Envisioned sales

1950s

1970s

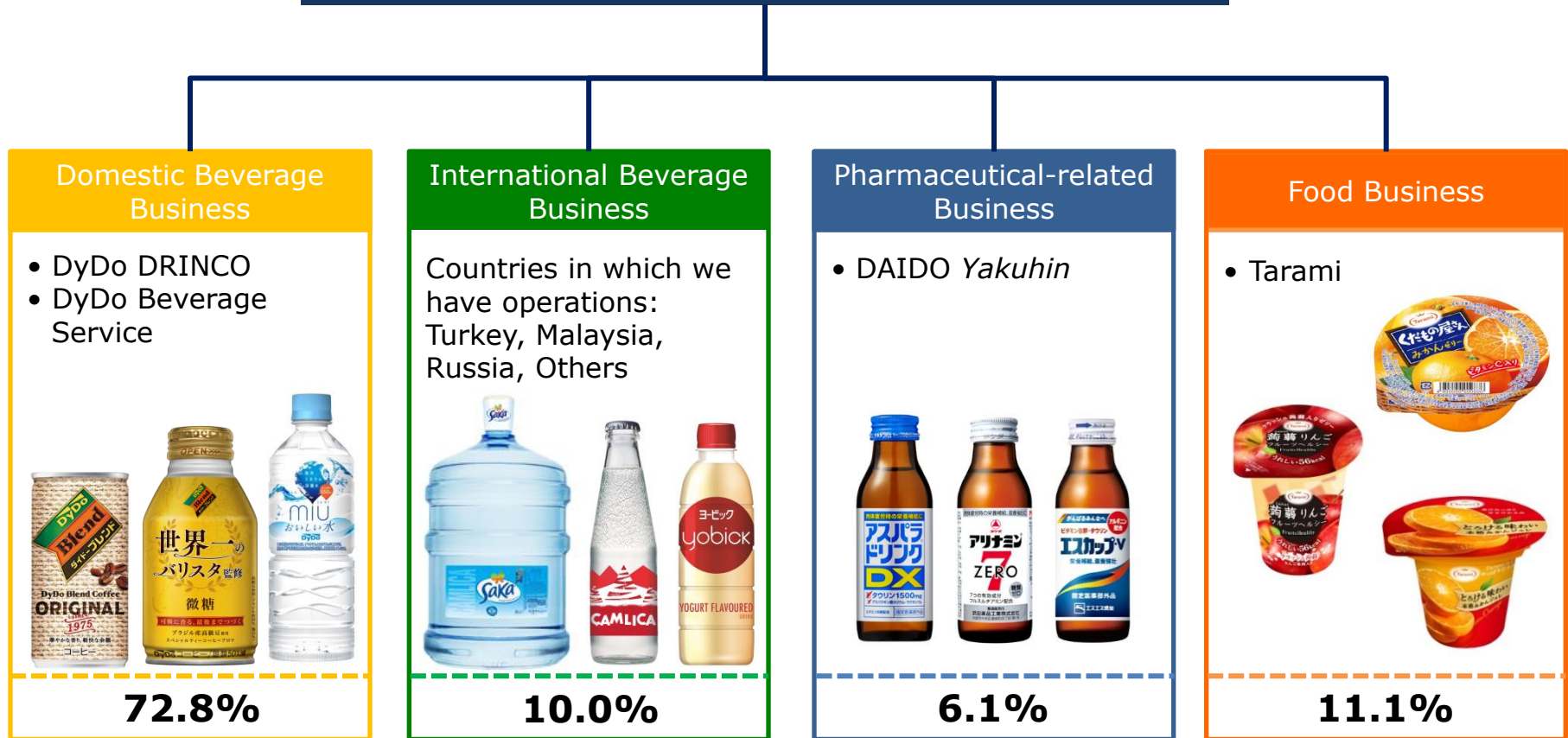
1990s

2010s

# DyDo Group Business Segments

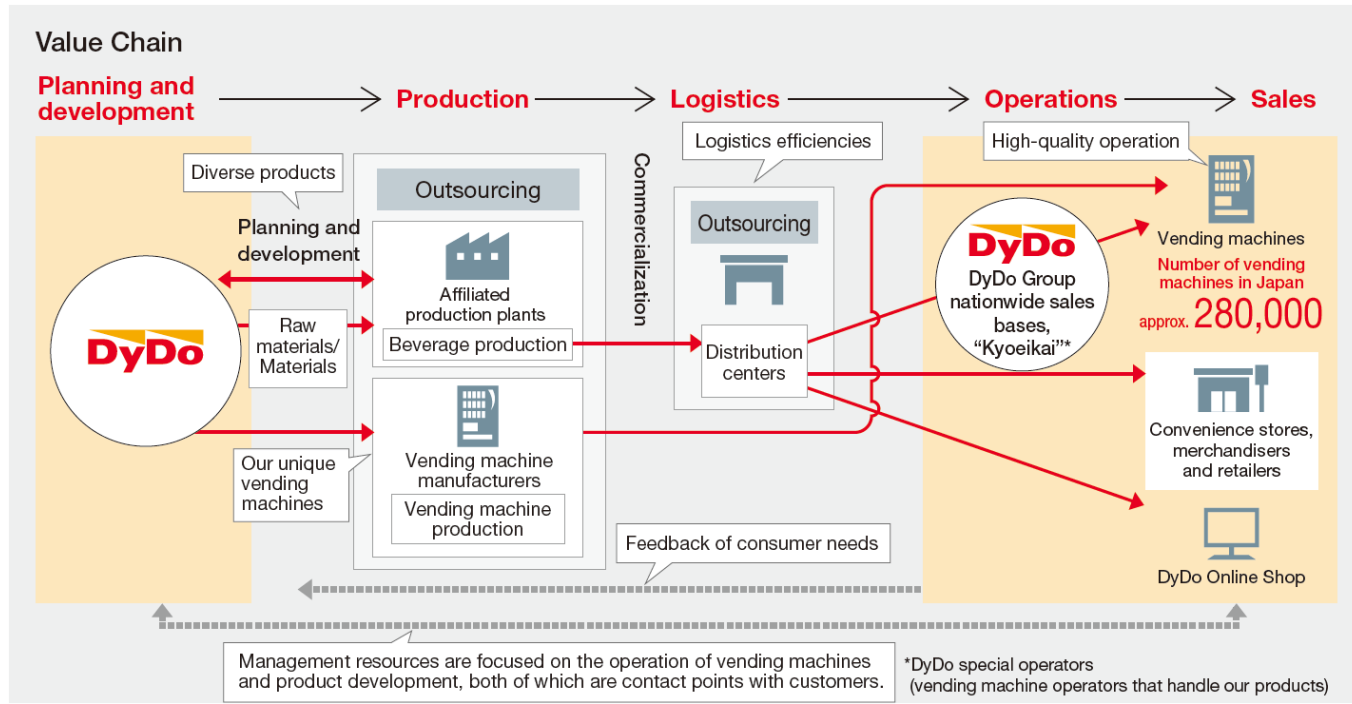
- ▶ Three businesses with unique business models and a growing international beverage business

## DyDo Group Holdings, Inc.



\*Sales to external customers as a percentage of total net sales (FY2018 results)

# Domestic Beverage Business: Business Model

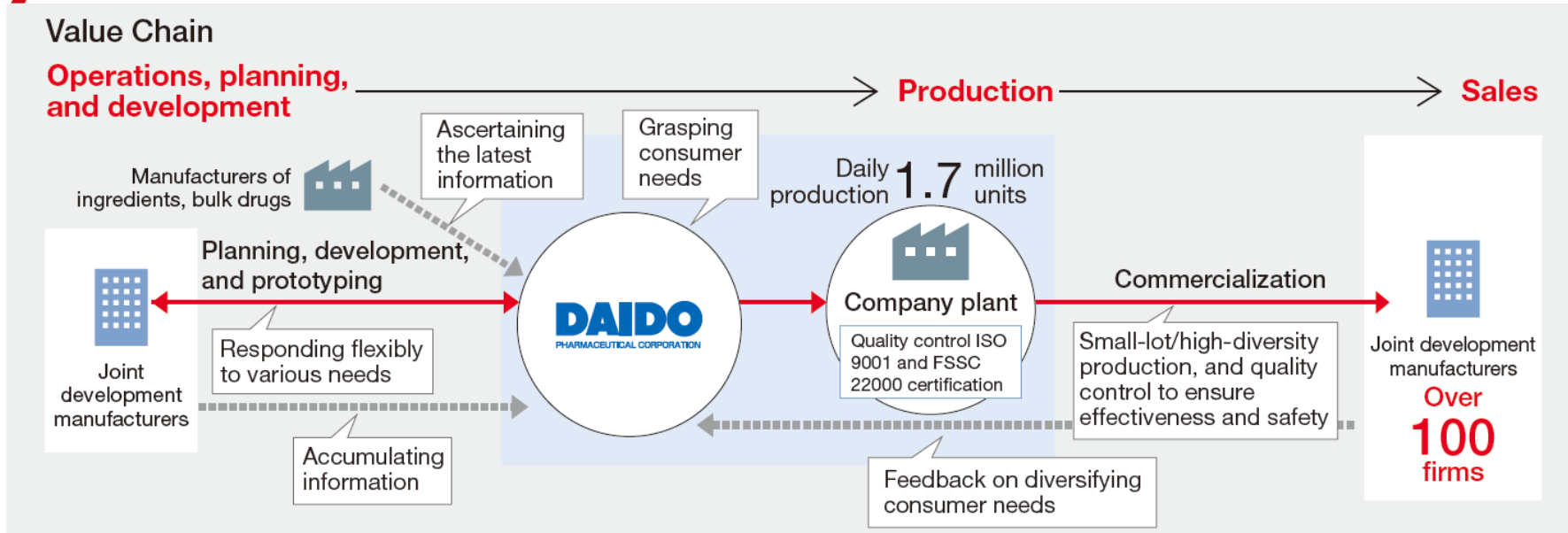


## Issues and Future Strategy: Striving to Secure Advantages in the Vending Machine Market

The Domestic Beverage Business, and more specifically the vending machine channel, have an important role to play in creating funding for the investments that will be necessary in order for the DyDo Group to carry out its growth strategy, and these operations must continue to support the Group going forward as a core business. However, the Group was unable to place the vending machine channel on a revenue-growth trajectory under the previous Mid-term Business Plan, and during that period various new challenges such as sales losses and a decline in the number of installed vending machines began to emerge due to a shortage of personnel capable of overseeing operations, particularly at *Kyoeikai*

member companies. Additionally, the benefits of the non-current cost-cutting measures related to vending machines that were undertaken as part of the previous Mid-term Business Plan ran their course in FY2020, and it is inevitable that the channel will see reductions in both revenue and profits if the current growth trajectory continues. Under the newly formulated Mid-term Business Plan 2021, the Group will work to secure advantages in the vending machine market by reforming operations in order to maintain high quality despite the ongoing labor shortage and to maintain the network of vending machines that provides the basis for sales.

# Pharmaceutical-related Business: Business Model



## **Issues and Future Strategy: Establishing an Overwhelmingly Dominant Position as a Contract Manufacturer of Pharmaceuticals and Quasi-drugs**

The nutritional drink market has been shrinking in recent years due to factors including the aging of its core consumer segment. At the same time, we see new growth potential in the drink preparation contract manufacturing market due to growth in sales of beauty drinks exported overseas as the result of inbound demand and moves by pharmaceutical manufacturers to outsource manufacturing in response to the elimination of a rule requiring pharmaceutical sales companies to operate manufacturing plants under the revised Pharmaceuticals and Medical Devices Act\*.

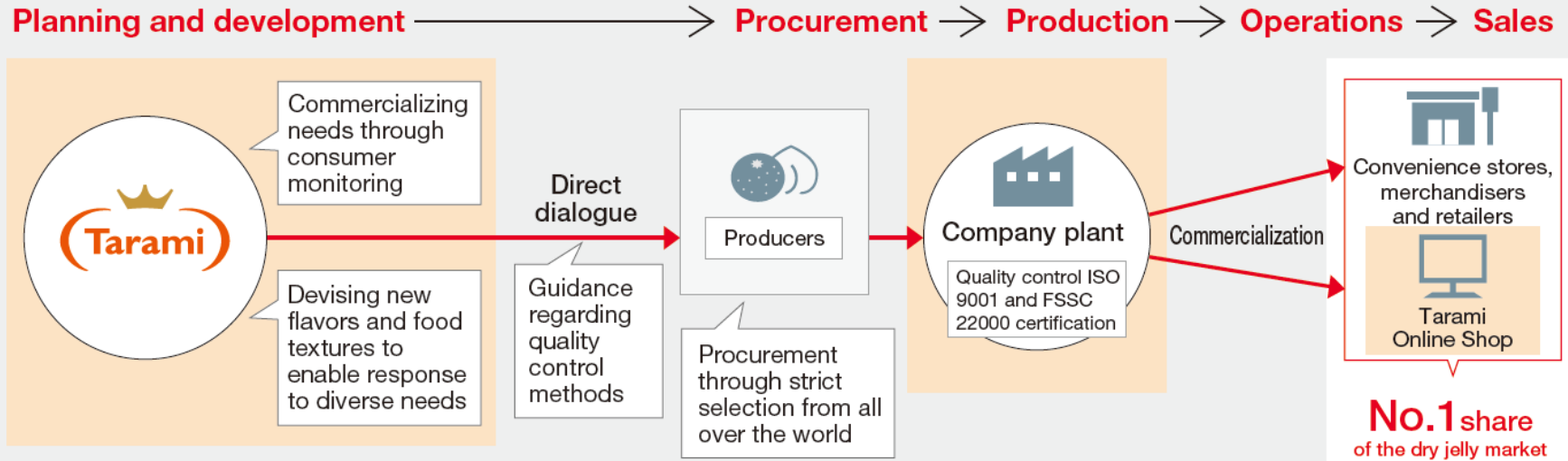
Additionally, we expect the trend toward increased awareness of health and beauty, which is developing against the backdrop of Japan's aging population, to continue to fuel significant growth in the health care market in the future.

We see opportunity in these and related changes in the market environment, and under the Mid-term Business Plan 2021 we will work to strengthen supply structures and competitiveness by building a new Kanto Plant and to expand our range of contract-manufactured products by accommodating new preparation types.

\*Pharmaceuticals and Medical Devices Act

# Food Business: Business Model

## Value Chain



## Issues and Future Strategy: Strengthening Our Revenue Base and Creating new Business Models to Facilitate Future Growth

Under the previous Mid-term Business Plan, we grew at a rate that outpaced the market as a whole and solidified our industry-leading share in terms of sales. However, we are aware that our performance in terms of profits, which have been hobbled by rising raw material and labor costs as well as marketing investments designed to boost our brand value, remains a major issue. The dry jelly market has been flat overall, but even as the low-priced segment (products priced at 100 yen and under) shrinks, the medium- and high-priced segment

(products priced at 140 yen and over) is growing. Moreover, the pouch jelly market has been growing quickly in recent months. These factors make clear a trend on the part of customers to seek not simply inexpensive products, but rather products that deliver delicious flavor, health benefits, and convenience. In addition to working to improve profitability through a multifaceted review of costs, the Mid-term Business Plan 2021 will seek to create new business models that transcend traditional categories and to realize our vision of bringing happiness to all by pursuing delicious flavor and health through fruit and jelly products.

# DyDo Group Strengths

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- 1 Unique business models based on supplying the delicious flavor customers want in locations that are familiar and convenient
- 2 Stable cash flows created by invisible assets (i.e., the vending machine business model)
- 3 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
- 4 Technology for creating delicious jelly products

# DyDo Group Strengths (1)

## Unique Business Models

- ▶ We build unique business models by combining capital in the form of customers, organizational strengths, and human resources.

Customers as capital

One of the industry's premier vending machine networks

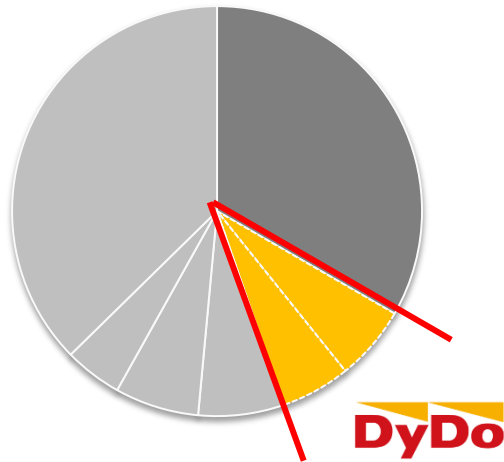
Organizational strengths as capital

Direct-sale and *Kyoeikai* structures

Human resources as capital

2,000 operations coordinators and the expertise they've helped accumulate

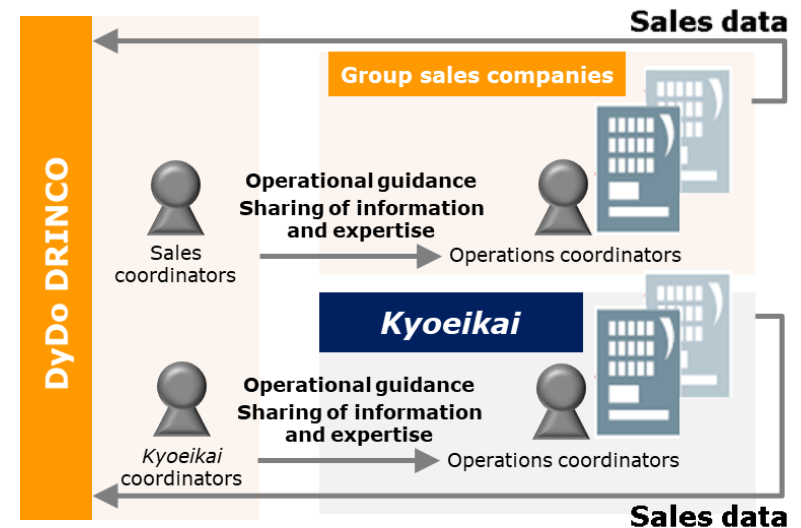
- Vending machines managed by DyDo



■ Company A ■ DyDo ■ DyDo (*Kyoeikai*)

- About *Kyoeikai*

*Kyoeikai* is a group of operator partners. By sharing sales data and offering operational guidance, we've implemented an integrated approach to operations regardless of whether we have a capital relationship with member companies.



# Stable Cash Flows Created by Invisible Assets

- ▶ Ability to create cash-rich businesses using invisible assets (i.e., the vending machine business model)
- ▶ Increasing shareholder value by refining operations into mechanisms that meet the needs of the times

### Invisible capital from the vending machine business

- Customers as capital (one of the industry's premier vending machine networks)
- Organizational strengths as capital (direct-sales and *Kyoeikai* structures)
- Human resources as capital (expertise accumulated by 2,000 operations personnel)

[Current assets]

[Liabilities]

[Non-current assets]

[Net assets]

Working to increase  
shareholder value by  
boosting excess earning  
power

Expanding core value by  
developing specialized  
businesses that provide  
useful value in customers'  
daily lives in locations that  
are familiar and convenient

# DyDo Group Strengths (3) Ability to Develop and Manufacture Pharmaceuticals and Quasi-drugs

- ▶ Refined development capabilities and quality control structures as a contract manufacturer
- ▶ Establishment of market position as a contract manufacturer of health drinks

- History of DAIDO Yakuhin

**1950s**

Manufacture of health drinks as a DAIDO product

**1980s**

Start of large-scale contract manufacturing of other companies' products and accumulation of manufacturing expertise

**1990s**

Rapid growth in the popularity of functional drinks: Establishment of a new plant and **development into a company that specializes in contract manufacturing**

**1999**

Revision of the Pharmaceutical Affairs Act to allow the sale of quasi-drugs in convenience stores and vending machines

**2000s**

Expansion of contract manufacturing business from cosmetics manufacturers and other customers in the face of rapid growth in the popularity of beauty drinks and **shift to sophisticated planning and development operations**

**Fall 2019**

Scheduled start of operations by a new pouch packaging line at the Nara Plant

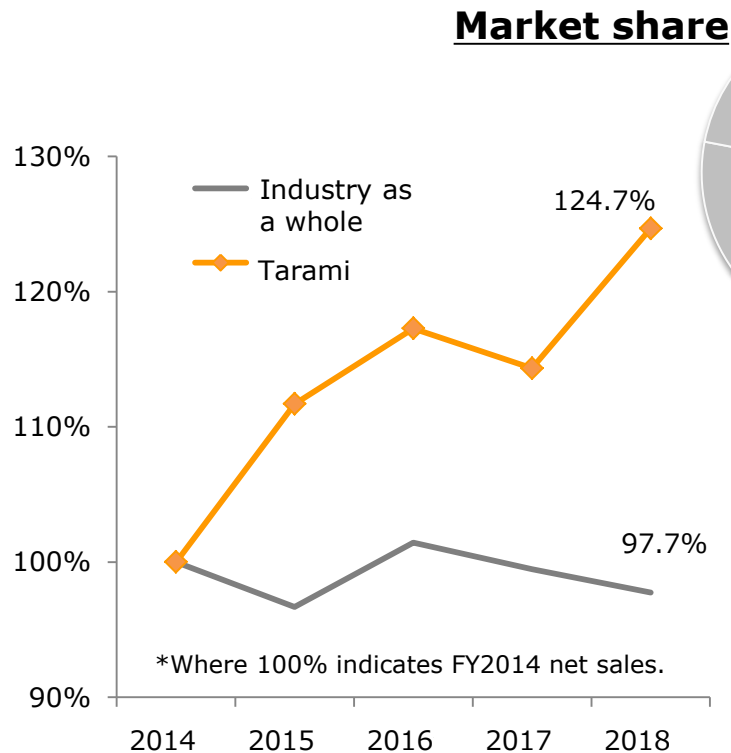
**Spring 2020**

Scheduled start of operations at new Kanto Plant

# Technology for Creating Delicious Jelly Products

- ▶ Technology for creating jelly products with delicious texture based on ingredients such as fruit and the preferences of the target market
- ▶ Establishment of position as the industry's leader based on a high growth rate

## ● Net Sales



- Pursuing jelly texture on a product-by-product basis



Smooth texture that highlights the juiciness of bits of fruit



Melt-in-your mouth texture that highlights the aroma of the fruit and the product's fruit juice-like consistency



Jelly designed for maximum juiciness to highlight the springy texture of *konnyaku*

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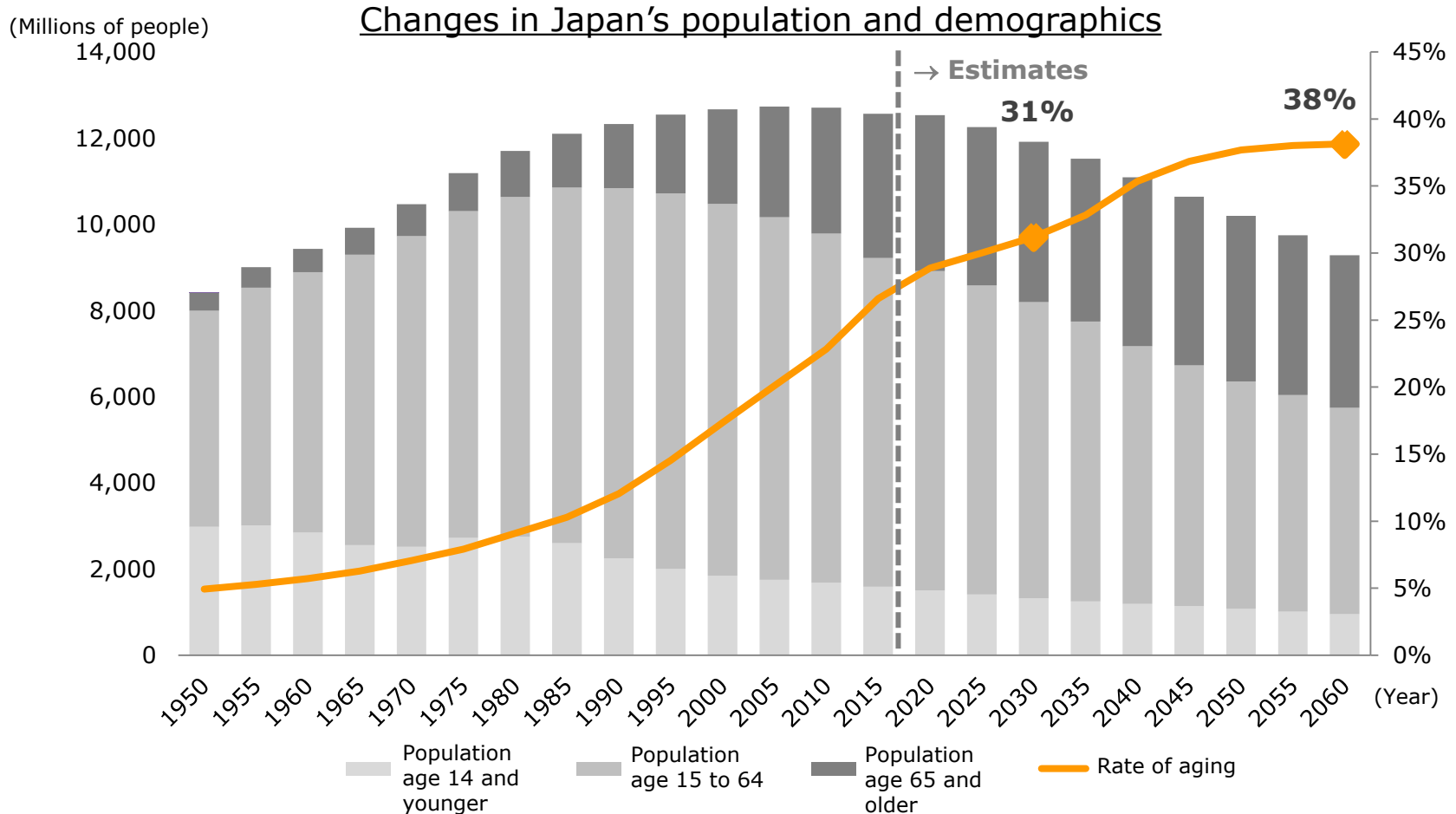


## □ The Growth Strategy of DyDo Group

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# Changes in the Business Environment

- ▶ The rate at which Japan's population is aging is expected to rise further in the coming years



Source: Compiled based on the FY2018 White Paper on Telecommunications (Ministry of Internal Affairs and Communications)

# 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 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 society.



### Taking the lead in social reform

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

## Together with our people.

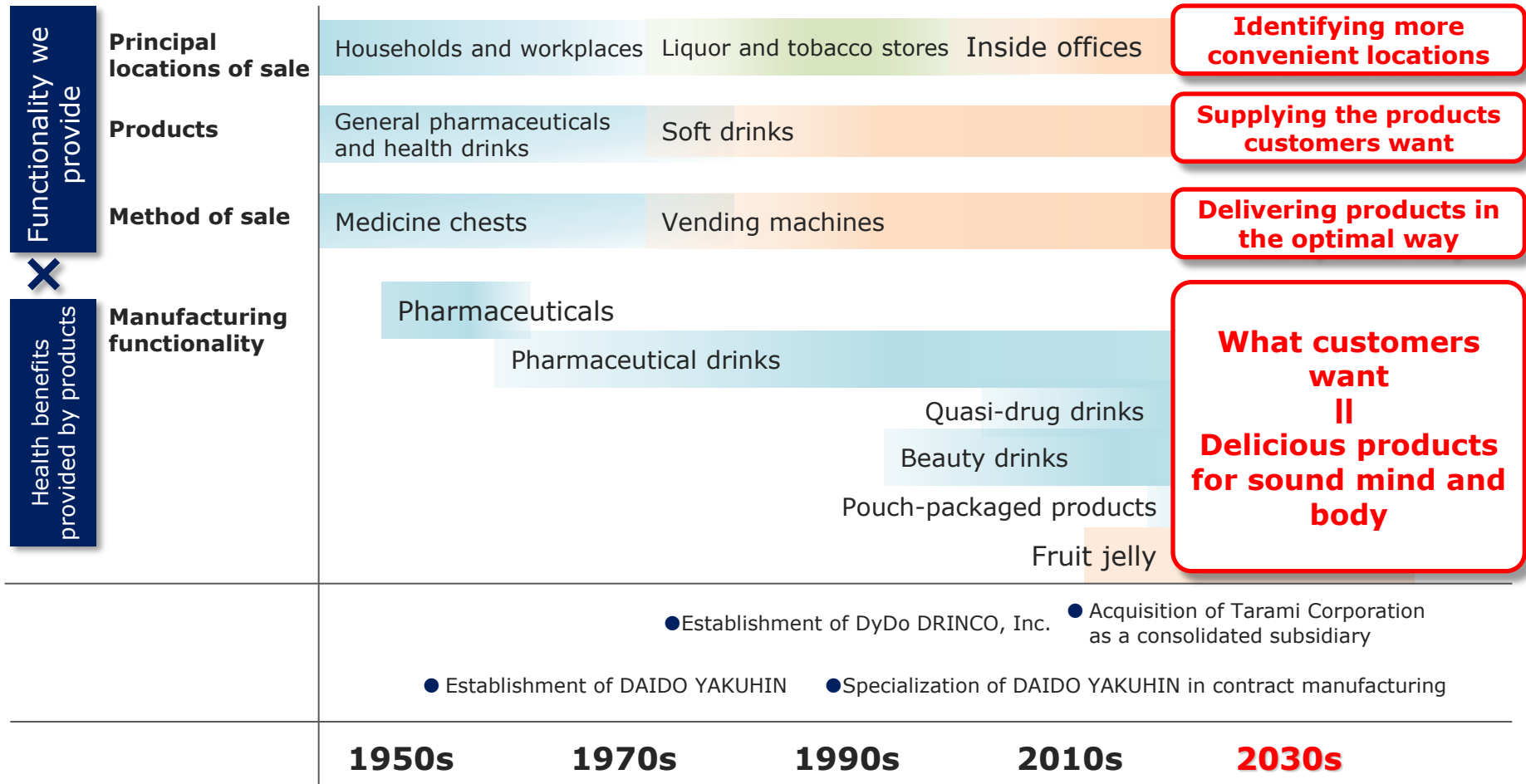


### Connecting people to people

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.

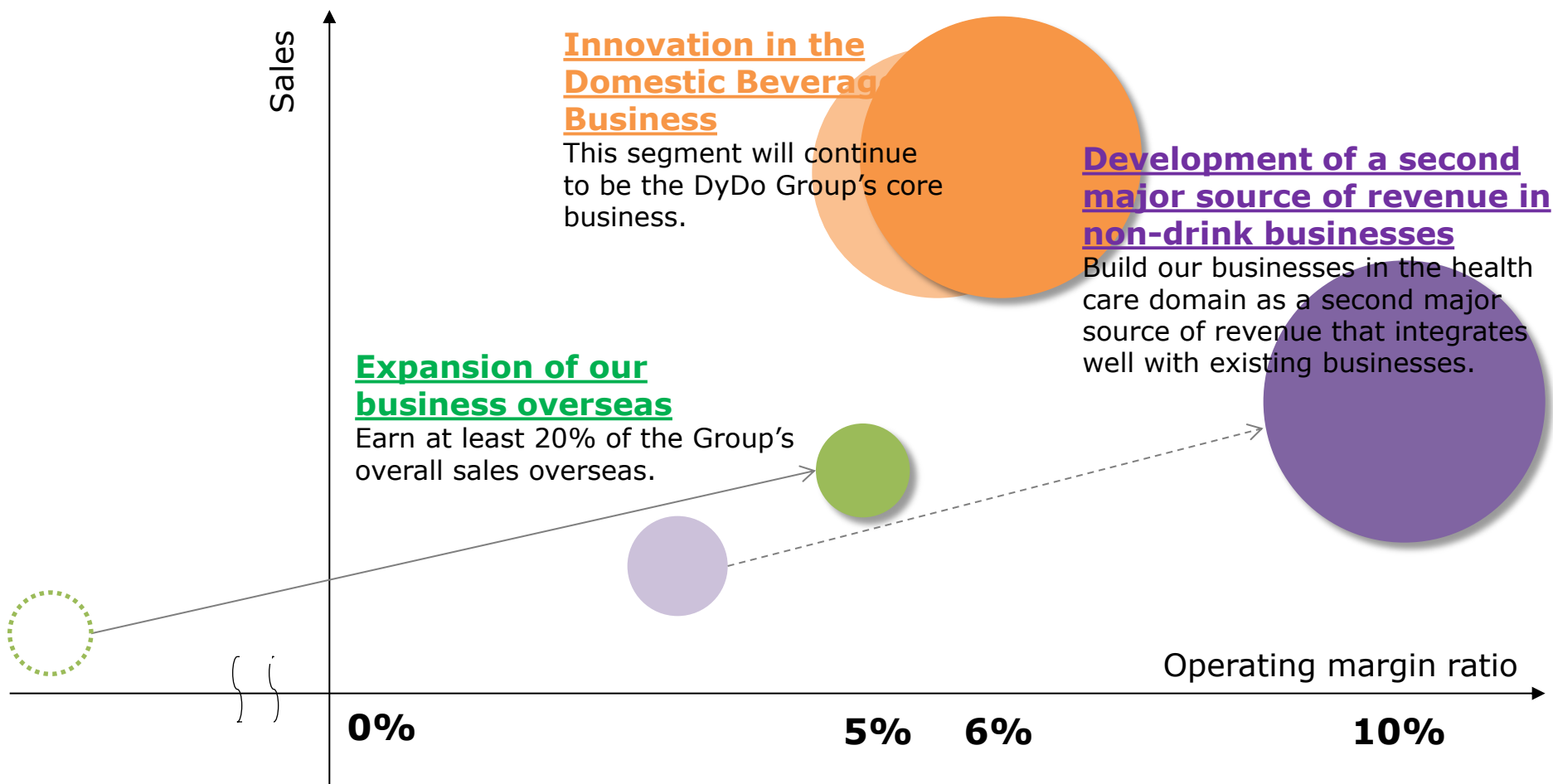
# Direction of the DyDo Group

- ▶ Refine our strengths and continue to offer delicious products for sound mind and body



# Group Mission 2030 Basic Policies

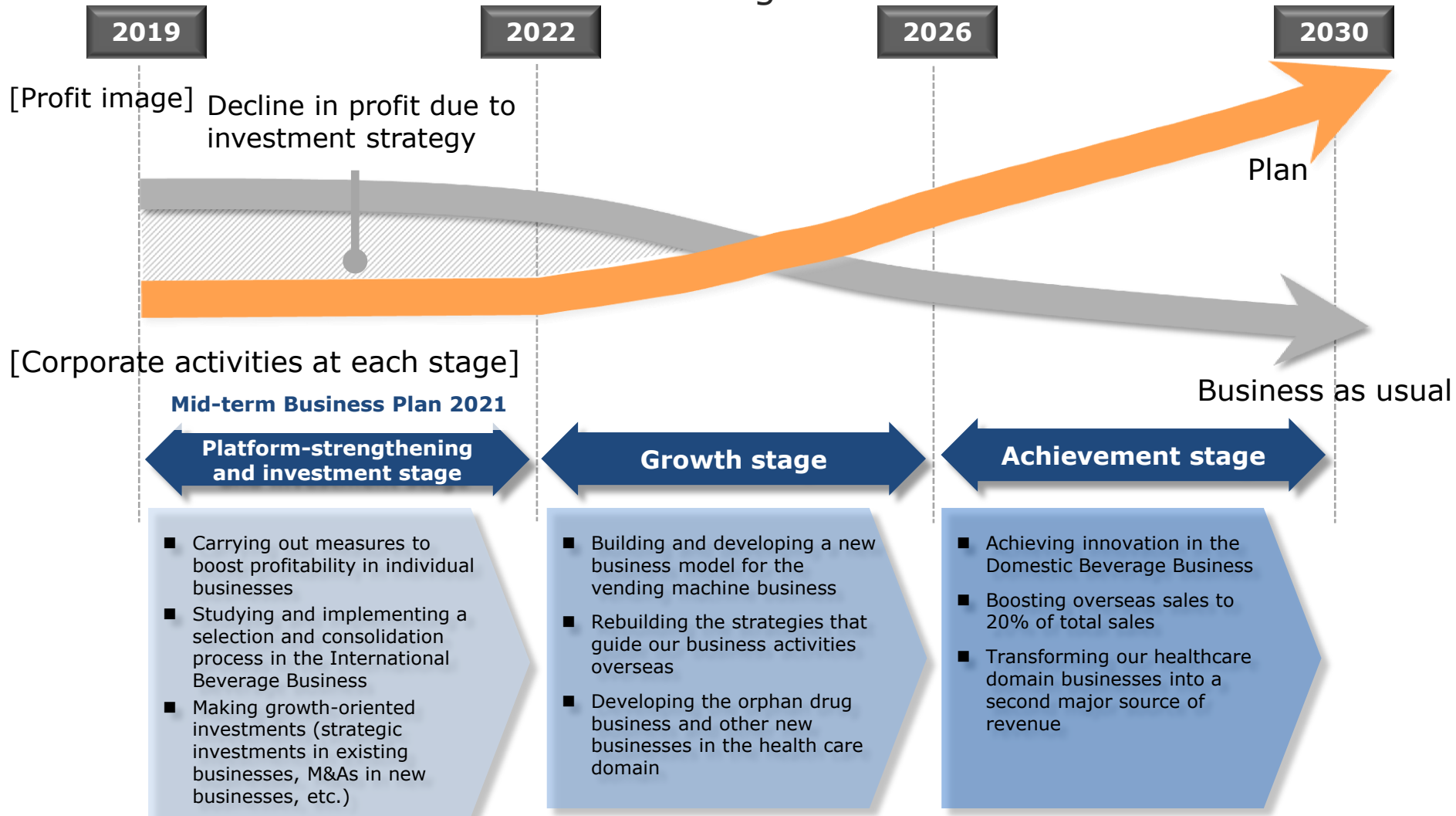
- ▶ Strive to develop a business portfolio characterized by high growth, profitability, and efficiency



\*Figure intended as a general illustration. The size of each circle represents operating income, with FY2018 and FY2030 indicated by light and dark colors, respectively.

# Group Mission 2030 Roadmap

- ▶ Although revenue will fall temporarily, we will make advance investments to achieve sustained growth.



# Mid-term Business Plan 2021 Guidelines

- ▶ Quantitative targets are disclosed in the one-year plan
- ▶ We will pursue these guidelines as we implement the Mid-term Business Plan

	Guidelines
<b>Sales</b>	<ul style="list-style-type: none"> <li>Organic growth in existing businesses along with new M&amp;As</li> </ul>
<b>Operating margin</b>	<ul style="list-style-type: none"> <li>Operating margin in existing businesses (3%) minus investment strategy costs plus profit/loss from new M&amp;As</li> <li>Transition of the International Beverage Business to profitability</li> </ul>
<b>Cash flows (CFs)</b>	<ul style="list-style-type: none"> <li>Operating cash flows created by existing businesses: ¥40 billion yen or greater</li> <li>Capital investment necessary in existing businesses: About ¥28 billion</li> </ul>
<b>Investment strategy</b>	<ul style="list-style-type: none"> <li>Growth investments in existing businesses: About ¥12 billion</li> <li>Investment in the health care domain to execute new M&amp;As: About ¥30 billion</li> <li>Launch of the orphan drug business: About ¥3 billion</li> </ul>
<b>Return to shareholders</b>	<ul style="list-style-type: none"> <li>Return of profits to shareholders through stable dividends</li> </ul>

# Investment Strategy in the Mid-term Business Plan 2021

- ▶ We anticipate spending a maximum of ¥45 billion in an investment strategy that includes growth investments, M&As, and other

[Investment resources]

Red borders: Growth investments

**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 domain
- Investments in launching the orphan drug business

¥30 billion

Investment  
Strategy (3)

¥3 billion

Investment  
Strategy (4)

## **[Return of profits to shareholders through stable dividends]**

**¥3 billion**

**¥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

(Pharmaceuticals Business)

¥6 billion

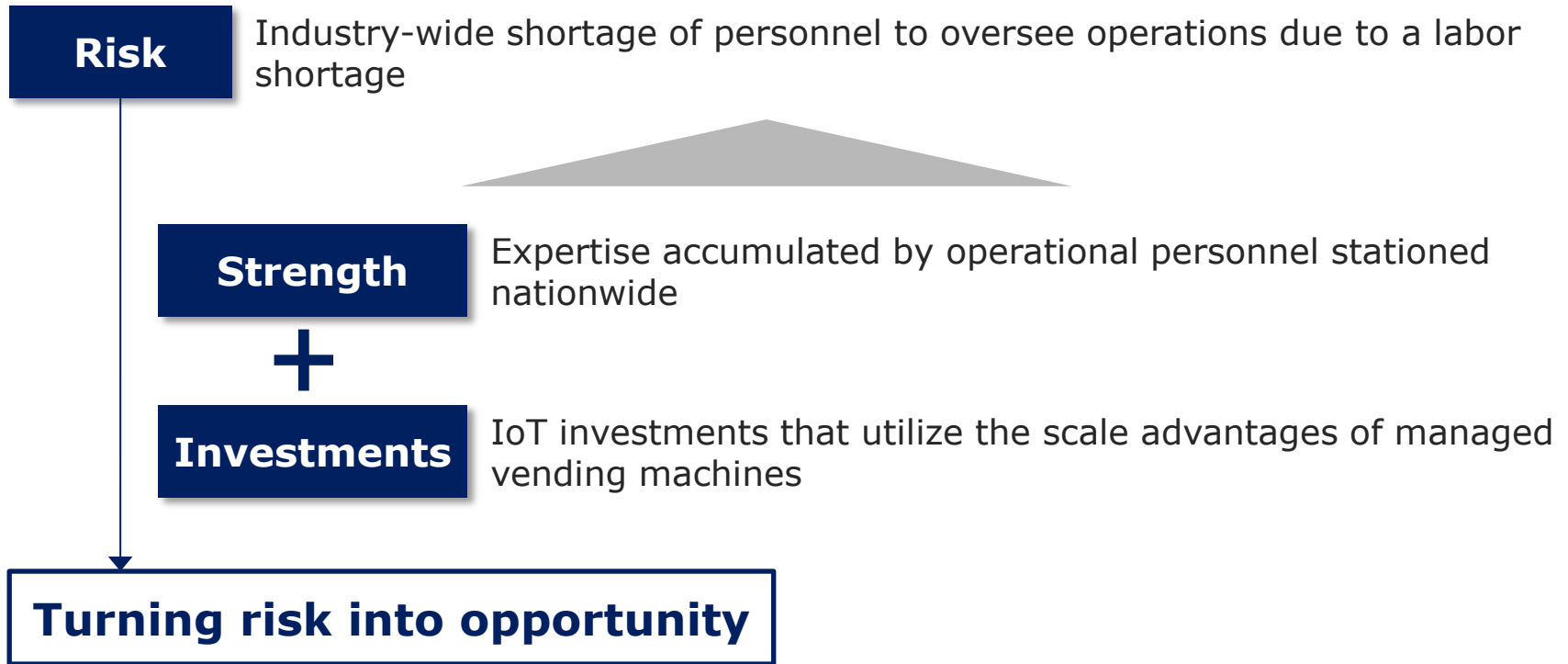
Investment  
Strategy (2)

- 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**

## Investment Strategy (1) New Investments to Grow Existing Businesses Establishing Smart Operating Structures in the Domestic Beverage Business

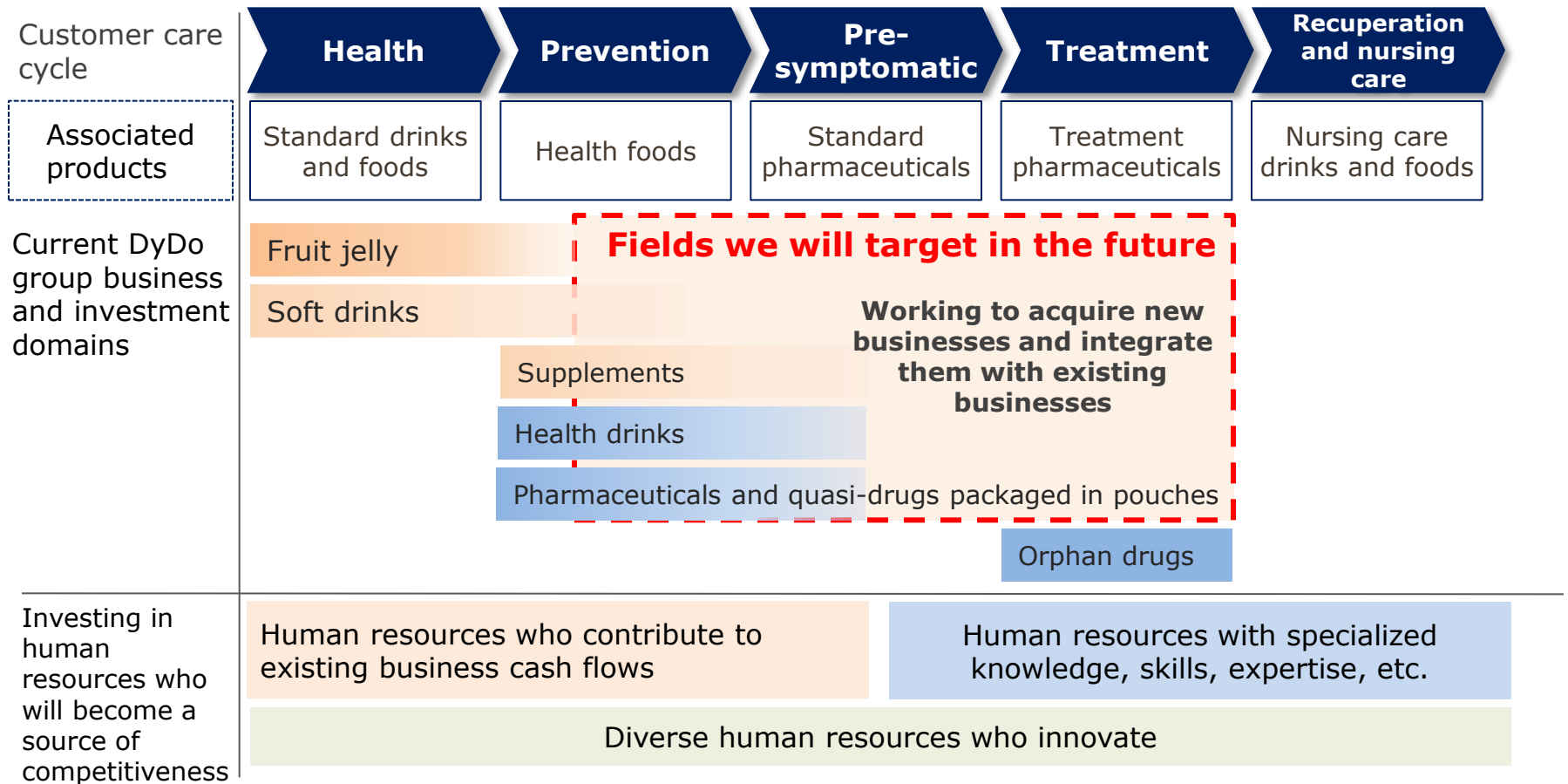


- Increasing the number of vending machines per coordinator by streamlining operations
- Ensuring competitive advantages in the vending machine industry by building smart operational structures

## Investment Strategy (2) New Investments to Grow Existing Businesses Expanding the Types of Products in the Pharmaceutical-related Business



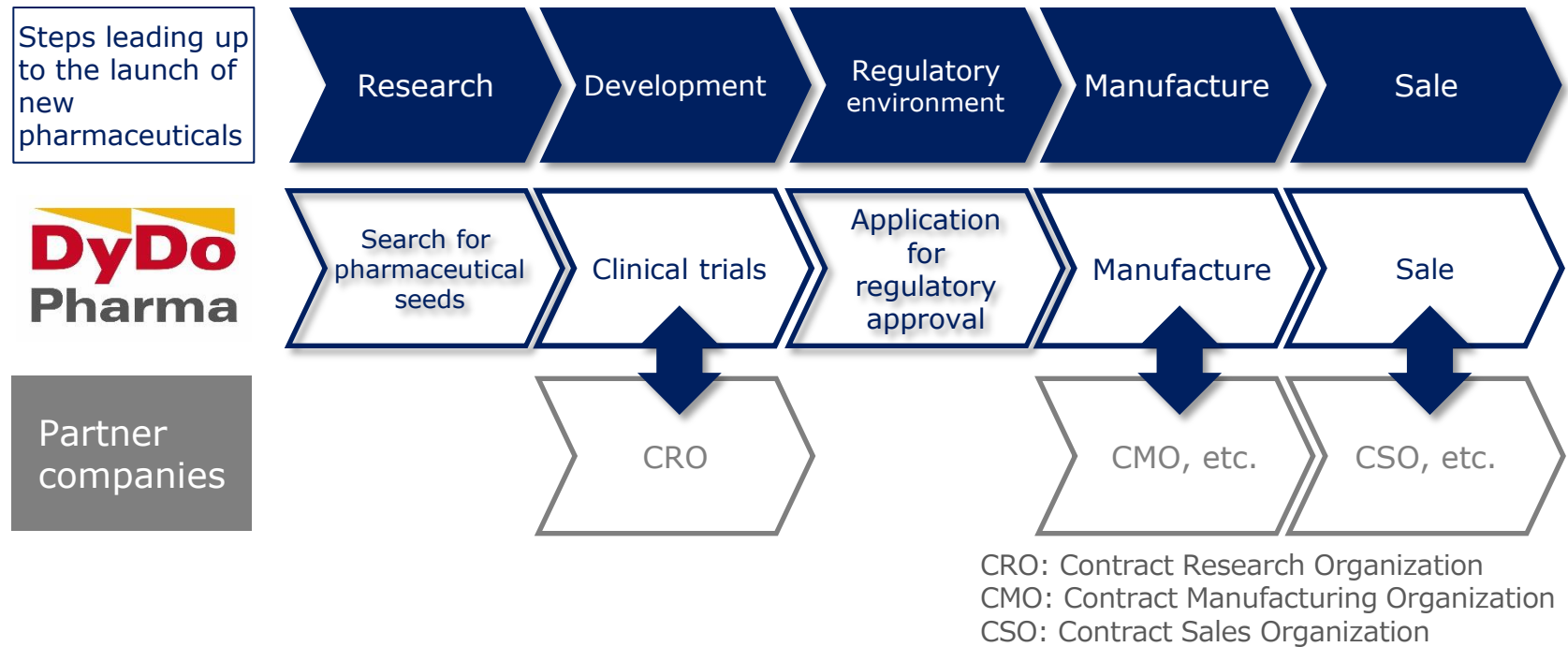
## Investment Strategy (3) Investment in New Businesses M&A Investments in the Health Care Domain



Building major new sources of revenue in non-drink businesses in the health care domain by pioneering markets that transcend the boundaries of the medical and food markets

## Investment Strategy (4) Investment in New Businesses Investments in Launching the Orphan Drug Business

- ▶ We established DyDo Pharma, Inc., as a new company operating a treatment pharmaceuticals business on January 21, 2019



Working to deliver profitability in the long term by outsourcing operations and developing a promising new product pipeline of high-quality products

▶ Entering the orphan drug market (with a planned start of business in August 2019)

● **Helping solve a social problem**

Due to the comparatively small number of patients suffering from rare diseases, there has been inadequate development of orphan drug to date, leaving many patients without access to effective drugs to treat their conditions.

● **Putting the Group Philosophy into practice**

We will work to resolve a social problem through our business by providing value in the form of pharmaceuticals to patients suffering from rare diseases.

● **Conditions for designation as an orphan drug**

<b>Target patient population</b>	Less than 50,000 in Japan Alternatively, a disease may be designated as a difficult-to-treat disease by regulatory authorities.
<b>Need for treatment</b>	No appropriate alternative pharmaceuticals or treatment methods Alternatively, the pharmaceutical must offer potential in the form of significantly superior efficacy or safety compared to existing pharmaceuticals.
<b>Development viability</b>	There must be evidence supporting use of the pharmaceutical in question to treat the target disease, and the manufacturer's development plan must be reasonable.

Article 77 Paragraph 2 of the Law on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical devices

# 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



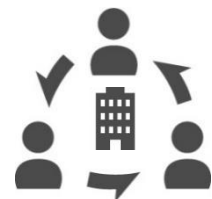
### Fostering the development of human resources

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



### 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



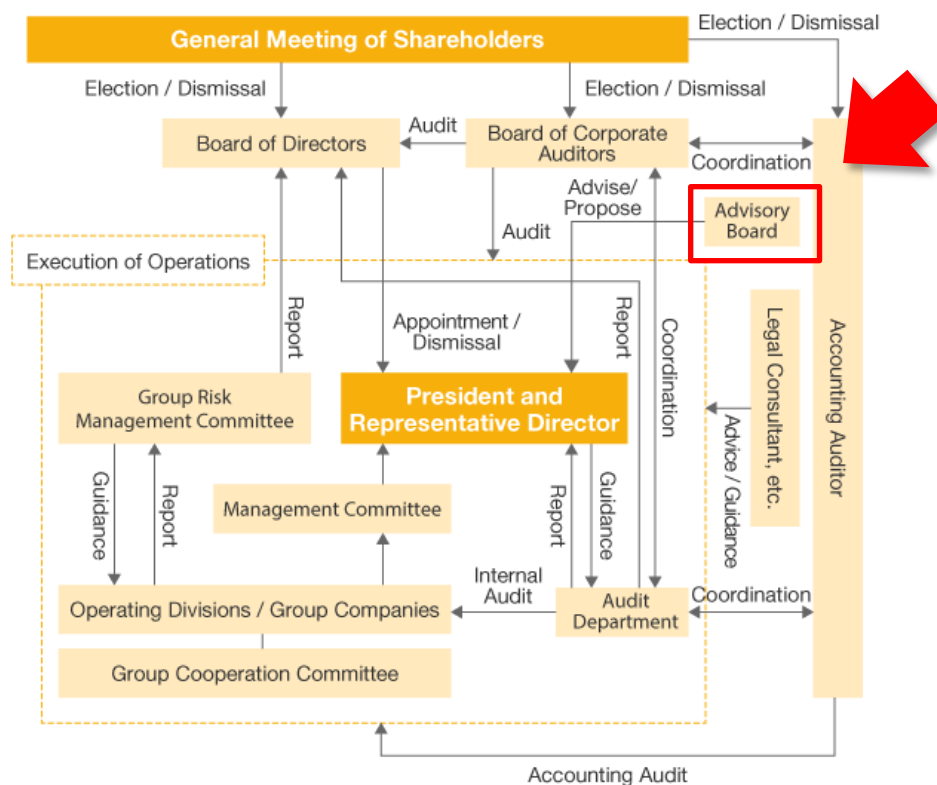
# Formulating the DyDo Group Code of Conduct

- ▶ We formulated a DyDo Group Code of Conduct to serve as the basic set of principles in sharing ethical values throughout the Group and ensuring that actual conduct furthers those values.



# Ongoing Improvements in Corporate Governance

- ▶ We created an Advisory Board to serve as an advisory body to the president
  - Consisting of roughly three outside experts not currently serving as outside directors or corporate auditors
  - Offering assessments and advise from an objective perspective concerning issues that demand a high level of specialized knowledge, for example investment decisions related to the orphan drug business



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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.