こころとからだに、
おいしいものを。

DyDo

Offering delicious products
for sound mind and body

DyDo Group Holdings

Integrated Report 2020

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 the next generation.

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

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 our people.

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

DyDo Group Slogan

こころとからだに、
おいしいものを。

DyDo

Offering delicious products
for sound mind and body

The commitment behind our slogan

If the mind is full of energy, the body wants to be active.
If the body moves with positivity, this links to the greater happiness of the mind.
The DyDo Group is committed to bringing this joy to the minds and bodies of our customers.

The DyDo Group is unique in its ability to inspire a joyous and healthy life in our customers through a vast range of products, from drinks and foods through to pharmaceuticals.

The DyDo Group aims to be of service to people and to society through providing valuable products and carrying out corporate activities, based on its consistent vision fueled by a challenging spirit and the pursuit of ideas.

DyDo Group Philosophy System

DyDo Group Philosophy
The True Mission of the DyDo Group

DyDo Group Vision
The Ideal Picture of the DyDo Group

DyDo Group Code of Conduct
Basis for our conduct

Group Slogan
Words expressing our philosophy and vision in clear terms to everyone involved with the DyDo Group.

Visit our website for more details

Editorial Policy

We at DyDo Group Holdings have prepared an annual Integrated Report since 2017 to deepen our stakeholders' understanding about the group, while also promoting constructive dialogue to further the group's development in the future.

The Integrated Report for 2019 outlined the thinking behind Group Mission 2030 ("For DyDo Group to create enjoyable, healthy lifestyles for people around the world"), launched in January 2019, as well as Mid-term Business Plan 2021, and described the ways in which the DyDo Group's philosophy, business models, strategies, governance practices, and ESG challenges relate to our efforts to achieve that mission.

This year's report follows on from the editorial policies of its predecessor, offering updates on progress toward achieving the targets stipulated in Mid-term Business Plan 2021, new challenges identified in the first year of the plan, and our efforts toward full implementation of ESG management.

In principle, this report covers activities in the business year ended January 2020, but some additions have been made to inform readers of our views regarding the risks and opportunities thrown up as a result of the worldwide spread of Covid-19.

We hope that this report helps investors understand the DyDo Group's management philosophies and policies, as well as our vision for the future and the strengths and strategies we will employ to achieve it. Moreover, this report is intended to contribute to constructive dialogue with stakeholders regarding our efforts to boost corporate value.

July 2020

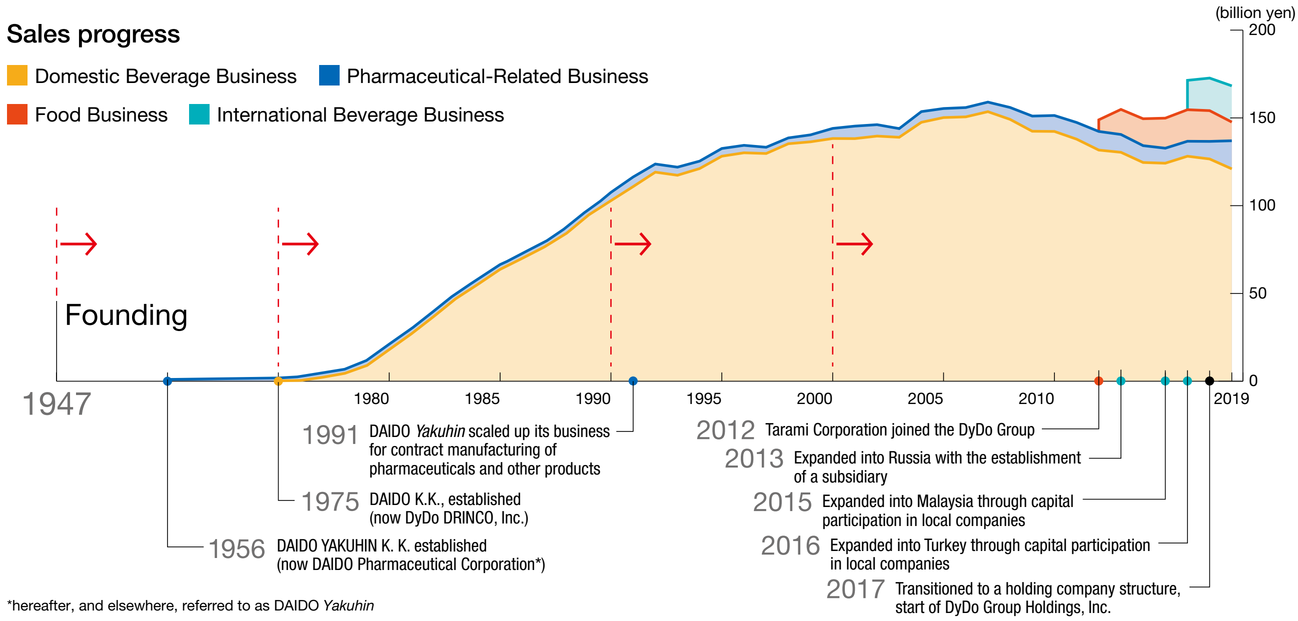
Compiled with reference to the *Guidance for Collaborative Value Creation* issued by the Japanese Ministry of Economy, Trade, and Industry

Statement Regarding Use of Forward-Looking Statements

DyDo Group plans, outlooks, strategies, etc., that are contained in this Integrated Report and that make statements pertaining to matters other than past or present facts are forecasts of future performance and are based on reasonable judgments or hypotheses by DyDo Group Holdings management, which are made in accordance with information available as of May 26, 2020. Such statements may contain known or unknown risks, uncertainties, and other such elements, and do not guarantee the future of such plans or forecasts. Such risks, uncertainties, and other such elements include the contents of DyDo Group Holdings's latest securities reports and quarterly reports, and DyDo Group Holdings shall bear no obligation whatsoever to publish updates or corrections to forward-looking statements. Please use this Integrated Report and other materials disclosed by DyDo Group Holdings with reference to information obtained from other sources and make your own conclusions and judgments. DyDo Group Holdings bears no liability whatsoever for any damage that may arise as a result of this Integrated Report.

Contents

Our Journey So Far



*hereafter, and elsewhere, referred to as DAIDO *Yakuhin*

Note: From FY2017, changes were made to reporting segments and the Beverage Sales Division was split between the Domestic Beverage Business and International Beverage Business

1940s

Founded in "use first, pay later" medicine

The history of the DyDo Group began when our founder, Tomio Takamatsu, took up the "use first, pay later" medicine business as a personal business after World War II. This business is called *okigusuri*, and was a medicine sales system unique to Japan, in use for more than 300 years. With this system, medicine boxes were placed in each home. Customers used remedies such as cold medicine and stomach medicine when needed, and payment was collected later. It was the forerunner of the vending machine business, where a vending machine is first installed somewhere, and a variety of products are provided, so that customers can buy them at any time.

With the growth of this business, Takamatsu incorporated the company and in 1956 established DAIDO YAKUHIN K.K. After that, the company entered the pharmaceutical manufacturing business.

Founder
Tomio Takamatsu

1970s

Entry into the vending machine business and resulting growth

Anticipating the potential of a canned coffee, we developed DyDo Jamaican Blend Coffee in 1973, the forerunner of today's DyDo Blend Coffee, and began selling beverages via vending machines. Sales grew steadily, and DyDo K.K. was incorporated in 1975 as vending machines quickly gained popularity nationwide, thus establishing the roots of our current business model with the vending machine business at its core.

As operations grew, we sought not only to expand our own sales, but also made a point of forging vending machine networks in tandem with local businesses. This nationwide network of partner companies is a distinguishing factor of our sales structure. (For details, see p. 22)

1977

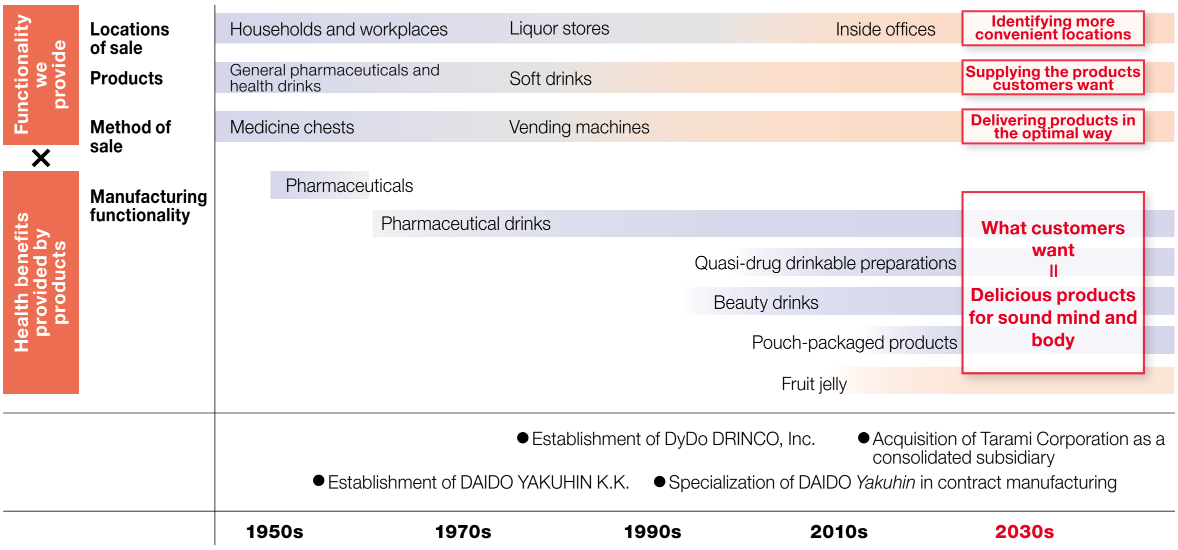
Appearance and dramatic spread of vending machines that can both heat and refrigerate

1990s

Daido *Yakuhin* pivots to specialize in OEM

Around this time, Daido *Yakuhin* began OEM production of clients' products in addition to making its own drinkable preparations. As production increased amid a boom in the popularity of functional beverages, the company moved in 1991 to a newly built plant in its current headquarters in Nara, at which time it pivoted to become a dedicated OEM producer.

Changes in DyDo Group's business and future goals



2010s and beyond

Reforming Existing Businesses and Expanding into New Domains

Seeking new growth drivers in this environment, we began structural reforms of our core businesses and expanding our portfolio into other domains in the 2010s. For instance, the vending machine business was split into two main functions: development, including the development of products and machine locations; and sales, which includes vending machine operational tasks. At the same time, distribution channels were strategically repositioned and the values of our core coffee product were redefined.

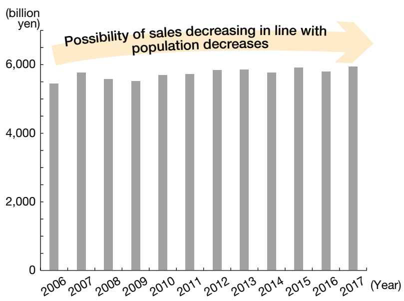
Acquiring Tarami Corporation, a producer of fruit jellies, in 2012 through M&A and establishing a Russian subsidiary in 2013 sparked even more expansionary activity, including entering the Turkish and Malaysian markets. We have also switched to a holding company structure, centered on DyDo Group Holdings, as part of our quest to achieve sustainable growth and medium- to long-term improvements in corporate value across the whole DyDo Group.

Throughout these expansions into new business domains, we have not lost sight of the overriding mission of our business model—offering the products customers want in the closest and most convenient location. Going forward, we will continue to enhance our capability to deliver healthy products.

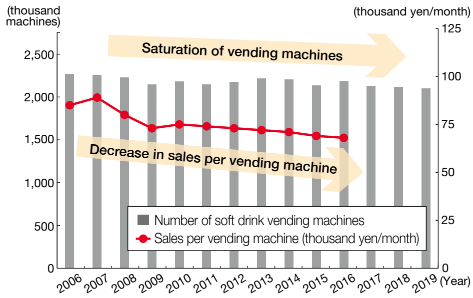
A New Millennium Reveals Changes in the Business Environment

The DyDo Group grew in an age when vending machines increased in popularity, but our growth has stagnated in the 2000s. The market is now saturated with vending machines, and the rise of convenience stores and (more recently) drug stores as distribution channels have caused a continued decline in sales per vending machine. Therefore, although the beverage market itself is growing, as the various players undertake promotional efforts, for example developing new products and price strategies, it is increasingly a survival-of-the-fittest situation. Moreover, the Japanese market is forecast to shrink as the country's population declines.

Domestic beverage market trends



Domestic vending machine market trends



Source: Japan Vending System Manufacturers Association (no sales statistics available after FY2017)

Our Journey from Here

Growth projection

Growth achievable through conventional, tried-and-true methods

Growth achievable through Mid-term Business Plan 2021 initiatives

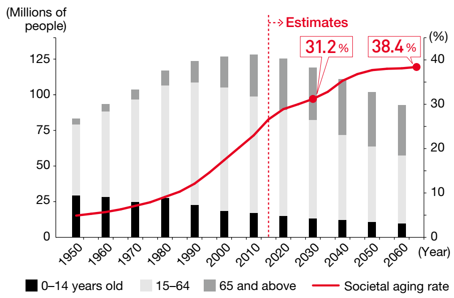
Risks brought by changes in the external environment

- Stagnation of demand growth
- Labor shortages, rising personnel costs
- Declining demand for vending machines in offices as telecommuting becomes established

Covid-19 brings the possibility of new risks

Convert to opportunities

Changes in Japan's population and demographics



Pursue ESG management to use our business as a vehicle to solve social issues

Build a business model adapted to the social changes wrought by Covid-19, and make a contribution to people and communities

Opportunities arising from changes in the external environment

- Technological advancement
- Expansion of the healthcare market sparked by increased consumer health-consciousness
- Increased awareness of illness prevention among consumers leading to fewer boundaries between medical, beverage, and food segments

Seize opportunities and utilize strengths

Covid-19 raises the possibility of new opportunities

←2019

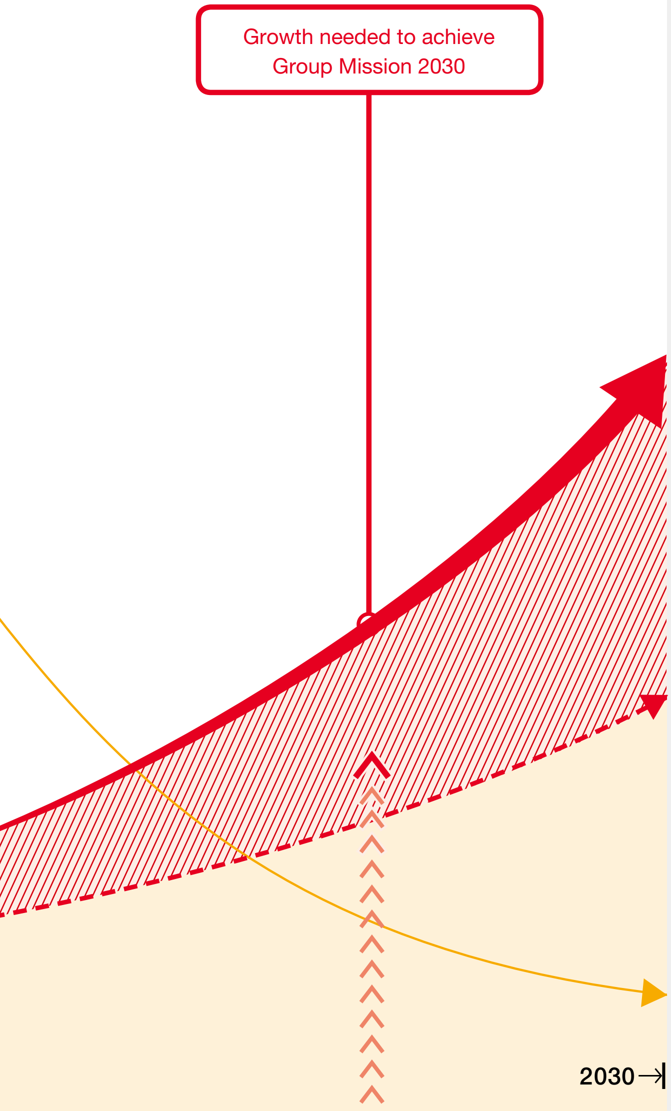
Strengths the DyDo Group has developed that are driving growth

1. Unique business models based on supplying the delicious flavor customers want in locations that are familiar and convenient P21-23
2. Stable cash flows created by invisible assets (i.e., the vending machine business model) P24
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 P27-28
4. Technology to create delicious jelly products P29-30

Basic Policies of Mid-Term Business Plan 2021

- Focusing on improving profits and implementing robust management
- Making judgments about business continuity to facilitate strategic management
- Implementing a growth strategy to achieve Group Mission 2030

Business Challenges P53-60 ▶



We will contribute to people and communities, and increase corporate value through ESG management and innovation

- Enhance new activities aimed at increasing business opportunities
- Enhance activities related to innovation
- Look into measures and KPIs aimed at plugging gaps

ESG Challenges P31-44

Where, and what, we want to be

Group Mission 2030
For DyDo Group to create enjoyable, healthy lifestyles for people around the world

	We deliver	We endeavor
Through our business	**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. P35-36	**Together with society.** **Taking the lead in social reform** We will take the lead in social reform, going beyond conventional wisdom to adopt new perspectives for achieving a sustainable society. P37-38
Foundation for achievement	**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. P39-40	**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. P41-42

Group Mission 2030 basic policies and our business portfolio in 2030

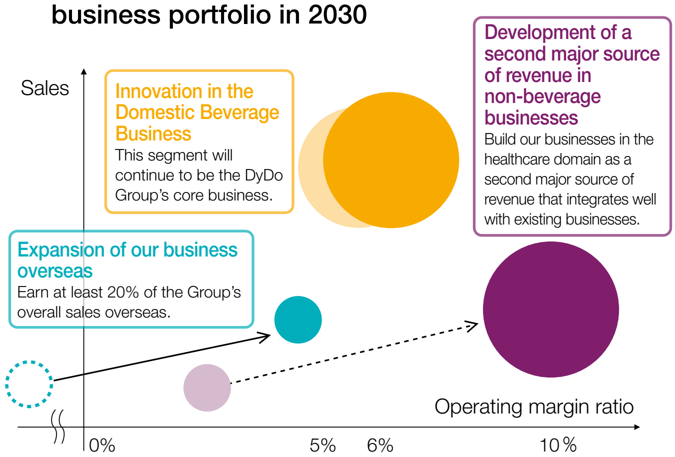


*Figure intended as a general illustration.
The size of each circle represents operating income, with FY2018 and FY2030 indicated by light and dark colors, respectively.

Message from the President

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

Tomiya Takamatsu
President and Representative Director

Today's Business Model, Underpinned by Our Founding Philosophy

Today's DyDo Group evolved from the small, "use first, pay later" medicine business founded by my grandfather. He delivered first-aid kits to homes and businesses, where families and workers used the medicines inside when needed, and he collected payment for what they used later. In other words, our roots lie in "being there" for customers, helping them find healthy, fulfilled lifestyles. As the business grew, the company developed, produced, and sold its own drinkable preparations, the forerunner of today's OEM drinkable preparations operations, which are handled by DAIDO *Yakuhin* (Pharmaceutical-related Business).

However, the spark that really ignited the group's growth was the vending machine business, now the core of our operations. Japan's rapid economic development in the 1970s brought a sudden increase in road traffic, and we focused on a new demographic, truck drivers. We installed showcases full of our drinkable preparations in parking areas along national highways. Subsequently, we turned our attention to canned coffee, a new product, and launched a beverage sales business dealing in canned coffee as part of DAIDO *Yakuhin*. At the same time, vending machines that could sell both hot and cold drinks appeared. Foreseeing their potential for canned coffee sales, we upgraded our conventional showcases to vending machines and entered the vending machines business in earnest. I believe that our success in this segment and our massive growth overall were underpinned not only by grasping consumer trends, but by—as ever—our unshakeable commitment to "being there" for customers.

Thus, although our evolution from the "use first, pay later" medicine business to the vending machine business may appear to be a significant change in our business model, we see it as a continuation of the same business practice: i.e., installing products where customers can reach them and buy them whenever they require. Indeed, our business model of "being there," is more than just our strength, it is our role in the community.

Of course, the DyDo Group's growth is founded on the support of our stakeholders. For instance, our Domestic Beverage Business could not exist without the owners of the locations where we place our vending machines, the packers to whom we outsource drink production, and the local DyDo Vending Partner Association ("Kyoeikai") members who run half of all DyDo vending machines. The growth of DAIDO *Yakuhin*, which is in charge of the group's Pharmaceutical-related Business, into one of Japan's top-performing OEM producers of drinkable preparations, is a similar case. This growth was facilitated by clients such as pharmaceutical and cosmetic manufacturers, whose demanding requirements for superior quality management and assurance spurred DAIDO *Yakuhin* to seek the high development and production capabilities that enabled it to carve out its foothold at the top of the industry.

We still value our founding philosophy of striving to achieve happiness and prosperity together as without our stakeholders, none of our businesses could have achieved their current level of growth.
(For details on our business model, see pp. 21–30)

A Group Philosophy for Success on a New Stage

I joined the DyDo Group in 2004, when our core vending machine business had peaked in terms of vending machine numbers, and these subsequently began a gradual decline. The rise of convenience stores and, more recently, drug stores has changed the landscape, and nowadays it is rare to see a year-on-year increase in sales per vending machine. Weeding out unprofitable vending machines and reviewing organizational structures have enabled us to maintain a certain level of profits, but from a medium- to long-term viewpoint, we cannot rely solely on our vending machine business.

My first task as president in 2014 was to establish a Group Philosophy that spoke of our determination to seek future growth: “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.”

That collective determination to achieve happiness and prosperity together served us well in the past, facilitating our remarkable growth in tandem with the expansion of the vending machine market. But as we approach the limit of that market potential for growth, sticking to the same old strategies or business activities will not help us achieve further growth. This fact presented many who had experience of the success of those strategies or activities with real difficulty. Yet my inclusion of the phrase “embrace new challenges” in the updated philosophy was a public acknowledgement of the need for these employees to actively take on challenges and innovate and for us to tackle the challenging task of updating our company culture. The Group Philosophy also expresses the spirit of striving to achieve happiness and prosperity together that has been with us since our founding.

Leading Change

As a leader, I have to lead the charge toward taking on the challenges I identify. Ever since becoming vice president in 2012, I have endeavored to drive groupwide growth by making our vending machine business more muscular by reinforcing the Domestic Beverage Business’s foundations by strengthening operations outside the vending machine channel, and broadening our portfolio by expanding into sectors with potential for synergies with our existing businesses.

Vending machines will continue to be the bedrock of our business. Not simply because they make up a large proportion of consolidated net sales, but because that business model is also a superlative driver of cash flow. Indeed, it has enabled us to lay a solid financial foundation for the group’s operations, and the cash it generates will underpin future business endeavors. Thus, if the DyDo Group is to sustain its growth, we must continue to strengthen the vending machine business’s ability to continually generate cash. That is why we have long sought to improve profitability in our Domestic Beverage Business by, for instance, reducing vending machine procurement costs and extend vending machine lifetimes.

Elsewhere, we have long sought to improve our product strengths. Among various initiatives, the most prominent was the redefinition of the brand values encapsulated by our coffee, which is an asset every bit as important to the DyDo Group as vending machines. Since the very beginning, DyDo canned coffee has always been about being completely free of added artificial flavoring so that drinkers could enjoy the inherent deliciousness of coffee unadulterated, and about being a blend of at least five bean varieties so as to present a deep and complex flavor profile. After reviewing this long-standing policy from a branding perspective, we decided that the various coffee products would bear the title DyDo Blend, and now all cans bear a logo expressing the DyDo Group’s pride in our legacy of coffee production. Perhaps the most visible outcome of this project was the updating of DyDo Blend Original, our flagship product that had overseen the group’s tremendous growth since 1975. The project has been effective; clarifying the areas of greatest appeal paved the way for more strategic marketing initiatives, which have resulted in solid improvement in DyDo Blend brand recognition.

DyDo Blend products always bear this logo, which is based around the three colors of coffee production: green for raw coffee beans, red for mature beans, and brown for roasted beans. In doing so, the logo symbolizes our dedication to offering drinkers the inherent deliciousness of coffee.

1975
DyDo Blend Coffee is launched.
This is the beginning of one of the industry's longest-selling products.

2012
The iconic design on our first canned coffee became a logo.
All our coffee products bear this symbol of pride in our quality coffee.

2018
Current package design launched.
The basic design remains true to the original, using a burlap coffee sack motif.

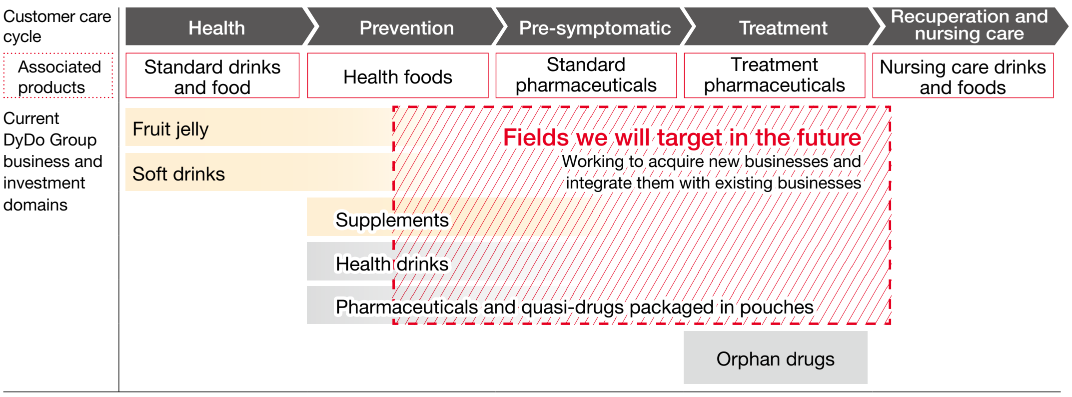
Positive outcomes have also been achieved in areas other than vending machines, including stronger distribution channels and establishment of a new mail order channel centered on dietary supplements, which has brought profitability.

Thus, while these new initiatives have reached a certain level of success, I feel that our vending machine channels are not able to keep up with the pace of change. The cash-generating power of the vending machine business is key to the group's growth, but the decline in sales causes that strength to dwindle. In fact, the vending machine business has been on shaky ground in recent years—particularly since the second half of 2018—and dealing with these changing circumstances is one of our most pressing tasks. I will work together with the DyDo Group's workforce to accelerate our innovation.

Even with such innovations though, we cannot achieve ongoing growth through the vending machine business on its own. That's why I have sought to broaden our portfolio, for instance by acquiring Tarami in 2012 as part of our Food Business, and bolstering our overseas operations, beginning with the opening of a Russian subsidiary in 2013, as well as expansions into Malaysia and Turkey, the latter of which has grown to account for virtually all of the DyDo Group's international beverage sales and profits. While these examples were successful, not every project results in growth. All are learning experiences, though, and studying success and failures has enabled us to refine our policies and abilities surrounding the launch of new businesses. As a result of pursuing and analyzing such projects, we have identified the healthcare market as our main target for future growth.

Moving forward, we will seek to develop our healthcare operations into a second major source of revenue (alongside the Domestic Beverage Business) by 2030 as a means of driving corporate value over the medium to long term. To that end, we will use cash generated by the vending machine business "cash cow" to fund activity in this high-growth-potential segment while leveraging our existing strengths.

The DyDo Group's business domains



Translating Business Plan Initiatives into A New Group Mission for 2030

At the same time as the Group's Philosophy was instituted, we also worked hard toward achieving the fiscal 2014–2018 mid-term business plan, titled "Challenge the Next Stage." I believe that the switch to a holding company structure in January 2017 enabled us to graduate from seeking growth through maximization of existing businesses to a new paradigm: seeking growth by expanding our business portfolio. Indeed, we implemented many innovations during those five years, but it was also a period of great change. So, although we were able to lay a solid foundation, such as by expanding sales through overseas operations and switching to a holding company structure, this was not sufficient for us to achieve our initial financial targets. In the Domestic Beverage Business, lower fixed costs resulted in improving profitability, but our inability to improve profitability through sales growth was the main reason why we did not achieve the operating profit margin targeted in that mid-term business plan. This was, I recognized, a major issue.

And there is no doubt that the pace of change will accelerate even further over the next 10 years. Perhaps the factors with the biggest impact on our business model are Japan's significant demographic shifts. The country's population has been in decline for a while now; there are fewer children and more elderly people. Based on current trends, it is projected that by around 2030 more than one in three people will be 65 or older. As longevity increases, I believe a longer life will be a richer life if accompanied by a healthy lifestyle, and our mission is to provide values conducive to maintaining health.

Meanwhile, labor shortages caused by the decrease in productive population will affect our business, particularly as relates to vending machines, and therefore we need to identify and implement fundamental improvements to efficiencies.

If the DyDo Group is to adapt flexibly to these population trends and ensure ongoing growth, it is imperative that, even as we maintain vending machines as our core business, we allow our business model to evolve to suit the times, developing our portfolio by nurturing new businesses to underpin the group as the Domestic Beverage Business does now.

In a conventional mid-term business plan, targets are generally set as extensions of current operations—indeed, this was the approach of our previous mid-term business plan. These days, though, that approach is not enough to enable our operating companies to keep up with the lightning-quick pace of change.

That's why "For DyDo Group to create enjoyable, healthy lifestyles for people around the world," the vision for the DyDo Group in 2030 set forth in Group Mission 2030, which we launched in January 2019, is not simply an extension of what we have already done but a statement of where, and what, we want to be in the future. Our task is to contribute to healthier, more enjoyable lives and we can do this best through measures that consider future demographic shifts to identify the needs generated by longer healthy life spans, and recognize that elderly people will make up an increasingly large share of the population.

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 wisdom 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.

Harnessing Our Strengths to Innovate

The DyDo Group's strength is our business model of offering the products customers want in the closest and most convenient location. As we seek to evolve our business, we must continue to polish this business model and provide customers with the utmost convenience. In doing so, I believe that strengthening our ability to provide convenience in an age of labor shortages is essential, as is continuing to improve our ability to come up with the kind of products that customers want. To achieve this, we must blend our discrete business strengths into a cohesive whole, and further refine them. 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 sets out our basic policy for our business portfolio, which is that we will pursue three main strands in order to build a business model that will give us a competitive advantage: Innovation in the Domestic Beverage Business, expansion of our business overseas, and development of a second major source of revenue in non-beverage businesses. Our main focuses in building up our portfolio are improvements in growth potential, profitability, and efficiency. For instance, we have endeavored to improve profitability in the Domestic Beverage Business, such as by reducing fixed costs, particularly as relate to tangible reforms, for example by reviewing vending machine procurement costs, but we have not yet reached an acceptable level. Moving forward, we will continue to innovate, this time with a focus on intangible reforms, to make the group even leaner.

In addition, improving capital efficiency remains a major task in our quest to improve corporate value, and we must improve the rate of total asset turnover as well as improving profitability. 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 that end, we have drawn up a roadmap that divides the period up to 2030 into three stages.

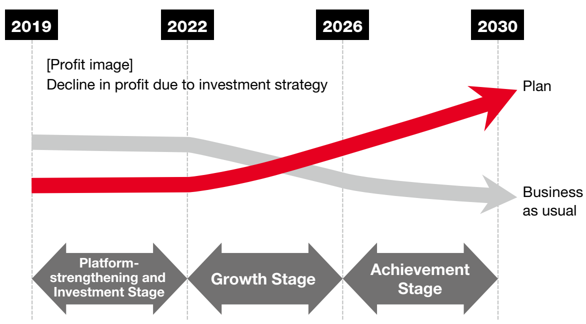
The trading environment for the core vending machine business remains tough, and if we continue running the business in the same way as before, it is inevitable that profits will gradually decline. Naturally, return on sales and total asset turnover will also drop. Therefore, the three-year period from fiscal 2019 has been designated the "Platform-strengthening and Investment Stage." During this period, a temporary decline in profits is envisaged, but we then expect the investments made during this time to come to fruition in the subsequent "Growth Stage" and "Achievement Stage."

We will strive to build a sustainable business model that allows us to achieve medium- to long-term improvements in corporate value through an investment strategy designed to harness our strengths so as to keep abreast of the opportunities and risks posed by environmental changes, for instance in population trends.

Measures to improve capital efficiency

	Results (as of Jan. 2020)	Direction	Policy
Operating margin	1.7%	↗	Improvement in operating margin in all business domains • Domestic Beverage Business 3.3% → 6% • International Beverage Business Loss → 5% • Pharmaceutical-Related Business 1.9% → 10% • Food Business 2.3% → 10%
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



Mid-term Business Plan 2021

For the Platform-strengthening and Investment Stage, we have established Mid-term Business Plan 2021, which stipulates a four-pronged investment strategy. First is to establish a smart operation structure through IoT investments aimed at streamlining operations in our core vending machine business (see 1 in the diagram below). This is aimed at ensuring a competitive advantage in the shrinking vending machine market by establishing a framework that enables us to sustain and grow our vending machine network despite labor shortages. The other three—establishment of new production facilities and pouch lines in the Pharmaceutical-related Business 2, M&A investments in the healthcare sector 3, and investments in launching the orphan drug business 4—are aimed at erecting a second major source of revenue in the healthcare sector that blends well with our existing businesses.

We envisage an outlay of up to 45 billion yen over three years for growth investments, M&A. Operating cash flow generated by existing businesses will be reinvested in those various operations, while surplus capital (approximately 36 billion yen on the balance sheet) will be invested in new businesses.

We will explore how this investment strategy conforms with Group Mission 2030 over the following pages.

Investment strategy

[Investment capital]

¥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
- IoT investments to streamline operations 1
- Investments to create business that utilize vending machines

(Pharmaceuticals Business) ¥6 billion
- Construction of a new plant in the Kanto region
- Construction of a new pouch line at our existing Nara Plant 2

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 healthcare segment 3 ¥30 billion
- Investments in launching the orphan drug business 4 ¥3 billion

Return of profits to shareholders through stable dividends ¥3 billion

Growth investments

Key strategies

Domestic Beverage Business	• Establishing a reliable position in the vending machine market through measures such as smart operational structures that add IoT functionality to vending machines • Establishing robust business platforms • Fostering the development of human resources and building our organization to support businesses over the long term
International Beverage Business	• Reassessing strategic countries to achieve overall business profitability • Implementing cross-cutting measures between strategic countries • Strengthening exports of Japanese products with high added value and developing new overseas markets
Pharmaceutical-Related Business	• Achieving a smooth start of operations at new Kanto Plant • Developing and manufacturing new contract products and product formats • Developing more sophisticated quality control structures
Food Business	• Strengthening development of high-value-added products • Improving profitability through a multifaceted reassessment of costs • Creating business models that transcend categories
New businesses and other	• Developing new markets in the healthcare segment and fostering the development of the orphan drug business • Making growth investments in new and existing businesses for example to add IoT functionality to vending machines • Hiring and fostering the development of a next generation of workers

Basic Policies of Group Mission 2030

Innovation in the Domestic Beverage Business

The Domestic Beverage Business faces formidable challenges, including a market where demand is down, as well as labor shortages in the vending machine channel, throttling supply-side capacity. To maintain a competitive advantage in our traditional strongholds, the DyDo Group will harness evolving technologies to develop systems designed to meet contemporary needs. At present, we are installing vending machines with IoT capabilities that enable swift analysis of sales data from each machine, through which we aim to achieve optimal product selections and restocking on a machine-by-machine basis.

Naturally, IoT functionality is not by itself a panacea; in the end it is our workforce who make decisions based on the data it generates and put these decisions into action. Keeping our work practices up to date and as efficient as possible will help us maximize cash flow and allow DyDo to stay ahead of the competition in the vending machine market.

Although selling beverages via vending machines is our core business today, we must not allow ourselves to become obsessed with the idea that it will always be so. Just as our business model guided us previously to evolve from a "use first, pay later" medicine business to a vending machine business, so it may one day push us to adopt a new style of serving our customers as vending machines evolve to stay relevant to people's lifestyles. Thus, the products and the way of supplying them may change, but the business model remains constant. That determination to stay abreast of contemporary needs is the rationale for our investments in a start-up venture operating "office convenience stores," through which we gain valuable expertise regarding cashless operating methods and data analysis.

In this way, our blend of new technologies is a potent method for strengthening the group's core strength: our business model of offering the products customers want in the closest and most convenient location.

(For details on our investments in start-up ventures, see p. 41)

Basic Policies of Group Mission 2030

Expansion of Our Business Overseas

Under the previous mid-term business plan, one of the main focuses for overseas investment was the Turkish beverage business. We chose Turkey as an investment destination because of its large youth demographic, projections of huge population growth, and the potential for expansion of its soft drink market. And in fact, since acquiring a local company and consolidating it as a DyDo subsidiary in 2016, our Turkish beverage business has seen an extremely high rate of growth. Conversely, in Malaysia, where we expanded into the beverage business simultaneously with Turkey, we dissolved our joint venture in 2019 and have had to restructure our operations.

The difference between these two projects was the brand recognition held by the local companies we acquired and the ability to implement DyDo-led post-merger integration strategies.

As part of the current mid-term business plan, we are reviewing our overseas operations. We want to think carefully about the level of achievement we require on a global basis in the run-up to the next plan as we aim to build up overseas business operations to account for more than 20 percent of consolidated net sales in future.

(For an overview of Turkish and Malaysian beverage operations, see p. 64)

Basic Policies of Group Mission 2030

Development of a Second Major Source of Revenue in Non-Beverage Businesses

In fiscal 2019, we invested in the Pharmaceutical-related Business (DAIDO *Yakuhin*). We spent around two billion yen on establishing a pouch line at the company's factory in its home base of Nara, thus enabling it to commence OEM of pouched jelly, which is classified as a quasi-drug. The facility was completed in September 2019 and began full operations in February 2020. In addition, we invested approximately six billion yen to build a new production facility, the Kanto Plant, at DAIDO *Yakuhin's* second base in Gunma. Construction finished in October 2019 and, in July 2020, it began full operations.

These investments are intended not only to boost production capacity, but also to strengthen our competitive abilities for the future, such as by further guaranteeing our own BCP and that of our clients, reducing transportation costs, and expanding our foothold in the quasi-drug jelly market.

I also believe that investing, through M&A, in OEM companies that offer synergies with DAIDO *Yakuhin* is an effective way to diversify our offerings to clients, including manufacture of, for instance, pills and capsules in addition to our current drinkable preparations and pouched jelly.

There is no doubt that the number of companies in the healthcare market will increase as consumers' health-related needs grow, but setting up manufacturing facilities requires massive investments, so it is reasonable to predict that many in the industry will look to outsource production to OEM operators like DAIDO *Yakuhin*. Similarly, because OEM companies are required to obtain official licenses as pharmaceutical manufacturers, and there are barriers to entry, I believe that DAIDO *Yakuhin*, which already has the required licenses, will be able to maintain an appropriate profit margin.

Enhancing OEM operations is an ideal way to boost our ability to offer delicious products for sound mind and body.

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 and in this sector as in that one, our aim is to be of use to those who need us. This concept of providing convenience is at the heart of what we do. However, it is not realistic to 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," still they remain a major social challenge; there are some 5,000 to 7,000 such diseases and many 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 relatively low, even for newcomers such as ourselves.

We established DyDo Pharma, Inc. in January 2019 and staffed it with talented people from throughout the industry. The company began operations in August that year and is already making steady progress in establishing pipelines. First, 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 group's reputation through a steady approach in this socially significant business area. (For details on our efforts in the orphan drug business, see p. 42)

We are not expecting to achieve results in just five, or ten, years' time, but are adopting a 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 the Advisory Board, see p. 46)

Points of Note Revealed After the First Year of Mid-term Business Plan 2021

Achieving the goals of Group Mission 2030 will require us to reconfigure our core vending machine business to thrive in an age of labor shortages and to rebuild our platform to generate strong cash flows. We intend to invest those funds in new businesses so as to boost our business portfolio and grow corporate value over the medium to long term.

Upon the conclusion of the first year of Mid-term Business Plan 2021 in January 2020, my initial feeling is that the changes in the beverage market and the vending machine industry have become even more rapid. Faced with a variety of problems such as a shortage of people to fill operating positions, I think the vending machine market has reached a tipping point and we are seeing a trend toward fewer machines. Factors such as the continuation of the trend toward lower sales per machine have also had a significant impact on the group's performance in fiscal 2019.

Continuing to maintain the number of vending machines we have throughout the country to help restore the earning capacity of our core Domestic Beverage Business is an urgent task. By refining our strategy and enhancing sales staff training, we have been able to acquire more, and more profitable, installation locations. However, due to insufficient operational staff to operate all of our vending machines, particularly those in regional areas, we are losing locations at a faster rate. Vending machine removals are a fact of life, and a certain level is to be expected every year. In the past, new installations were sufficient to match the removals and maintain overall vending machine numbers, but these numbers have been in a declining trend since the second half of fiscal 2018. Our first task, therefore, is to bolster measures aimed at reversing this trend.

We are currently in the investment stage, when we must concentrate not only on forging new businesses but also on transforming our existing vending machine business, even if that means lower profit levels for the time being. Cash flow generated by existing businesses will be reinvested to transform our platform. This will include boosting our development workforce and making strategic investments in IoT aimed at raising operational efficiency. The efficacy of those investments will be judged on whether or not their "seeds" have begun to germinate by fiscal 2021, the final year of Mid-term Business Plan 2021.

The ongoing generation of investment funds by the Domestic Beverage Business—our "cash cow"—is vital to our efforts to achieve the goals of Group Mission 2030; failure to do this will make success uncertain at best. We face unprecedented difficulties, but these are challenges that we must surmount.

Fortunately, despite these circumstances, the sales staff responsible for securing new locations for installing vending machines, which are fundamental to our group, are working hard, determined to do what needs to be done. By promoting the installation of vending machines in places with high earning potential, such as offices and factories, we are striving first to ensure a solid level of vending machine numbers, and then to maximize sales per machine by optimizing the line-up of products on offer. Moreover, since fiscal 2019, we have also endeavored to make our operations more efficient. (For details on our efforts to strengthen our vending machine business platform, see p. 62)

Building Momentum to Change Society for the Better

Until we began our work to transform the DyDo Group's business, my aim was to raise the quality of people's lives by maximizing convenience, which is perhaps the chief value offered by vending machines. However, as we undertook our transformative quest, the group's true strengths and our path to the future revealed themselves more clearly, and they were not what I had previously assumed. Moreover, I feel these days that the expectation for companies to benefit society is stronger than ever before.

For the DyDo Group to sustain growth over the next 50 and 100 years, we need not only to evolve, but also to consider our role as citizens of the world. Let us affirm here and now that "creating happiness and prosperity together" relates not only to our customers and other direct stakeholders, but to all people, and I believe that there are certain duties that we must fulfill.

The first part of the DyDo Group Philosophy states that our business is about "creating happiness and prosperity, together with people and with society." The duty that we must fulfill through our business activities is to provide the people enshrined in that philosophy what we promise in the Group Slogan: "Offering delicious products for sound mind and body." This is manifested in specific actions guided by our evolving business model, which states that we will provide what customers want in more convenient locations in the optimal way. Our other duty is to society: to protect the natural environment and bequeath it to subsequent generations, not only through our business activities, but through the conduct of each individual employee.

If we are to fulfill both duties, I believe that the DyDo Group must "continue to embrace new challenges in a dynamic way."

Although our businesses have expanded to include Japan and elsewhere around the world, our products and services do not contribute directly to consumers' health to the same degree as those of some other global companies or leading companies. Nevertheless, I am determined that through our products and services we will make the most of opportunities to raise awareness, improve quality of life, and extend life spans everywhere. Similarly, as concerns environmental conservation, the DyDo Group will take whatever opportunities we can—though what we can do alone has its limits—to raise awareness and influence people to take action so that society may act in cohesion to achieve positive environmental outcomes.

A Human Resources Strategy to Embody the Group Philosophy

The driving force behind any movement toward medium- to long-term improvement of corporate value is the group's workforce. Our workforce is one of solid character imbued with the DyDo spirit of striving to achieve happiness and prosperity together. I am often told how many good people there are at DyDo. To hear that from people such as business partners and even those who join our group mid-career, is extremely gratifying. I also believe that this goodness is a part of our culture, reinforced through our vending machine business's daily practice of "being there" for people and communities.

But we need to do more. Building up our vending machine platform has, of course, taken considerable effort, but as a recurring-revenue business, operations achieve a state of stability once the business reaches a certain level of scale. Then, when it comes time to transform the business, people's good and kind natures can inhibit the sense of urgency required to achieve the necessary evolution. The DyDo Group faces a changing environment, and I believe we need a more diverse workforce to achieve the nimbleness required to stay ahead of the times. That's why I have made a point, since becoming president, of hiring experts from outside the group to bolster our human resources, particularly for marketing and overseas operations. Differing opinions within the group meant there were some concerns and friction at first, but we gradually found ways to blend the views of our long-serving employees, built up over years of experience, with the newcomers' insights in a way that has led to positive outcomes. I look forward to harnessing the good traits of our workforce—like honesty, humbleness, and flexibility—and nurturing an even higher willingness to seek out and take on challenges.

As stated above, the spirit of "creating happiness and prosperity together," which is enshrined in our Group Philosophy, is an accurate representation of our culture. However, I think the second part of that philosophy, formulated in 2014—"To achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way"—has not yet taken root. Without true determination, we will achieve nothing, and thus we must give careful thought to what is required to actually undertake these new challenges, and the reasons we are trying to overcome them in the first place. If you have that determination, it will be manifested in actions of true conviction. I mean to say that doing new things is important, but it is not the be-all and the end-all; more essential is the mind to motivate yourself to do better, because this is what will drive the company's transformation. "If he can do it, then I can, too!" "If that company did it, then DyDo will do even better!" This is the mindset to which the phrase "embrace new challenges in a dynamic way" refers, and I hope that by tackling challenges myself I will impress that way of thinking on all employees and that it will become part of our corporate culture.

Building Robust, Resilient DyDo People

The people I'd like to see take most advantage of this opportunity are our younger employees. At the moment, our workforce still has a high ratio of men to women because a DyDo career typically starts in vending machine operations, a physically demanding job. That won't change overnight, but we are working to diversify, such as by beefing up the ranks of our middle management-level employees through judicious mid-career hiring, taking on a higher ratio of newly graduated female recruits, and also hiring those who have overseas experience. Already, I feel these initiatives have seen an increase in employees in their twenties and thirties.

Those youngsters' autonomy and sense of responsibility remain somewhat underdeveloped, and I think they need more experience under their belts before taking the reins of leadership. To that end, we make a point of assigning young employees to new projects and business ventures, and I look forward to creating more opportunities for them to take on new experiences and challenges in order that we can develop a robust, resilient workforce.

Human resources strategy

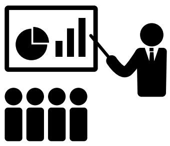
Strengthening management structures to achieve Group Mission 2030

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

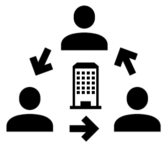
Fostering the development of human resources

- 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



To Offer Customers Healthy Lifestyles, We Should Be Healthy Ourselves

I believe that employees that are healthy can better harness their abilities and personalities and embrace new challenges. Indeed, a healthy workforce leads to improved productivity.

This was the inspiration behind the DyDo Group Health Declaration, which we adopted in September 2019, and a variety of new measures to improve health. For instance, DyDo DRINCO, our group's core company, has tweaked its HR framework to help ensure its workplaces promote physical and mental wellbeing, for instance introducing flex time, providing more leave options, and allowing greater individual discretion over work attire. As a result, DyDo DRINCO was recognized by the Ministry of Economy, Trade, and Industry in March 2020.

For my part, I am constantly reminding our people at morning meetings and via the group intranet of my hope that our employees will continue to seek out and overcome challenges, and of the importance of day-to-day health maintenance. Providing customers with healthy lifestyles is our very *raison d'etre*—it is written right there in our corporate slogan: "Offering delicious products for sound mind and body." But if we are to achieve this, each and every DyDo Group employee should first be healthy, and to that end I will continue to promote management that prioritizes employee health.

Preparing for a Post-Covid-19 World

As of writing in fiscal 2020, Covid-19 is wreaking havoc worldwide. The spread of telecommuting and official stay-home requests will inevitably have an impact on performance in the short term, and it is predicted that people's attitudes and behavior will change in the post-Covid-19 world. Our task is to turn these momentous social developments into business opportunities. Greater prevalence of telecommuting will likely cause a decrease in vending machine demand and wreak even greater change in the vending machine business, but changes in people's attitudes and behavior relating to health are predicted to blur the boundaries between our main business domains, pharmaceuticals and food and beverages, giving rise to new markets. Increased awareness of the importance of prevention make it all the more probable that those developments will appear soon, which would be a welcome wind in our sails.

Together, we will endeavor to stay firmly abreast of those changes, accelerate our existing initiatives, and continue to create enjoyable, healthy lifestyles for people around the world, as we state in Group Mission 2030.

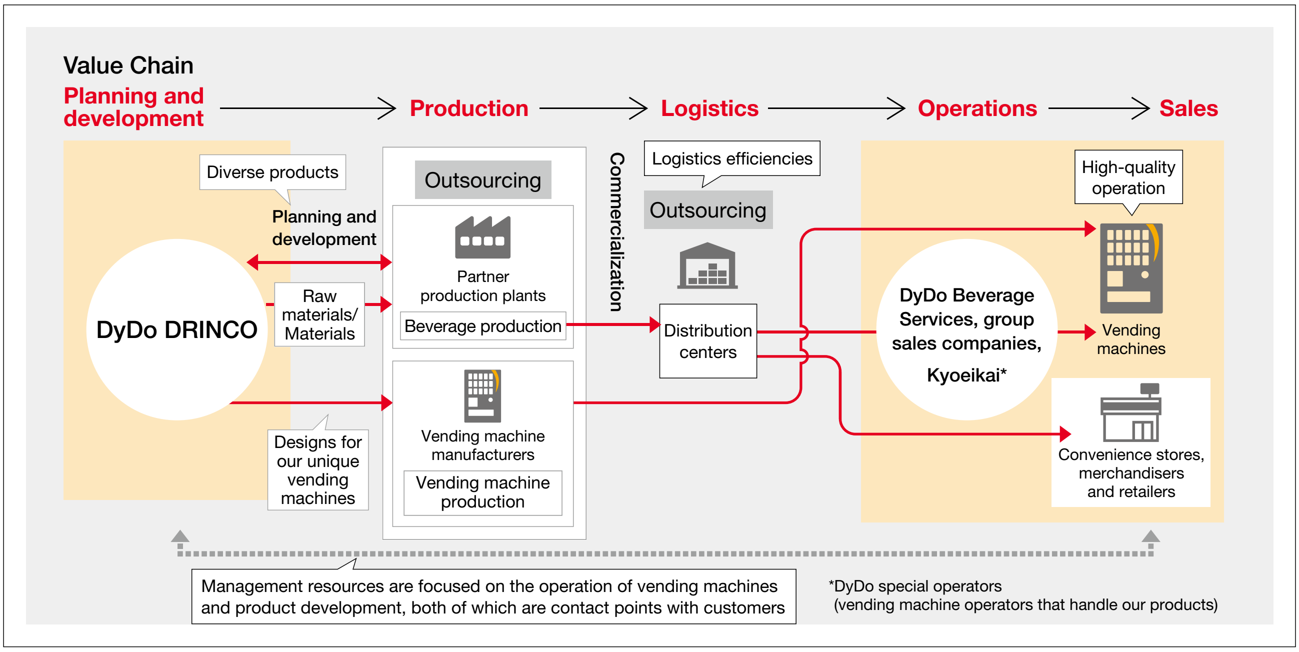
Our Business Segments: Business Models

Domestic Beverage Business

The Domestic Beverage Business comprises DyDo DRINCO and other group companies under its umbrella. We have established a unique business model, focused on vending machines as the principal sales channel, while outsourcing the production of drinks and concentrating our resources on areas of direct contact with customers. We are committed to consolidating our competitive advantage in the vending machines market to ensure that this remains a core business generating funds to support the growth of the group overall.

Related Companies

DyDo DRINCO, Inc.
DyDo Beverage Services, Inc.
Others



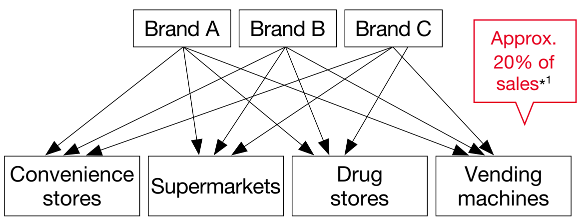
Strength and Characteristics 1
New Value Creation Based on Retail Business Ideas

Although the Domestic Beverage Business develops its own brands in-house, its business model is fundamentally that of a retailer. In contrast to typical drinks manufacturers who make their profit through mass production and sales of proprietary brands, we are focused on the vending machine channel. We install our vending machines in locations where we anticipate high sales and generate revenue growth through improving sales per unit by optimizing the product line-up for each machine. This difference means that while other manufacturers view vending machines as just another sales channel, along with convenience stores, supermarkets and drug stores, they are effectively retail outlets for the DyDo Group.

At the heart of this business model is the concept of “being there”—selling products that customers want in surroundings that are familiar to them. This concept has been passed down since the time of the company’s founding when we first established the “use first, pay later” medicine business. This approach is something that we are fully committed to preserving amidst the backdrop of significant flux in the business environment. It is a strength that enables to us to continue to create new value even if the lines of business we operate in change.

How typical drinks manufacturers operate

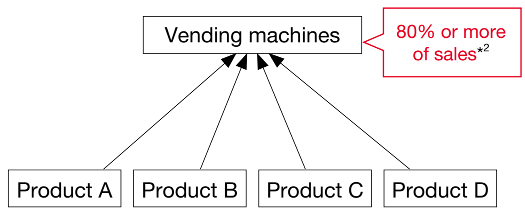
Develop a brand, promote sales



*1: According to soft drink statistics from the Japan Soft Drink Association

How we operate

Fill vending machines with the optimal products customers demand in a convenient location

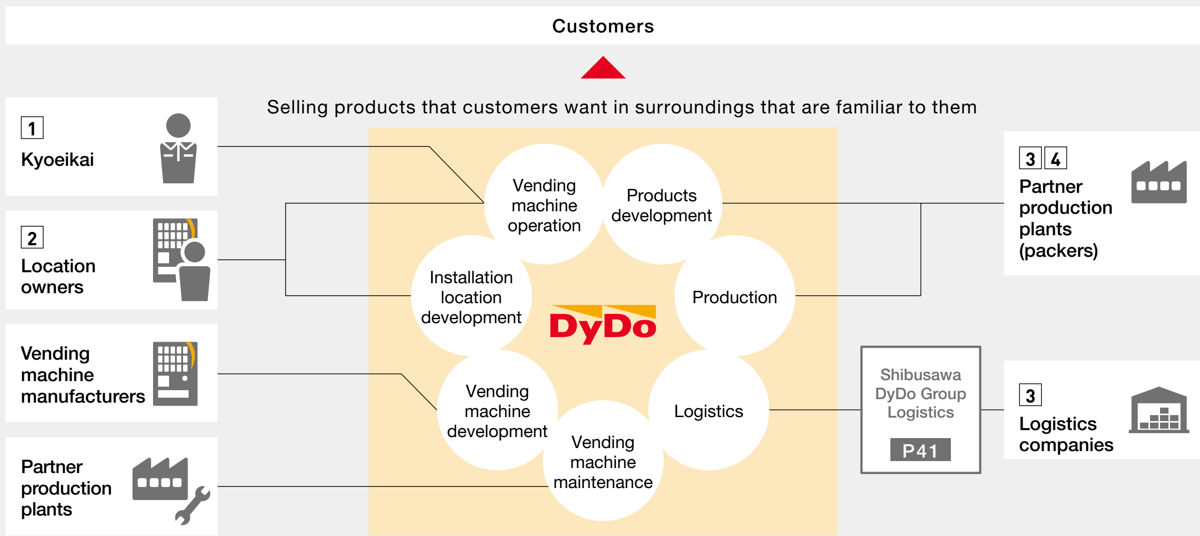


*2: Proportion of sales in the vending machine channel for the Domestic Beverage Business (in FY2019)

Strength and Characteristics 2
Working in Close Partnership with Stakeholders

In the Domestic Beverage Business, our resources are concentrated on areas of direct involvement with customers (products or locations), specifically the planning and development of products, the development of vending machine locations, and vending machine operations. Production and distribution are outsourced to cooperating suppliers, as are some non-direct sales. Thus, the group's business is built on happiness and prosperity together with a variety of stakeholders.

Domestic Beverage Business Stakeholders



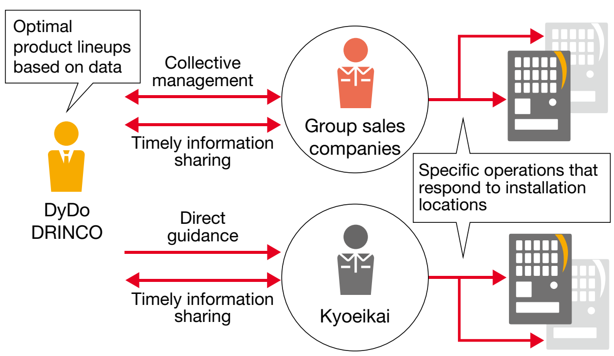
Close Partnership with Stakeholders 1 Robust Sales System through Working with the Kyoeikai

The Domestic Beverage Business' revenue is made up of the accumulated sales of each individual vending machine. We work hard to maximize the sales of each unit through measures such as optimizing the product line-up according to the installation location, visiting the vending machines when necessary to stock them up to appropriate levels to ensure no sales are lost through stock-outs, switching between hot and cold drinks sales depending on changes in the weather, and point-of-sale decorations such as those tied in with our TV commercials. Our vending machine operation also includes activities to clean and tidy our vending machines and the areas around them, and to maintain them as attractive, well-presented retail outlets. With initiatives like these, we improve the quality of our operations and gain expertise.

The operation of the vending machines is handled by our sales company and by special contract operators who are responsible for the maintenance and expansion of our network, referred to by us as the Kyoeikai. The Kyoeikai are important partners to us; their role goes beyond just supplying vending machines with our products. We share not only our overall business strategies with them, but also region-specific policies and expertise (such as examples of successful sales activities or measures to improve productivity). Through this we have built up a strong partnership, enabling us to make their operation of our vending machines uniform with ours.

This robust sales framework of group companies and the Kyoeikai naturally means we have high-quality integrated operations across all our vending machines nationwide, but also means that we can rapidly disseminate and implement new strategies and initiatives. This is the key strength of the Domestic Beverages Business.

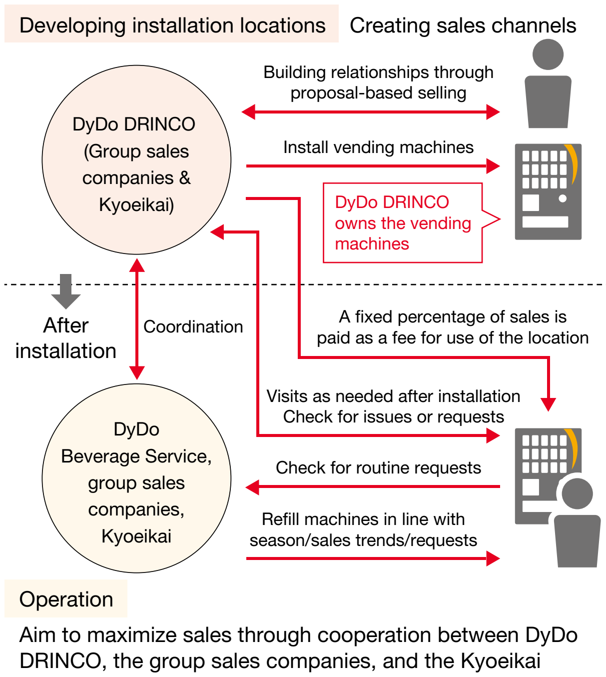
Measures to maintain high-quality operations



Close Partnership with Stakeholders 2 Vending Machine Location Owners

The DyDo Group's business begins by securing locations to install vending machines; this is our core sales channel and locations are key. The development staff in our Domestic Beverage Business are tasked with approaching owners of places predicted to yield high sales and negotiating to install our vending machines.

Having installed a vending machine, the location owners are paid a mostly pre-determined percentage of sales from that machine. In other words, maximizing sales doesn't benefit DyDo alone; it also benefits location owners. Through proactive communication with location owners, development staff and the operations staff that are responsible on a daily basis for stocking vending machines and maintaining the surrounding area, both ensure an optimized product line-up that meets the needs of each machine's users.



Development and Operations: A Tight-Knit Team

Ryo Maeyama
Sales and development staff member
West Japan Daiichi Sales Department
DyDo DRINCO, Inc.

There are two main facets to our vending machine business: finding new locations to install machines and post-installation operations. The former is performed here at DyDo DRINCO, and the latter by DyDo Beverage Services and other sales companies. From the location owner's point of view, there are two staff members for each machine.

I work with corporate clients, and my main role is to develop new locations in which to install vending machines. One of my most important tasks, however, is to follow up with existing clients. Increasing the number of vending machines is our overriding goal, of course, but we also endeavor to maximize each machine's sales by carefully listening to clients' concerns and requests, and passing them on to operations staff.

The quality of DyDo's operations work provides a boon for our sales and development activities, and allows me to do my job with confidence. This is best illustrated by the case of a client whom we couldn't convince to increase the number of machines. One day, their employees demanded "more machines maintained by that guy from DyDo, Tsutsui-san," which was the push needed to clinch the deal. It made me proud of the quality of the group's operational work, and reinforced the importance of tight-knit teamwork between the sales and operations divisions.

I look forward to working hard to raise awareness about all that's good about our operations and about DyDo vending machines in general.

Masaji Tsutsui
Operations staff member
Naniwa Sales Office
DyDo Beverage Services, Inc.

Most people think "vending machine operations" simply means restocking products, but my role is much broader than simply making sure products don't run out and keeping the vicinity clean. My mission is to maximize each machine's sales.

A standard DyDo vending machine can stock 30 types of product, but we offer more than 50 types for sale through this channel. Choosing the best combination for each particular location is important because an optimized line-up is a sure way to increase sales. In doing so, we endeavor to provide consumers a balance between the comfort of knowing their favorites are always available and the enjoyment of making new discoveries when we update a machine's offerings.

It is common, when performing vending machine operations, to encounter customers coming to buy drinks. This is especially true in offices, where they are regulars. These are golden opportunities to get direct feedback from our customers, so I try not only to finish my work as quickly as possible so they don't have to wait long, but also to use these conversations to pick up on their tastes and requirements. In this way, Maeyama-san and I work together to identify and fulfill customers' needs: he by uncovering the broader requirements of the location owners and I by paying attention to the more detailed wants of customers. And when a product I add to a machine because I thought it might be popular becomes a hit, it is such a great feeling to know I was right.

I look forward to ensuring each of my machines is stocked with just the right selection of products to please the customers.

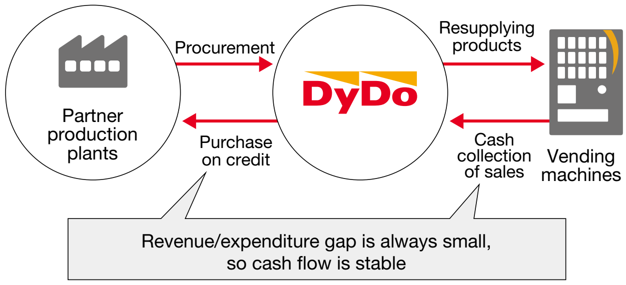
Close Partnership with Stakeholders 3 Fabless Management Generates Strong Cash Flows

In order to expand sales in the Domestic Beverage Business, our vending machines need to be attractive to customers, and one of the key criteria for that is a generous range of products. But our machines typically hold upward of 30 different product types, and making all of them in-house would require gargantuan capital investments. To avoid those investment risks, we outsource production to partner production plants across the country.

This business model also enables us to reduce logistics costs and gives us an advantage in terms of business continuity planning (BCP). Products manufactured all over the country are delivered to regional distribution centers by local logistics companies. We can reduce our distribution costs, and minimize risks associated with potential disruption to transportation, due for example to disasters, that would impact our nationwide vending machine sales.

In terms of funding, products are purchased on credit from partner production plants, and sales are primarily collected in cash from vending machines. Therefore, while vending machine sales remain stable, the revenue/expenditure gap is small, and we generate a stable cash flow. This solid financial base is the Domestic Beverage Business's core strength, and maintaining and growing it provides momentum for new growth groupwide.

Cash-in first business model



Close Partnership with Stakeholders 4 Working in Tandem with Packers to Achieve the Best Blends

The Domestic Beverage Business could never have grown to become the group's core business without quality coffees well suited to the vending machine format. What is more, we have always insisted since the very first days of DyDo DRINCO that DyDo Blend—our flagship product—and our other coffee products must be free of additives so that customers can always enjoy the true flavor of the coffee.

In recent years, increased coffee consumption has seen a diversification in customer's preferences. Our mission is to meet those needs with a line-up of coffees suited to today's diverse coffee-drinking scenarios without compromising our devotion to quality, additive-free coffee. Thus, our traditional canned products have been joined by those in bottle cans and plastic bottles.

There are endless varieties of coffee beans, from many different locations around the world, and all taste different depending on the roast. Amidst all these many variables, the authentic flavors of our coffees are achieved by carefully blending at least five bean varieties to best represent each product's distinctive concept. But while these products are developed in-house, from initial concept to deciding on the final recipe, production is outsourced to packers. To ensure the final flavor profile is just right, it is vital to work in tandem with packers. They are involved from the development stage prototyping, testing and fine-tuning the production lines, and going through repeated trial-and-error to make sure the finished product is perfect.

Challenges to Business Model Sustainability

Innovation in the Domestic Beverage Business

The vending machine market is saturated, and the number of machines is trending downward. At the DyDo Group, we had managed to maintain a somewhat consistent level of vending machine numbers since 2010 through the natural process of new installations and removals. However, vending machine numbers have been declining since the second half of fiscal 2018, as removals outnumber new installations, particularly in the regions where labor shortages mean we have been unable to secure sufficient operations staff numbers.

We are conscious that increasing vending machine numbers by minimizing removals and speeding up new installations is one of the group's most urgent tasks. Covid-19 seems to be a trigger of major change for the vending machine market, and such upheaval is often an ideal opportunity for innovation. We will adapt flexibly to these developments and achieve innovation in the Domestic Beverage Business.

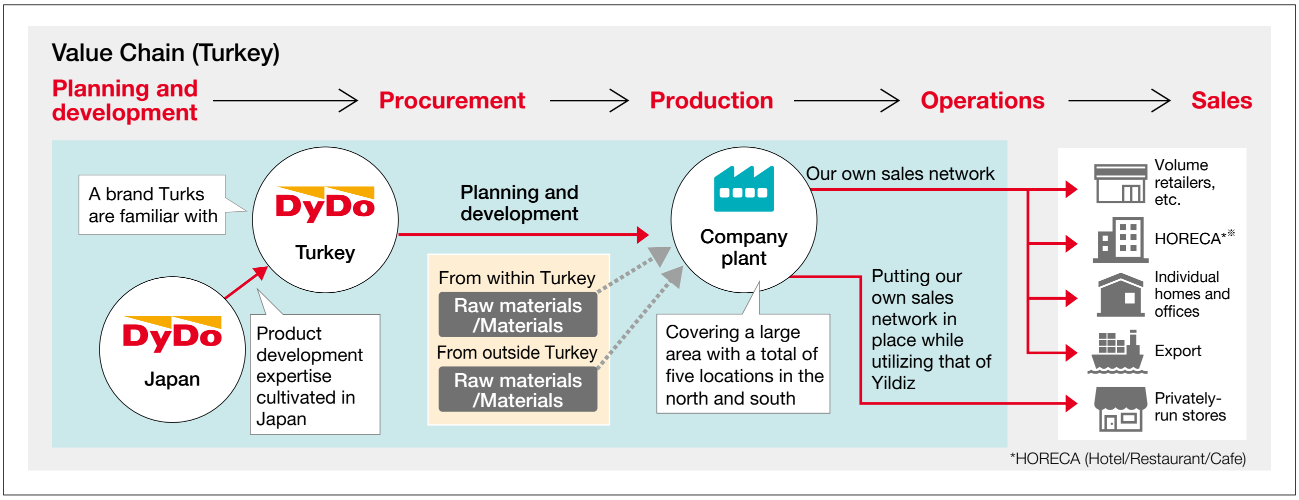
(For more details on how we are addressing challenges, see p. 62)

International Beverage Business (Turkish Beverage Business)

In the International Beverage Business in Turkey, Malaysia, Russia, and China, we are developing our operations in accordance with the market characteristics of each region. The Turkish beverage business, which was launched through acquiring a local company in 2016, manufactures and sells local brands and plays a central role in the group's International Beverage Business.

Related Companies

DyDo DRINCO TURKEY İçecek Satış ve Pazarlama A.Ş.
Others

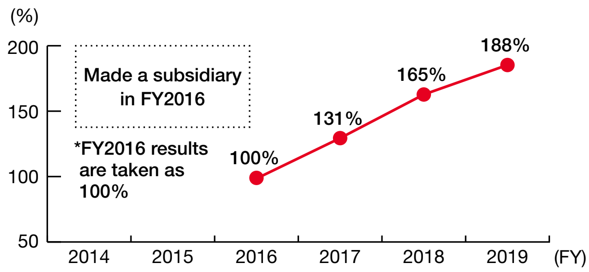


Our Turkish Business: Background and Performance

Our overseas expansion began in earnest in fiscal 2013. Inspired by the "challenge to expand overseas businesses" we set ourselves in the previous mid-term business plan (FY2014 through FY2019), we moved into Malaysia in fiscal 2015 and Turkey in fiscal 2016. Our targeting of the Muslim community was deliberate as this global population is predicted to grow. We chose Turkey because it is on the western tip of the Muslim world, has a large younger demographic, and its beverage market is forecast to grow, buoyed by an expanding population.

The International Beverage Business has grown to contribute 10% of the group's consolidated sales, and most of that comes from our Turkish beverage business. Already, our Turkish operations have achieved solid growth in sales and operating income in local currency, and growth in excess of the market itself, following reforms in sales and production after the M&A.

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



Strength and Characteristics 1

Known and Loved Locally as "a Turkish Brand"

Our Turkish beverage business inherited brands from Yildiz Holdings A.S. when we acquired a stake in that company. Sales of one of our best-selling products, "Saka" mineral water, delivered in large-bottle format to offices and other business places, are robust and have contributed to overall sales growth. In addition, we are developing new core brands such as "Çamlica," a carbonated beverage that is very popular among the Turkish people, and more recently, "Maltana," a carbonated malt-flavored drink made with hops.

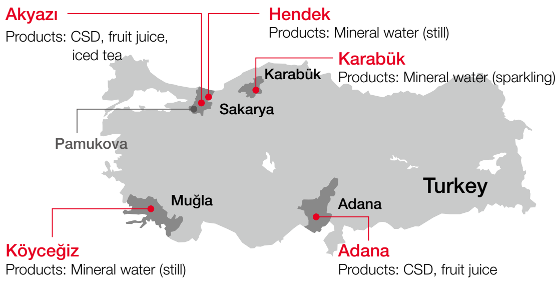
Like other emerging nations, the major global drink companies have the lion's share of the Turkish market. The brands held by our Turkish beverage business have long been known and loved by the local people, and by concentrating our resources on those core brands since the M&A, we have worked to steadily increase brand recognition and grow their market share.

Strength and Characteristics 2

Five Plants to Cover a Vast Country

Unlike the Domestic Beverage Business, where vending machines are the main sales channel and we operate on a fabless basis, our Turkish beverage business has a more conventional model, in which drinks are produced at our own plants for distribution via supermarkets and other such chains. Following some integrations and new builds after the M&A, we currently have plants in five locations throughout Turkey. In the meantime, we are looking into securing new water sources capable of handling voracious new demand for “Saka” mineral water and other products.

Manufacturing sites and products



A local UK subsidiary to help expand exports

Toshiyuki Komaki
Overseas Business Development Manager
DyDo DRINCO Turkey

Products made in Turkey were exported for more than 15 years before DyDo Group Holdings became involved. These products are exported to some 15 countries with Europe as the focal point, and steadfast sales efforts have seen a solid rise in the brands’ strength.

Growing exports helps us earn revenues in stable currencies like the euro and the UK pound, and leads toward steady growth for the Turkish beverage business. For now, Turkish exports account for only around 10% of sales, but we intend to grow this to 20–30%.

The export markets can be divided into two main groups. One is populated by Turkish, Middle Eastern, and African migrants in Europe. This group represents a substantial market, and there is demand for our Halal-certified products. The other group is not defined by any ethnicity, but is made up of people who support our brands, fans won through years of solid marketing effort. The rise of health-conscious consumers in Europe means demand for quality is high and rising, and our products are popular because they meet those needs.

Not only does exporting products from Turkey provide manufacturing cost advantages, but the depreciation of the Turkish lira in recent years provides us with opportunities for business expansion. In the past, export sales and profits were affected by the intentions and financial strength of local agents, but the establishment of a local subsidiary in the UK in fiscal 2019 creates a platform that allows us full control as we strive for further growth in this arena.

The global spread of Covid-19 has delayed our business operations somewhat, but we are prepared to resume operations as soon as restrictions on international movement are relaxed. We remain dedicated to forging strong relations with our Turkish staff and partner companies, and providing quality products to more and more customers.

Upcoming Challenges to Our Business Model

Selecting and Consolidating Strategic Overseas Facilities

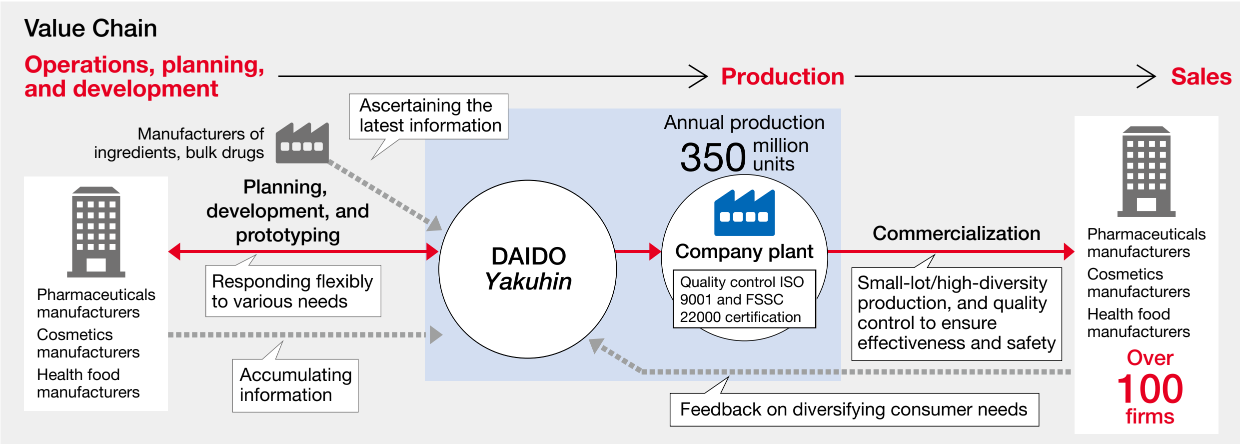
As part of our effort under Group Mission 2030 to increase overseas sales to at least 20% of overall sales, we are working to reform our existing business sites in accordance with the goal of selecting and consolidating strategic overseas facilities stipulated in Mid-term Business Plan 2021. Naturally, the Turkish beverage business, which is the core of our International Beverage Business and is currently achieving solid growth, is no exception.

The raw material used to make plastic bottles must be imported into Turkey, but the volatile Turkish lira has a significant effect on cost of sales. Recent political instability in Turkey and the current woes caused by Covid-19 mean an economic slowdown is inevitable, so we cannot immediately raise product prices to cover increased material costs. In addition, the instability of the Turkish lira represents a medium-to long-term challenge to our quest for stable business operations. Therefore, starting in fiscal 2019, we have been working to strengthen exports from Turkey as a means of acquiring foreign currency and hedging against exchange risks.

Pharmaceutical-Related Business

The core of our Pharmaceutical-related Business is DAIDO *Yakuhin*, which specializes in OEM manufacturing of nutritional drinks, which are classified as pharmaceuticals or quasi-drugs, and beauty tonics. DAIDO *Yakuhin's* industry-beating production capacity and uncompromising quality standards has earned the trust of major manufacturers throughout Japan, and the company boasts a top-in-the-industry track record of OEM production.

Related Companies
DAIDO *Yakuhin* K.K.



Strength and Characteristics 1
Building a Solid Client Base for Specialist OEM Solutions

Today's Pharmaceutical-related Business is the modern iteration of the group's founding activity. From our "use first, pay later" medicine business grew DAIDO *Yakuhin's* drinkable preparations business. Initially the company made products in-house, but gradually switched to providing OEM solutions for other companies as this afforded more efficient use of production lines. With the relocation in 1991 of plant facilities to group headquarters in the city of Katsuragi, Nara, DAIDO *Yakuhin* discontinued in-house production and became a specialist OEM company, thus establishing a business model that continues to this day.

At first, products were made in accordance with pharmaceutical manufacturers' specifications, but as drinkable preparations came to be sold by health food and cosmetic companies, that expansion gradually led to more opportunities for DAIDO *Yakuhin* to design its own solutions to suit each client's concepts. Over that time, our efforts to make products in accordance with clients' demands helped improve our product development abilities, drove the expansion of our manufacturing equipment to include lines dedicated to production of small-lot-high-variety orders, and lines designed to handle large lots with maximum efficiency, and enabled us to strengthen our quality control and assurance framework.

Our hard-won ability to respond to clients' requirements, our broad customer base, which covers pharmaceuticals manufacturers as well as cosmetics and health food manufacturers, and our steadfast relations with clients, built on mutual trust, are our chief assets in the Pharmaceutical-related Business.

Strength and Characteristics 2
Officially Permitted to Operate in Segments with High Barriers to Entry

The size of the Japanese drinkable preparations market is estimated at around two billion units manufactured per year and, within, the DyDo Group's ability to produce around 350 million units of OEM products puts it in roughly the same class as major pharmaceutical companies who manufacture in-house.

Perhaps our largest point of difference here is DAIDO *Yakuhin's* official permits to manufacture pharmaceuticals and quasi-drugs. Barriers to entry into this segment are high, and include the need for official permits and the niche nature of the OEM industry itself. Moreover, the time taken to bring a product in this segment to market, from development to beginning of product sales, is considerable because of all the testing and government permits required. If our OEM clients were to switch to another producer it would involve a huge burden of cost and effort, so there is little risk of that. Still, we endeavor to maintain their trust in us by constantly improving our product planning capabilities, production quality, and quality assurance structures.

*DAIDO *Yakuhin* is licensed for:
(1) Pharmaceuticals manufacturing
(2) Second class pharmaceutical manufacturing and sales
(3) Quasi-drug manufacturing
(4) Quasi-drug manufacturing and sales
(5) Beverage manufacturing

Strength and Characteristics **3**

Increased Production Capacity Helps Us to Better Meet Client Needs

In recent years, the nutritional drink market is shrinking as its core users begin to get older, but the beauty drink market is growing through exports, in response to increased demand by customers who had tried the drinks on visits to Japan and wanted to be able to drink them in their own countries. Meanwhile, there is renewed potential for businesses who produce drinkable preparations under contract after a revision to the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices. The revision revoked the requirement for pharmaceutical distributors to have their own factories and has enabled pharmaceutical manufacturers to outsource production. Moreover, increased longevity is predicted to drive further interest in health and beauty, and, by extension, growth in the healthcare market.

DAIDO *Yakuhin* previously made all its products at two plants at its headquarters in Nara, but we have built a new facility, the Kanto Plant, in Tatebayashi, Gunma, to ensure capacity to handle predicted growth in demand. The new plant not only boosts our production capacity, but will also reduce distribution costs for the Tokyo metropolitan area, our core consumer market. Moreover, the plant's state-of-the-art equipment enables greater automation of the production process and thereby improves our cost-competitiveness. In addition, having a plant in another part of the country disperses risks to production and contributes to our own BCP and that of our clients, as well, thus providing competitive advantage in areas other than price.

February 2020 saw a new pouch production line at the Nara Plant commence full operations. The drink-from-the-pouch format provides a handy way to consume products, and this is a growing segment of the market. The most common drink-from-the-pouch products are "foods" such as fruit jellies and konjac-based jellies. But interest in this format is growing among pharmaceutical and cosmetic manufacturers, and as one of only a very few companies in Japan with facilities to manufacture drink-from-the-pouch products to pharmaceutical and quasi-drug specifications, we have received a lot of inquiries and hope this advantage will translate into increased sales and profits.

Clients appreciate our solid track record of integrity and hard work

Ikuo Yamashita
Member of the Board of Directors
Director of the Sales Department
DAIDO *Yakuhin*

Many of Japan's drinkable preparation producers are not specialists but, in fact, manufacturers of other products doing drinkable preparations on the side. Conversely, I believe our current position atop the industry was achieved precisely because we became a specialist OEM producer when the drinkable preparations market was heading toward maturity in the 1990s. But being a specialist is a precarious existence. There is no guarantee that this year's hit product won't be discontinued next year, and often it is not the product itself that determines its fate, but other factors such as the client's brand strategy. In that sense, we live from year to year.

I believe, however, that the risky nature of our industry is what drives sales reps to be more proactive in their work. For instance, when we pitch a new product idea to a client, we do not simply show them a proposal; we make actual prototypes that they can try out for themselves. Indeed, it is rare for a sales pitch to be accepted as is, but our initiative in coming up with ideas and presenting them is a good way to show off our development strengths. In my view, being an OEM company does not mean we wait passively for the phone to ring. Our sales and marketing are effective only when the company's development and sales teams work in close partnership.

While the Kanto Plant began limited operations in early 2020, the Covid-19 pandemic caused delays in official procedures, which resulted in full operations finally beginning in July. Our clients have high expectations for the plant.

With the technical prowess, quality insurance structure, and top-notch response framework that we have built up over the years, and now the improvements to cost-competitiveness that the Kanto Plant will bring, I am confident that we can beat any competitor. So with confidence in our proven track record, tempered with humble recognition that we cannot rest on our laurels but need to continue to develop and improve if we are to satisfy our clients' needs, I look forward to working with our clients to deliver the solutions they require.

Proximity to clients sharpens our development abilities

Yosuke Yamashita
Assistant Section Chief
Product Development Section
Development Department
DAIDO *Yakuhin*

One of the factors behind the solid relations we enjoy with clients is our superlative development capabilities. We in the Development Department are able to provide clients what they want swiftly and flexibly because we work in close proximity to them.

Nowadays, we operate as an independent unit but previously we were part of the Sales Department. At DAIDO *Yakuhin*, we believe that the creation of new products is the shared responsibility of both sales and development, and that the production and quality assurance departments provide the support needed to ensure the products are viable on the production line.

I am based at company headquarters in Nara, but I visit clients nationwide together with sales representatives from our Tokyo and Osaka offices. Although we should acquire what information we can about market trends from books and the internet, I believe that actually visiting clients and seeing what they do and say helps boost our product development capabilities.

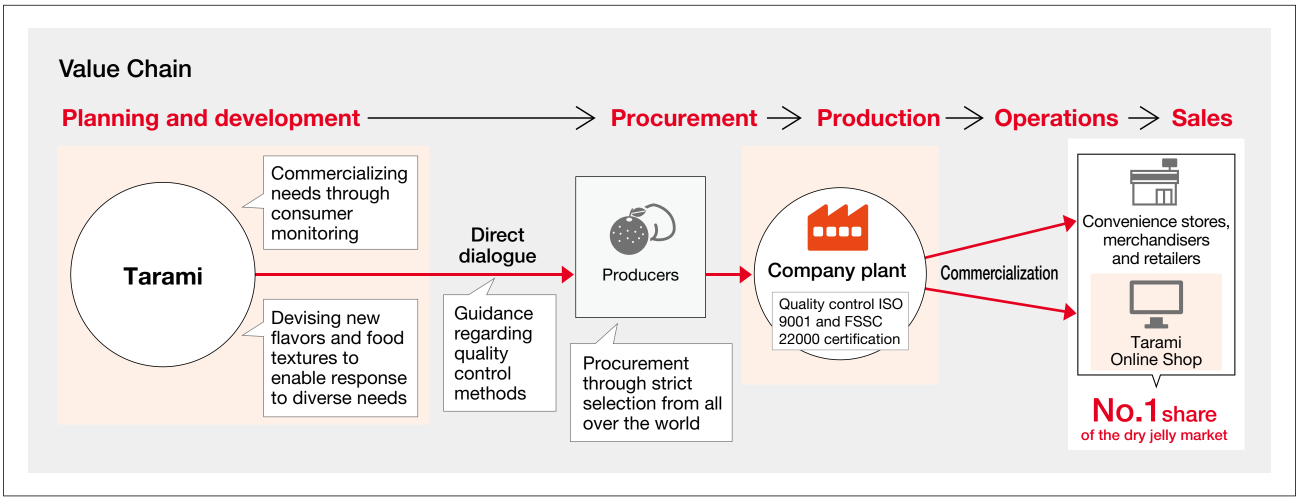
Already there is strong interest from clients regarding our new pouch production line at the Nara Plant, and the development team has become even busier than usual. Until now, we have mainly dealt in liquids—i.e., drinkable preparations sold in bottles—and jelly products are new to us. Fortunately, though, as we work to develop new products through trial and error, we are able to seek advice from our colleagues at Tarami, who are experts in jellies and other foods.

Meanwhile, our business has become increasingly global in recent years, as trade with TCI increases and our client manufacturers rush to deal with demand from overseas tourists and other sources. I look forward to working cohesively with our colleagues in sales to seek out and overcome an ever-broader range of challenges.

Food Business

The core company in our Food Business is Tarami, which has the top share of the dry jelly market. Since being consolidated into the DyDo Group in 2012, Tarami, which boasts a wealth of expertise in making delicious jellies, has made a significant contribution to the group's performance.

Related Companies
Tarami Corporation
Shunnotoki Inc.



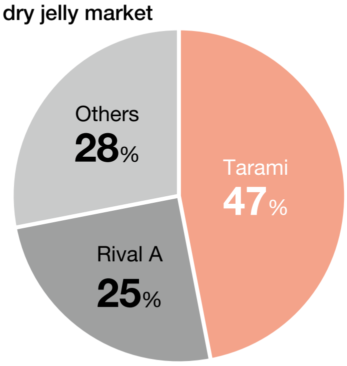
Strength and Characteristics 1
Techniques Using the Right Ingredients to Create Jelly with Delicious Taste and Texture for Each Demographic

Tarami began as a greengrocer in 1969, and is named for its home town in Nagasaki. In 1988, it began selling jelly as a convenient way for people to enjoy natural fruit wherever and whenever they wanted.

Aiming to deliver consumers value beyond mere fruit, Tarami identifies target demographics and establishes concepts for each of the product brands it develops. For example, the company varies the flavor and texture of the mandarin jelly in each of its brands. In recent years, Tarami has sought to expand its customer base by developing and launching jellies for people who enjoy more of a dessert taste and jellies for health-conscious people in addition to their regular fruit jelly lines.

It is impossible to put a numeric value on the pleasure derived from delicious jellies that appeal to all five senses, but the fact that sales growth is high at a time when market growth is stagnant is a clear indication of the level of support we have earned from our customers. (For details on Tarami's sales and market trends, see p. 67)

Share of the dry jelly market



October–December 2019
Source: Intage, Inc. SRI retail store panel survey

Strength and Characteristics 2
From the World's Farms to One of the Its Largest Fruit Jelly Plants

Tarami's production facility in Nagasaki is one of the world's largest dry jelly plants. The plant is equipped with production lines and systems able to make a diverse range of products efficiently, all under the watchful eye of our strict quality control system. Only fruit that has passed stringent quality inspections is used in Tarami products, and the company makes use of technology to achieve different textures, thus ensuring that each jelly is as safe as it is delicious.

The fruit used in Tarami's jellies is mostly sourced from wholesale importers, but not without Tarami's experts traveling regularly to the farms and primary processing plants and checking on cultivation and processing practices. Indeed, we seek to constantly raise awareness throughout the entire value chain of our dedication to making safe, delicious products. An example of this is the point top executives make of visiting those early-stage processing plants to deliver final products as a sign of gratitude.

The true significance of Tarami's fruit jellies inspired new development

Tsuyoshi Maeda
General Manager of the Marketing Division
Tarami Corporation

There are three main factors to fruit jelly—the jelly, the fruit, and the flavor—the last of which can be broken down into its component factors: aroma, taste, and texture. Combining the infinite possibilities into a three-dimensional expression of tastiness means that even a basic mandarin jelly can be tailored to provide different varieties of deliciousness to satisfy a diverse range of consumer needs and expectations. We believe that Tarami products must be as healthy as they are tasty, and that the true significance of Tarami's fruit jellies lies in their role as a vehicle for delivering new values by providing new expressions of deliciousness.

Anyone can make a good product from expensive ingredients and slap a large price tag on it. Our philosophy, however, is to squeeze the highest possible added value into a more affordable price bracket. To ensure we deliver impeccable taste and quality to our customers, each product is subjected to detailed production line testing to ensure it can be mass produced without compromising quality stability. That is, no doubt, a heavy load for the production departments to shoulder, but I am impressed by how everyone in the production and development departments works cohesively as a team, knowing that each new product is a vehicle for delivering new value to consumers.

I look forward to leveraging Tarami's wealth of technologies to develop new products, including not only fruit jellies but also a variety of other delicious, healthy options.

Individuals' constant improvements ensure each product is safe and delicious

Ayako Hirayama
General Manager of the Quality Assurance Department
Tarami Corporation

The constant diversification of consumer tastes and our devotion to providing customers with new values means that successful mass-production of the products designed by the development team becomes more challenging every year.

It is not enough to simply churn out products in large numbers; our task is to make quality products that comply with the requirements of the FSSC 22000 food safety standards. Naturally, our products are sterilized through heat treatment, but there is a significant difference between the product development lab, where we test small volumes, and a mass-production facility, and this may lead to inconsistent quality if not carefully managed. To avoid such issues, we make sure to fine-tune our processes to ensure the final products are all of a uniformly high level of quality.

The chief ingredients in our jellies are fruits sourced from different farms and harvested in different seasons, so naturally they are not identical. Our mission, then, is to harness our long years of experience and data to provide customers the reassurance of knowing that whenever and wherever they enjoy one of our jellies, it will always be the safe, delicious jelly they know and love.

Customer feedback, whether critical or complimentary, is always shared among the quality control, production, and development teams. Tarami, which has a majority market share, produces all of its cup jellies at its plant in Nagasaki for distribution nationwide. In fact, I believe that our high quality standards are now a leading force on the fruit jelly market, and I look forward to playing my part in making the constant, day-to-day improvements that allow us to ensure that every product is safe and delicious.

Growth Opportunities Uncovered by Our Business Model

Integrating Existing Businesses to Establish a Second Major Source of Revenue

The expansion of the healthcare market means business opportunities for OEM producers like DAIDO *Yakuhin*. As far as selling is concerned, entry into the market is comparatively easy for a company with product planning capabilities, marketing expertise, and a certain level of financial leeway. When it comes to production, however, the huge capital investments required constitute a high barrier to entry. That is why the main target for our M&A strategy for growth is companies that will strengthen our OEM business. For now, the drinkable preparations and drink-from-the-pouch jellies made by DAIDO *Yakuhin* are the DyDo Group's only OEM products, but we are eager to broaden the scope of these operations in future to include tablet and capsule formats, for instance by acquiring companies with those capabilities. Through this, we seek not only to establish a platform that enables us to make products in the right format to meet existing clients' needs, but also to establish ourselves as the dominant OEM producer of pharmaceuticals and quasi-drugs, thus enhancing our ability to capture new needs.

Indeed, Tarami's strengths are a significant addition to the synergies generated within the DyDo Group. The technologies and techniques it uses to produce delicious jellies can be applied elsewhere, for instance to produce "delicious jellies with medicinal properties" in our pharmaceutical business. In this way, Tarami is sure to play a key role in our efforts to establish a second major source of revenue.

Naoyuki Nishiyama
Director, Corporate Officer and General Manager of the Corporate Strategy Department

Tomiya Takamatsu
President and Representative Director

Minoru Matsubara
Corporate Officer, Director of Investment
Resona Asset Management Co., Ltd.

Hisao Miyagawa
Professor, Graduate School of Business
Osaka City University

(titles omitted below)

Stakeholder Dialogue

Meeting the Challenge of ESG Management

Achieving our Group Mission 2030

Takamatsu
I formulated the company's current Group Philosophy and Group Vision when I was appointed president in 2014, and subsequently visited over 130 company locations to disseminate them. In 2019, we announced Group Mission 2030, "For DyDo Group to create enjoyable, healthy lifestyles for people around the world." I felt the need to make major changes to the group's business portfolio to adapt to the changes in society, and to promote change strongly, we defined where, and what, we want to be in the near future. (For views relating to the formulation of the Group Philosophy and Group Vision, see p. 11)

Matsubara
Along with the issues of climate change and human rights, particularly as they relate to supply chains, corporate purpose is a major issue for investors. If you ask to whom does the company belong, the answer is naturally the shareholders. At the same time, if you ask what purpose the corporation serves, the answer is evolving from "maximizing shareholder value" to "creating value with stakeholders." The purpose of a corporation indicates the role it aims to fulfill for society, and this is stated in its philosophy. The philosophy indicates the story of what the company aspires to achieve going forward, and becomes a basis for investors to measure corporate value. We also look closely at whether or not the president is practicing the philosophy, whether it has been inculcated in management and the employees, and whether each employee understands what he or she should be doing and to what purpose, and is acting accordingly.

Miyagawa
I believe DyDo has stated its philosophy clearly. A philosophy embodies the reason for the company's existence, its ideology, and the values it regards as important. It embodies concepts that apply everywhere at any time. It is important that there be an ongoing internal discussion regarding how the abstract concepts of the philosophy should be applied to concrete business practices to serve society. At the same time, the corporate vision embodies a time dimension, setting out where and what the company wants to be in say ten years. On this point, Group Mission 2030 can be generally regarded as a corporate vision. I believe additional concrete detail would make it easier for third parties to understand.

What is ESG management?

Takamatsu
What sort of background factors are driving the evolution toward a goal of joint value creation by companies and stakeholders?

Miyagawa
I believe there are three factors. The first is growing attention to wealth inequality and the growing consensus that the cause of this inequality is an excessive focus on shareholders. Expansion of shareholder value does not conflict inherently with expansion of stakeholder value. Rather, for companies to work for the overall benefit of stakeholders represents a return to the primary purpose of the company. As a second factor, we can note that investors have begun assuming risk relating to the soundness of the social capital that companies use to create value. Companies obtain capital, acquire assets, and create value. The land required to build a factory that will become a corporate asset and the related labor resources, are actually social capital, and business activity is premised on the soundness of such capital. The third factor is that companies now have enormous influence over society, and globalization is progressing further. National governments should actually be tasked with solving social problems, but in fact there are limits on their ability to do so. For companies to fulfill their responsibilities can be seen as economically rational.

Matsubara
My understanding is that this is because international society expects providers of capital, such as investors and financial institutions, to take an ESG perspective when investing and making funding decisions, not on an industry or company basis, because that way those perspectives spread more rapidly.
Takamatsu
Efforts invested in CSR and ESG can also be seen as costs.
Miyagawa
Some companies are investing effort in CSR, but their stock is performing poorly. However, this may be because they are overly focused on activities that only seek to boost their reputation, rather than creating corporate value. What I would like to convey to management is that enhancing shareholder value and engaging in business activities with an ESG viewpoint are mutually consistent. And the narrative basis for those business activities is provided by a clear philosophy. Shareholders, investors, and stakeholders will have a range of expectations of the company, each from their own point of view. To fundamentally resolve the disparities in these expectations, the enterprise should achieve buy-in from all parties, and ask them to regard the philosophy as the object of their investment.
Matsubara
Investors want companies to be good companies, not just good corporate citizens. A good company has a narrative that links social obligations with its business, one that is linked to value creation. We are convinced that such companies are sustainable. Here is a supply-chain example. Use of child labor is a widespread problem and often singled out as a challenge for society. However, people in communities where child labor exists take a different view. Parents may require their children to also work to get by, so forcing an end to child labor may not necessarily be the correct choice. In such cases, investors could advocate that the company educate child laborers, and there are actual cases of such engagement. In this way, a company's supply chain management can enhance the local educational level and lead to enhanced quality of life and can solve general social problems. Even if such solutions seem likely to take time, we can invest and fulfill our obligation to explain that investment story to asset owners, and beyond them, to citizens.
Nishiyama
During fiscal 2019, the Board of Directors engaged in extensive discussions relating to new businesses and investments. Outside directors requested detailed explanations concerning the strategic significance of realizing the corporate philosophy, the actions we planned to take to realize Group Mission 2030, shareholder return, and so on. In some cases, we went back and resolved issues we had deliberated earlier. In other words, I felt we were being asked to depict a medium- to long-term narrative that was firmly grounded in our philosophy. I saw clearly that this story must be practiced firmly by those with direct responsibility.
Miyagawa
I think it is vital that a corporate philosophy be persuasive for any external third party. If the explanation is not effective, things often do not go well. One can't explain something without a serious concept, and any deficiencies or contradictions noted during the explanation process serve as indicators as to where the strategy needs to be refined.
Matsubara
And it is aspiration and passion that makes the narrative a reality. I hope that you will value the Group Philosophy above all, because it is a source of motive power.

The significance of ESG management for the DyDo Group

Takamatsu
For many years, our Group has engaged in activities to support local festivals, not only to contribute to society, but also because revitalizing local communities helps people continue to live in communities that require our vending machines. In other words, we believe it also helps support our vending machine network, which is our core business. I believe that in our philosophy, our contributions to society and our business activities are linked. At the same time, while efforts to cope with climate change are unavoidable, I feel there is a limit to what one company is capable of, and this concerns me.
Miyagawa
Regardless of degree of influence, if that is your company's stance, I believe that is adequate. A large part of the identity of a private, owner-managed company like DyDo is its deep roots in local communities, and it makes sense that revitalizing local communities is linked to corporate value. The marked continuity and profitability of owner-managed companies in Japan, and their tendency to generate long-term returns, has been verified by researchers. With respect to environmental challenges as well, I think it's important that your activities adhere to the corporate philosophy, regardless of how much impact they have.
Matsubara
With your four priority issues (themes)—Health, Environment, Innovation, and People—I sense the accumulated achievements of DyDo's founder and those who came after, and their hopes for the next generation. I think it's necessary to materially leverage that heritage for new generations and in new locations. (For details on the four themes, see p. 34)
Takamatsu
In other words, first check the philosophy when taking action, and then take time and place into account to consider how the next generation will be affected by that action. We need to cultivate awareness on the part of employees that ESG management is the embodiment of the philosophy. As you pointed out, Group Mission 2030 may seem somewhat vague. To make the strategy more concrete and realize the mission, we formulated an ESG program, and in fiscal 2020 we launched an ESG Promotion Committee. In fiscal 2019, we surveyed our group companies and divisions regarding social challenges relating to the DyDo Group, but many of the responses were superficial. We understand that only when employees discuss changes in the business environment and social problems naturally, and not just because the company is waving the flag, can we say that ESG management is being practiced, and we will work to achieve that level.

ESG

Aiming for Corporate Value Creation through ESG Management

The four themes set forth in Group Mission 2030 are at the same time ESG challenges we must address. To do so, we must augment Group Mission 2030 with more specific activity measures and KPIs. The Group as a whole will engage in this effort, and in fiscal 2020 we launched our new ESG Committee.

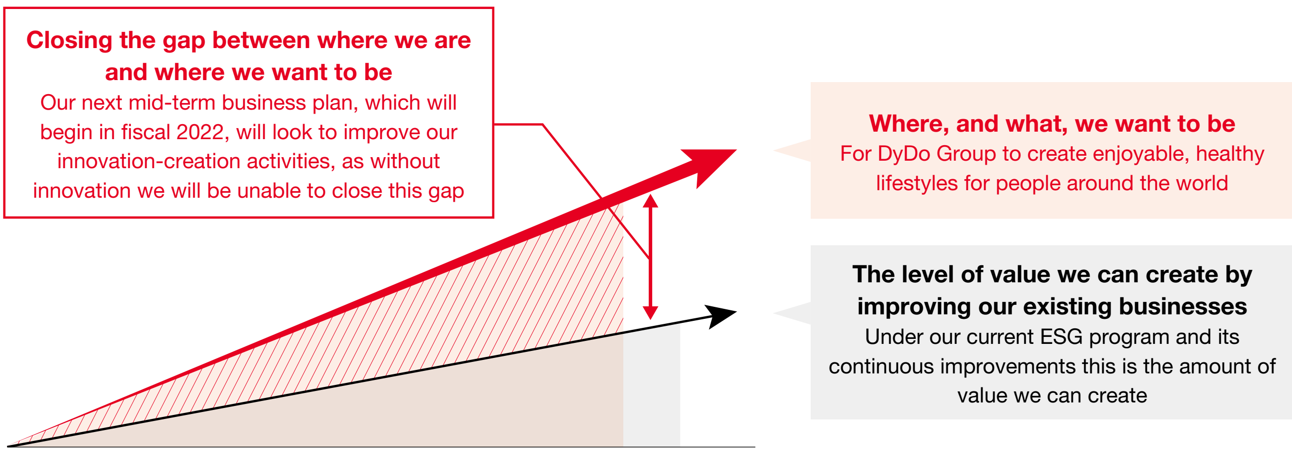
In fiscal 2019, to prepare for this effort, we identified the major social challenges facing the DyDo Group, surveyed stakeholder expectations, and held discussions in each group company to create a list of candidates for the priority issues we face. In February 2020, we engaged in dialogue with external experts and established four themes: Health, Environment, People, and Innovation. Going forward, we will promote concrete efforts as our ESG program.

To formulate our ESG program, we asked each of our group companies and divisions to identify and order the challenges they needed to address from two viewpoints: impact on society and the environment, and impact on business opportunities and risks. Many of the challenges identified as priority issues were related to coping with risk, and not enough were from the standpoint of the innovation that will be required to expand our business opportunities and achieve the mission goals.

The DyDo Group, which has a culture of striving for happiness and prosperity together with society, has always linked the environment and society in its business activities. The concept isn't difficult; the first step is to relate the environment and society directly to existing activities and establish measures to cope with easily-addressed risk as KPIs. By doing so, we can have people working to solve social problems through their ongoing business activities. And in fiscal 2021 and beyond, I would like us to set our sights higher, and undertake to change our awareness progressively—to broaden new activities that expand our business opportunities, and broaden our innovation-related activities—in other

words, to shift to activities that deliberately push boundaries. Furthermore, the new mid-term business plan we will launch in fiscal 2022 will include clear KPIs to that effect. Looking ahead to post-Covid-19 society, we are preparing to respond flexibly to change and make even greater contributions to people and society.

These efforts have just gotten under way. Based on the Group Philosophy, we will strengthen our efforts to address ESG challenges. In this way, we will undertake to solve social problems through our business. At the same time, we will aim for continued DyDo Group growth and medium- to long-term enhancement of corporate value.



Themes Determined in Group Mission 2030 and ESG Program

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.

Theme identified in the ESG program

Health

For details on our FY2019 initiatives, see P35–36

Together with society.

Taking the lead in social reform

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

Theme identified in the ESG program

Environment

For details on our FY2019 initiatives, see P37–38

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.

Theme identified in the ESG program

Innovation

For details on our FY2019 initiatives, see P39–40

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.

Theme identified in the ESG program

People

For details on our FY2019 initiatives, see P41–42

Social

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.

Risks brought by changes in the external environment:	Customers shifting from existing products due to changes in preferences
Opportunities arising from changes in the external environment:	Advent of the healthy longevity society, healthcare market expansion

Each operating company in the DyDo Group markets products that customers put in their mouths. These businesses have a direct connection to building customer health. We expect the healthcare market to expand steadily over the next 10 years and the boundaries between beverages, food and pharmaceuticals, which are all businesses areas of the group, to become increasingly blurred. We are working to enhance the value offered by each of these businesses and create new value by combining them.

Domestic Beverage Business | Aiming to gain awareness of DyDo as a health-oriented brand

The DyDo Group formerly positioned its distribution channel as having a single function: to support our sales strategy of drawing customers to vending machines. Because of this, our distribution channel focused on convenience stores, which are efficient touch points for new products. For the same reason, products that were originally developed for sale in vending machines were also sold through the distribution channel.

However, purchasing habits are diversifying, and vending machine customers are not necessarily retail customers. Vending machines are demanded by those needing a quick break, or who are thirsty now. Because of this, it is important to offer a diverse selection of products to provide customers with convenience and meet their needs. The distribution channel, on the other hand, must supply products that fit customer lifestyles, including stockpiling needs at volume retailers. Because of this, we are currently developing products intended for sale through the channel, with emphasis on health-oriented product development.

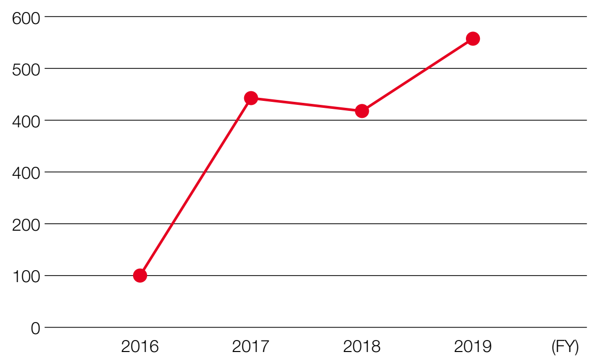
As part of this effort, in 2016 we developed "Calorie Limit for the Mature Aged" in collaboration with FANCL Corporation. This highly-evaluated product combines delicious flavor with functionality, and its claims regarding functionality have been registered with the Consumer Affairs Agency. In-store prices have held firm, and sales volume continues to be positive.

Going forward, we will aim to raise awareness of DyDo as a health-oriented brand, and develop health-oriented products to expand our foothold in the distribution channel.

"Calorie Limit for the Mature Aged" tea series

Trends in number of units sold in the distribution channel

(Units sold per year, taking the number sold in 2016 as 100)



Domestic Beverage Business

Supporting healthy customer lifestyles with a home shopping channel for supplements

Since 2012, the DyDo Group has been offering home shopping for supplements and health foods. Customers used to enjoying DyDo DRINCO products from vending machines have fewer opportunities to do so after retirement. We therefore decided to explore the potential of a home shopping channel to continue to supply customers with that value.

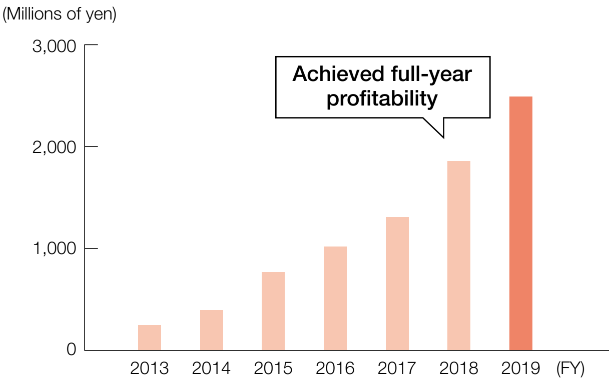
The vision of our home shopping business is to create a society where everyone can aspire to a fulfilling life after retirement by providing innovative value unique to the DyDo Group. Through effective advertising and close communication with customers, we are steadily acquiring an established customer base. Of course, to acquire customers requires attractive products that they will support. With "Locomo Pro" (proteoglycan formulation) as the channel's flagship product, we are expanding sales, and achieved full-year profitability in fiscal 2018, earlier than planned.

Going forward, the challenge will be to create the next mainstay product to support healthy lifestyles, aimed at fans of "Locomo Pro."

This home shopping business is currently being developed by DyDo DRINCO, which handles our Domestic Beverage Business, and its performance is part of that business.

Trends in sales in the home shopping business

*For consolidated business results, these sales are included in the sales for the Domestic Beverage Business.



Pharmaceutical-Related Business

Easy to drink, pouch-packaged pharmaceuticals and quasi-drugs

The new manufacturing line that went into operation in February 2020 at the Nara Plant can produce pouch-packaged pharmaceuticals and quasi-drugs for our Pharmaceutical-related Business. This investment may be regarded as the initial step toward achieving Group Mission 2030. Drinks offered in conventional bottle containers, which we have been producing for some time, have a strong association in the minds of consumers with nutritional drinks and general pharmaceuticals, such as cold medicine. Pouch-packaged products can also meet these needs. At the same time, with people who have lost the ability to chew and swallow as they once did, we expect pouch-packaged products to become more prevalent on the healthcare frontline for nutritional supplementation and administration of medications.

In the future, merging Tarami's jelly manufacturing technology, which maximizes fruit taste, with our pouch-packaged products will enable us to enhance the value offered by the DyDo Group, for example by creating products to enable people of all ages to enjoy delicious taste when taking medications.

International Beverage Business

"Saka," our main mineral water brand, is promoting healthy lifestyles in Turkey and Europe

Mineral water is driving the growth of our Turkish beverage business, which in turn is the DyDo Group's core international business. Sales of mineral water are expanding due to interest in health, which has been increasing in step with Turkey's economic growth. Sales of water in tanks for delivery to offices and homes have been particularly strong. Mineral water is also a principal product in our growing export business out of Turkey. In particular, the mineral water brands we acquired have been exported to the UK for about 15 years, and we established a local subsidiary there in fiscal 2019 with the aim of further sales expansion. Thanks to abundant mineral content and comparatively high pH, our mineral water is recognized not so much as a Turkish product but as healthy, delicious water. We will promote further sales expansion in Turkey as well as internationally, and enhance awareness of DyDo as a healthy brand.

The mineral water "Saka," which has driven positive growth in the Turkish market

The 19-liter bottle for delivery to homes and offices has been selling well

Foundation for Corporate Value Creation

Environment

Taking the Lead in Social Reform

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

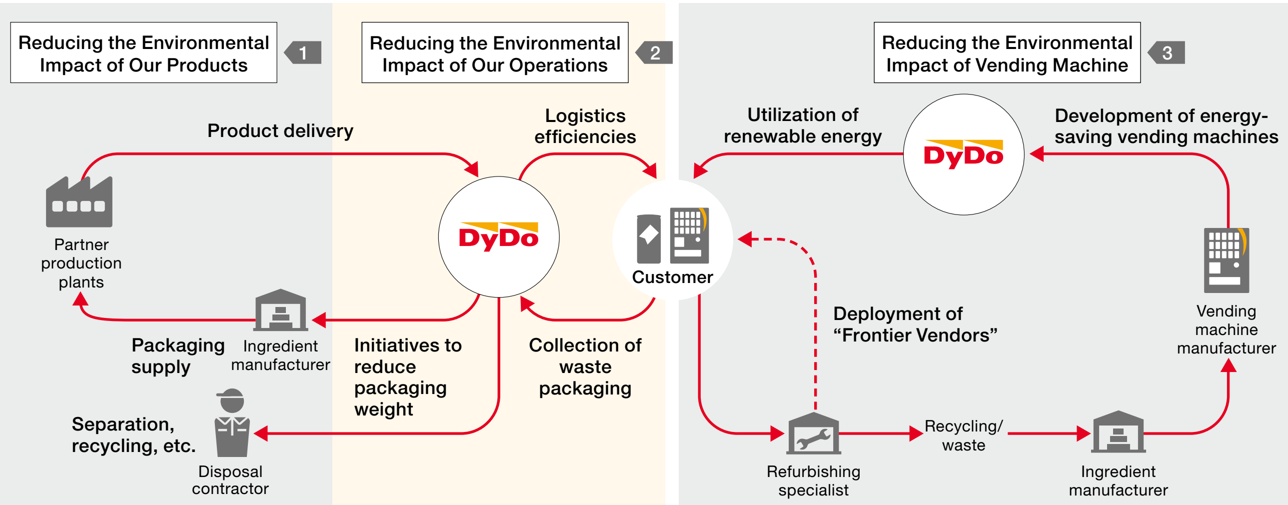
Risks brought by changes in the external environment:	Global-scale environmental problems, expanding coping costs
Opportunities arising from changes in the external environment:	Expanded demand for eco-friendly products, advances in energy conservation technology

Consumer choice of products and services is also greatly influenced by a company's engagement with environmental issues, beginning with climate change. To combat climate change, laws and regulations in areas such as rationalized energy use and measures to cope with global warming are being strengthened worldwide. Through its businesses, the DyDo Group is demonstrating active leadership with respect to these issues.

Enhancing our Domestic Beverage Business vending machine channel

Management, operation, and maintenance of vending machines consumes considerable resources, including electricity, container materials, and fuel for vehicles. We understand the link between environmental issues and the way we manage our business, and are engaged in ongoing efforts to reduce the environmental impact of our supply chain as a whole.

In addition, successive natural disasters in recent years have made supply chain interruption an issue for companies. The DyDo Group's Domestic Beverage Business follows fabless management, with sourcing from partner production plants nationwide. Consequently, even if disasters strike, we are able to respond flexibly.



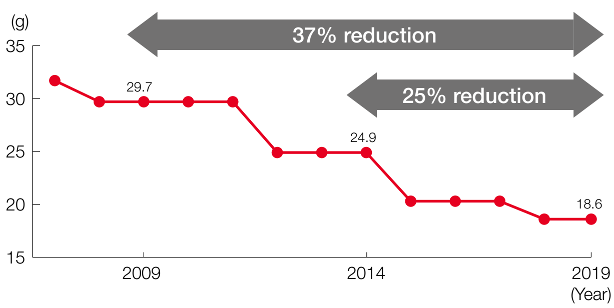
Reducing the Environmental Impact of Our Products 1

Lighter packaging

One of our key initiatives to reduce the environmental impact of the Domestic Beverage Business is the use of lighter packaging. Our main product, canned coffee, uses the lightest steel can available in Japan, the new model TULC can.* The steel used in our 185g can weighs approximately 37% less than the equivalent container of ten years ago.

*The can is made using a manufacturing process that emits only a small amount of carbon dioxide. No water is used during processing, and the amount of solid waste generated during the washing process is almost zero, greatly reducing its impact on the environment.

Trends in weight of steel used in 185g cans



Reducing the Environmental Impact of Our Operations 2

Adoption of eco-friendly sales vehicles and route trucks

We are introducing the use of hybrid vehicles in our Domestic Beverage Business, not only for vehicles used by sales reps whose job it is to develop vending machine locations, but also for our trucks, which replenish the machines and maintain the area around them. These and other efforts are reducing the impact of our operations on the environment.

Optimized routing to cut fuel emissions

We are endeavoring to promote a smart operation structure in our Domestic Beverage Business by utilizing IoT in our vending machines. As the operator of one of the industry's largest vending machine networks, this will enable us to maintain operations even in an environment of limited labor availability. At the same time, by optimizing truck routes, we are achieving reductions in operations-related carbon dioxide emissions. (For details, see p. 39)

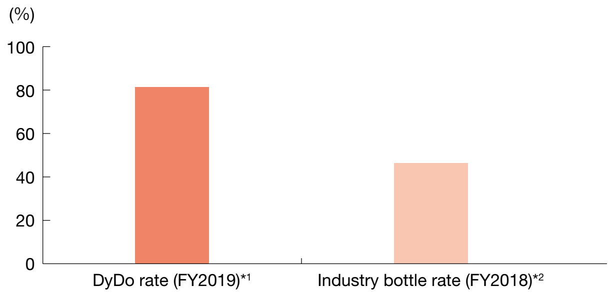
Collection of waste packaging

To help reduce plastic waste in the oceans and more effectively use our resources, we are working on a system to quickly and reliably collect waste containers and packaging. The DyDo Group tends to have a high rate of voluntary recycling of plastic bottles because it makes a large proportion of its sales in the vending machine channel, but we are committed to improving our recovery rate for used containers, and in fiscal 2018 we developed trucks with twice the capacity for empty containers.

Promoting the White Logistics Movement

We are applying the principles of the White Logistics Movement to our Domestic Beverage Business. White Logistics is an initiative advanced by Japan's Ministries of Land, Infrastructure, Transport and Tourism; Economy, Trade and Industry; and Agriculture, Forestry and Fisheries. We have submitted an independent action declaration to the movement, affirming our commitment to realizing a sustainable distribution environment. Going forward we will strengthen these efforts, including extended delivery lead times and a modal shift toward sea- and rail-based logistics.

Voluntary empty container recycling rates



*1 Amount collected from company container recycling boxes divided by domestic shipments of company products
*2 Collection rate trends published by Council for PET Bottle Recycling.

Reducing the Environmental Impact of Vending Machines 3

Deployment of energy-saving vending machines

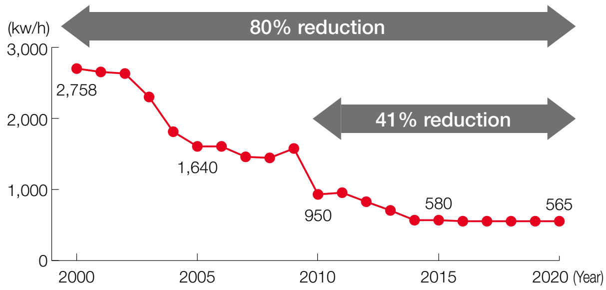
To combat global warming, the Domestic Beverage Business is deploying energy-saving vending machines with significantly reduced power consumption. As a result, a new machine installed in 2019 consumes about 80% less power than one newly installed in 2000.

Deployment of "Frontier Vendors"

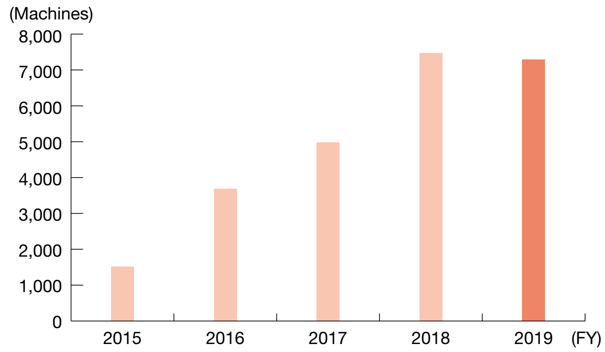
Since 2015, to reduce the environmental impact of our vending machines and cut costs, we have been deploying "frontier vendors" that are designed to reutilize and extend the lifespan of our vending machines from around 10 years to 15 years.

Initially, these efforts centered on maintenance and replacement of the cooling/heating unit, which greatly influences the vending machine's energy-saving functions. Subsequently, however, we began replacing conventional lights with LED lighting, switching to digital price displays, and recently, reusing and reconfiguring internal product storage racks to better meet customer needs. Our efforts to devise additional measures to make vending machines even easier for customers to use, yet reduce the impact on the environment and make maximum use of limited resources, are ongoing with cooperation from refurbishing specialists.

Trends in electricity consumption



Number of "Frontier Vendor" machines installed



Social

Creating New Value for Future Generations

We will take advantage of innovative technologies, bringing surprise and delight to all of our stakeholders.

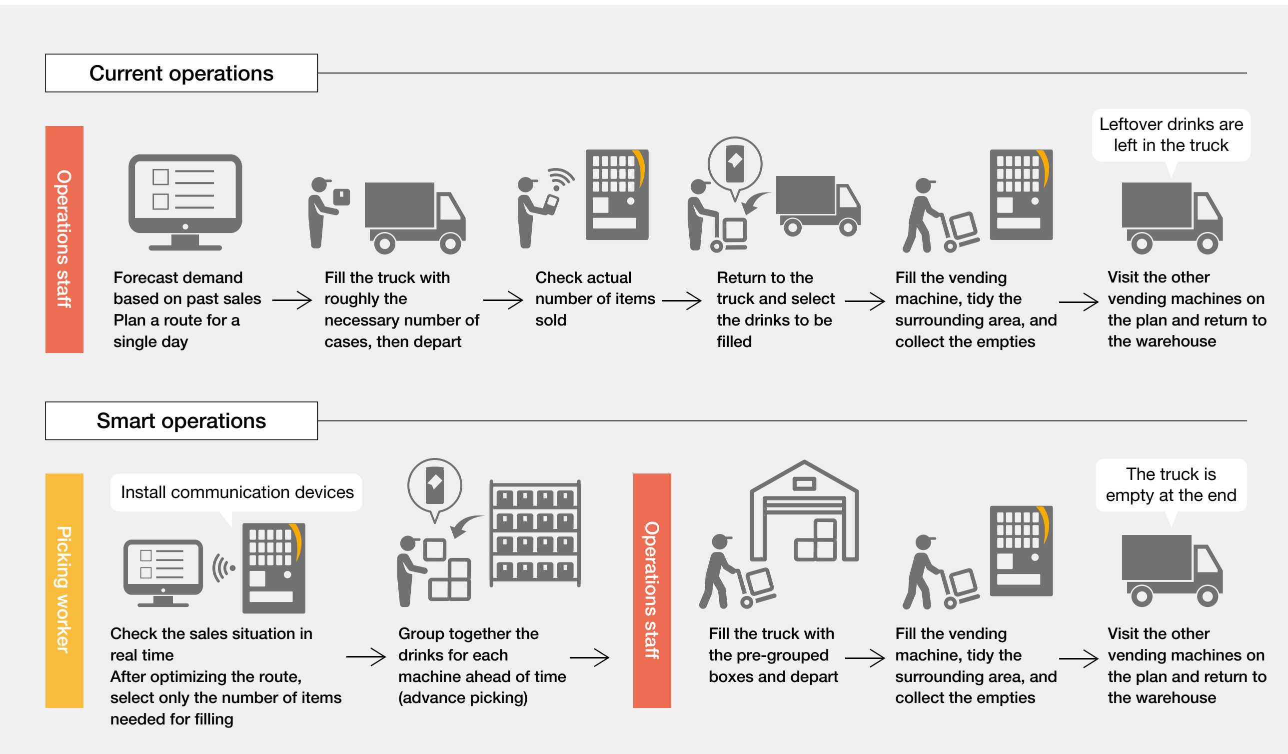
Risks brought by changes in the external environment:	Failure to respond promptly to digital transformation
Opportunities arising from changes in the external environment:	Rapid technological advance

Each group business has labor intensive aspects. We require support from our human resources to maintain vending machine operation in the Domestic Beverage Business, and at manufacturing plants in the Pharmaceutical-related and Food Businesses. Outside major cities, the impact of labor shortages is becoming evident against a backdrop of declining birth rates, an aging population, and population shifts to urban areas. Over the short term, this labor shortage may ease temporarily as unemployment increases due to the influence of Covid-19, but over the medium to long term these trends are expected to become even more widespread and pronounced. This is becoming a major challenge to our future sustainability.

Enhancing operational efficiency in our Domestic Beverage Business

Labor shortages are having a significant impact on the performance of the vending machine segment of our Domestic Beverage Business. The DyDo Group's vending machine network is one of the largest in Japan, and its operations are supported by approximately 3,000 operations staff from the Kyoeikai (special operators of DyDo DRINCO vending machines) and the individual group companies. In recent years, it has become increasingly difficult to secure route managers, especially in areas that lie outside major metropolitan centers, for which the Kyoeikai is responsible. Under these conditions, they could be forced to shrink their operations until they can be maintained with a small workforce.

So far we have been working to implement numerous frontline improvements to boost operational efficiency. However, to carry out more thoroughgoing measures, we will need to adopt IoT technology and reorganize our operations drastically. One of the strategies of our Mid-term Business Plan 2021 is IoT investments to streamline operations and establish a smart structure that will enable us to operate with a lean workforce.



Recruiting and training human resources for the next generation

Securing personnel with highly specialized skill sets and experience

Securing qualified personnel is a requirement in an environment where increasingly sophisticated skill sets are essential. We are a company that has developed through the expansion of our vending machine business. Now, to promote our product branding, international expansion, M&A, and other recent business strategies, we require a more diversified personnel mix with more emphasis on mid-career hires with advanced specialist skills, non-Japanese professionals, and female new university graduates. Going forward, in executing our growth strategy to build a second major source of revenue in the healthcare sector, we are undertaking to recruit and retain diverse human resources with advanced specialist skills and experience. A wide range of industries, not limited to beverages and food, are looking to the medical and healthcare industries to play a major role in their growth, and we believe competition to secure human resources will become increasingly intense. One requirement for securing personnel with medical and healthcare industry experience will be not only to put in place the appropriate systems, but also to create work environments where they can demonstrate their capabilities to the maximum extent.

Developing personnel to execute our strategies

Personnel development systems are critical, whether for new university graduates or experienced mid-career hires. We develop younger employees through new challenges that encourage growth, including exposure to our International Beverage Business, or involvement in planning for IoT vending machines in our Domestic Beverage Business. We prioritize assignments that afford them scope to create new business opportunities.

We run the DyDo Innovation Academy (DIA), a long-term training program for middle management-level employees to help develop and identify executives who will lead the company in the future. Programs that combine off- and on-the-job training are used to build problem-solving skills and the abilities needed to overcome challenges, while strengthening leadership and enhancing business literacy.

The DyDo Challenge Award

“Creating happiness and prosperity, together with people and society. To achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way” is the DyDo Group’s corporate philosophy. In fiscal 2017, we established the DyDo Challenge Award to promote systems to enable each of our employees to actualize this philosophy. The award recognizes proposals and efforts that play an outstanding role in enhancing corporate value.

This award system has two categories. The DyDo Challenge Award recognizes efforts during the preceding year that contributed significantly to corporate value, while the DyDo Challenge Idea Award is presented to ideas submitted by employees that have been selected for implementation during or after the next fiscal year, based on voting by the employees themselves. In fiscal 2019, there were 44 submissions for the DyDo Challenge Award and 68 for the DyDo Challenge Idea Award.

Instituting a regular system to encourage our employees to generate new ideas helps cultivate a corporate culture that welcomes new ideas. At the same time, by recognizing creativity with these awards, we are fostering opportunities to expand the circle of creativity beyond those submitting ideas to other employees around them.

Transitioning to new work practices based on telework

We are also using technological progress to foster workstyle innovation. DyDo DRINCO, which handles our Domestic Beverage Business, shifted to a new, telework-based approach for the entire company on June 1, 2020. The goal of this new approach is enhanced productivity and work-life synergy. During the state of emergency declared by Japan’s government in response to the spread of Covid-19, we acquired experience relating to telework-based operations, including the challenges such conditions present. Since then, all DyDo DRINCO employees are working from home, executing their responsibilities autonomously, while commuting to their offices a few days a week to help vitalize the organization by engaging in direct communication. Sales activities are carried out within a flexible work structure that includes flextime. Under this approach, we will maintain the close sales relationships we have built with customers in the field. At the same time, we are adopting new sales styles such as promoting remote sales through online customer contacts or other web-based activities. In this way, we are aiming to achieve efficient sales activities combining face-to-face and digital contact, and realize a dramatic increase in productivity.

Social

Connecting People to People

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

Risks brought by changes in the external environment:	Accelerating change in our business environment
Opportunities arising from changes in the external environment:	Promoting workshare expansion and open innovation

In recent years, Japan's established work practices, which assumed lifetime employment, have been shifting progressively toward practices that leverage individual skill sets. This can be seen at the company level with the spread of shared services. The DyDo Group has achieved growth with a spirit of fostering mutually beneficial relationships, including relationships with external companies. Going forward, we will promote such relationships even more, collaborating with other companies and leveraging their expertise for further growth while enhancing our group strengths.

Pursuing distribution reforms

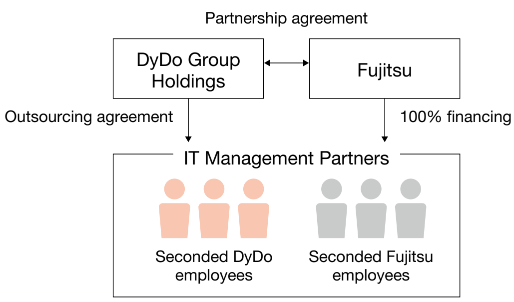
Shibusawa DyDo Group Logistics Co., Ltd.

DyDo DRINCO, which handles our Domestic Beverage Business, has partnered with Shibusawa Warehouse Co., Ltd. to establish Shibusawa DyDo Group Logistics Co., Ltd. We have built our own distribution network over time with help from multiple distribution companies across Japan, but by leveraging Shibusawa Warehouse expertise and sharing distribution facilities, we are working to optimize our distribution.

Developing management systems using advanced AI and IoT

IT Management Partners Co., Ltd.

DyDo Group Holdings has transferred its information systems operations to IT Management Partners Co., Ltd., a subsidiary of Fujitsu Limited. This move will enable us to utilize Fujitsu's IT-related resources and expertise and optimize the DyDo Group's overall IT operations. In addition, group employees will promote a shift to information systems planning, and by keeping current with the most advanced technologies, including AI and IoT, they are building an IT organization that can make direct contributions to management and businesses that utilize such technologies.



The challenge of developing new services

600 Inc.

DyDo Group Holdings has invested in 600 Inc., a company managing cashless, unmanned mini-convenience stores for offices. In addition, the company has concluded a tie-up agreement with DyDo DRINCO. 600 is building a business model based on a system that they have developed that allows customers to buy what they need, when they need it. This is the same model we are pursuing in our vending machine business.

600's business model is structured to offer customers new value. Cashless purchases with credit cards are possible, and product stocking can be optimized by regularly monitoring purchasing patterns. Location owners can also request customized product line-ups. Going forward, we will develop new services that merge 600's cashless technology and their purchasing and other expertise with DyDo DRINCO's expertise accumulated in the vending machine business. Our aim is to create new value by bringing vending machines closer to the customer.

600 Inc. has developed the "600," a cashless, unmanned convenience store

Expanding into the orphan drug business with human resources strategy and partnerships

DyDo Pharma, Inc.

To enter the orphan drug business, the DyDo Group established DyDo Pharma, Inc., which commenced activity in August 2019. Since so-called orphan diseases have few suitable treatment protocols, the field represents a challenge for society. Drug distribution was our founding business, and it is our firm desire to return to that business to help patients and customers. This will be a new challenge, but outsourcing is now advanced in every facet of the new drug field, including development and manufacturing. We will therefore build relationships with outsourced providers at each stage of the process, and work to solve the social challenges these diseases present.

Orphan drugs and DyDo's target

There are approximately 7,000 orphan diseases. Only around 5% of drugs approved for use on a global basis are suitable to treat these diseases, many of which are serious. Several are progressive and life-threatening. Pharmaceutical companies and others around the world are working to create candidate drugs, including an increasing number of pharmaceutical companies in Japan. However, given the typically limited number of patients for these drugs, development efforts have so far been insufficient. DyDo Pharma's goal is to identify new candidate drugs under development by biotechnology companies globally, continue their development in Japan, and obtain regulatory approval so they can reach patients as soon as possible.

Securing human resources for business operations

Although DyDo Pharma began operating in August 2019, we actually announced our entry into the field in March 2018. This enabled us to begin hiring external specialists, and we are currently securing personnel with extensive experience in every medical industry field, including business development, new drug development, pharmaceutical affairs, and reliability assurance.

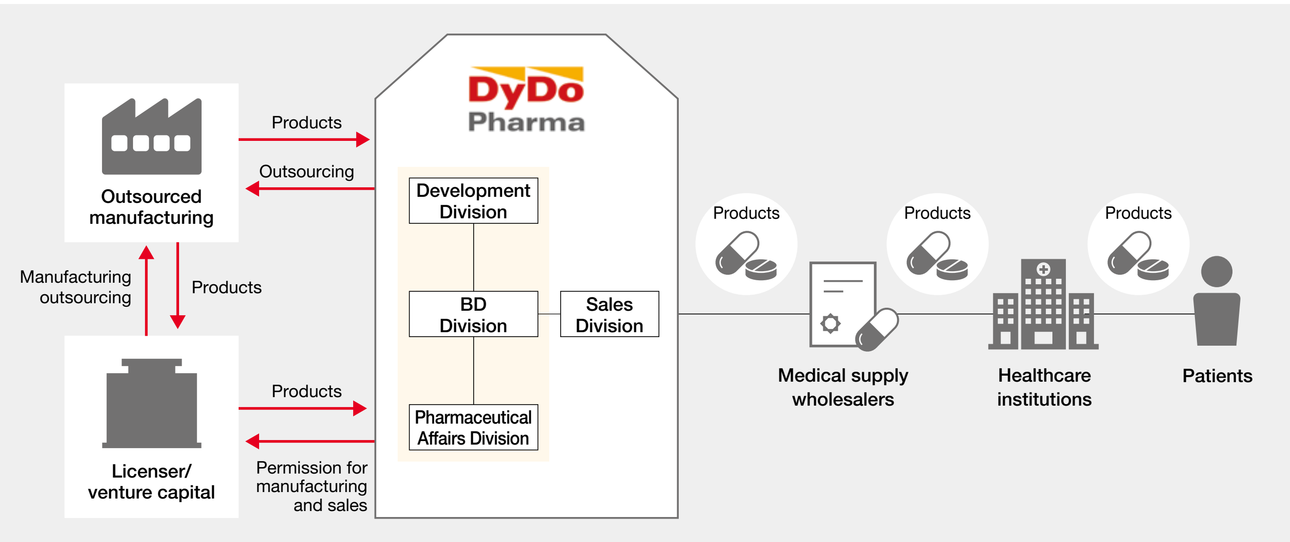
Managing the business through external contractors

We are first of all aiming to invest in candidate drugs produced by pharmaceutical companies around the world, especially where we can obtain exclusive rights to develop, manufacture and market them in Japan. We will then develop them and obtain regulatory approval. Delivering a pharmaceutical to the market requires a wide range of expertise. We will utilize external organizations, such as Contract Research Organizations (CRO) for clinical development and Contract Manufacturing Organizations (CMO) for pharmaceutical manufacturing. We will structure our own sales organization, but in conformance with patient situations. We will also explore other arrangements, including joint sales structures with pharmaceutical manufacturing partners as well as sales outsourcing. Also, as required, we will consider collaborating with external experts, entities, and companies. This approach is aimed at facilitating possible lean management that does not require DyDo Pharma itself to bear considerable fixed expenses.

A deliberative corporate governance system

While the DyDo Group's business activities are closely related to pharmaceuticals, we are not specialists in this field. For this reason, we established an Advisory Board to advise the president in January 2019. Its functions are supplemented by lectures from external specialists that will, for example, assist the committee in issuing recommendations relating to specific issues. (For details on the Advisory Board, see p. 46)

The DyDo Pharma business model



ESG

The Launch and Role of the Group ESG Committee

In January 2020, we established a Group ESG Committee to help the DyDo Group achieve medium- to long-term growth. Two of the individuals responsible for laying the foundations of the committee discuss the process leading to the committee's launch, its goals, the future of our ESG management system.

Kitagawa

In January 2019, I was assigned to set up the ESG Group in the Corporate Communications Department to help the DyDo Group achieve sustainable growth and medium- to long-term corporate value enhancement.

To ensure that company-wide ESG activities are sustained and effective, we made fiscal 2019 a year for laying a foundation for ESG promotion. Our main activity themes were to assess challenges and risks perceived by each group operating company, promote harmonized ESG awareness, and prepare the structures needed for ESG promotion. Because these activities were designed to further the integration of ESG activities with our business strategies, we coordinated with the Management Strategy Department.

Promoting awareness to support promotion

Kitawaga

Ryoichiro Kitagawa
Manager, Corporate Communications Department
DyDo Group Holdings, Inc.

In recent years, as the DyDo Group has expanded its business sectors, the range of business environments surrounding it has diversified. I therefore started by attending the interviews with operating companies that were carried out by the Group Risk Management Committee, which is directed by the Management Strategy Department, to assess the social challenges and risks that each operating company has identified. These interviews are carried out twice yearly, and I plan to continue collaborating with the Management Strategy Department going forward.

The next step was to harmonize ESG awareness across companies. The operating companies and divisions had already been working to address social challenges and manage risk, but to do so systematically as a group requires harmonized awareness. Consequently, in August 2019 we conducted group ESG training for directors at each operating company. During the training, external experts gave lectures that helped deepen participant understanding of ESG and SDGs. In addition, the training undertook to harmonize awareness that the core of our ESG management, is understanding the connection between ESG and practicing the Group Philosophy, achieving the Group Vision, and addressing social challenges through Group Mission 2030. In addition, the training gave participants an opportunity to realize that ESG is not at all a new concept, and to confirm that our commitment to a spirit of mutually beneficial relationships in conducting our business is itself an embodiment of the ESG concept.

However, to achieve sustained growth, it is important that employees not simply continue business as usual, but use their personal awareness and knowledge to address social challenges. After the training, the president published a message in the group's internal newsletter: "It is important for each of us to raise our awareness of ESG and SDGs and consider what we each can do." As a result, I believe that awareness has risen, but we will continue to disseminate information to foster even greater awareness.

Preparing a foundation for ESG promotion

Yuko Otani
Manager, Management Strategy Department
DyDo Group Holdings, Inc.

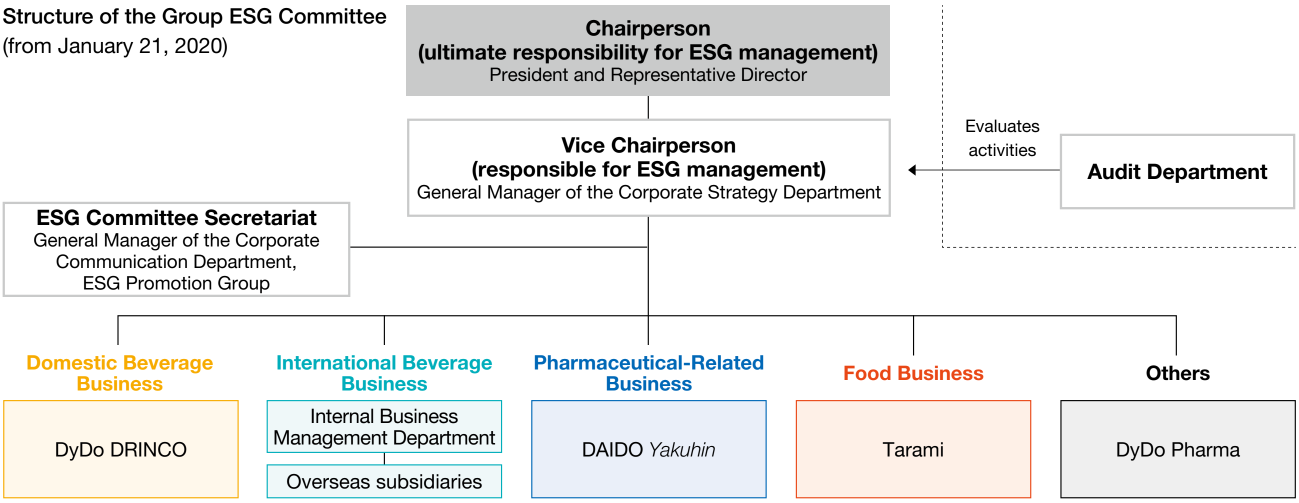
Otani

To promote ESG management going forward, we launched the ESG Committee to formulate an ESG program and serve as a PDCA cycling mechanism. The Group ESG Committee summarizes and shares changes in medium- to long-term opportunities and risks to the group business model from an ESG standpoint, and in coordination with the Risk Management Committee, promotes group ESG management to meet stakeholder expectations.

In formulating the ESG program, we first defined the priority issues of the DyDo Group, then characterized the activities of each operating company with respect to those issues. The priority issues (see p. 34) are the four themes of Group Mission 2030: Health, Environment, Innovation, and People. With respect to each of these issues, the operating companies employed SDG aims and targets to formulate concrete measures and KPIs. We asked the operating companies to first take a broad view. We then sifted the results to focus in on activities that would be effective in achieving Group Mission 2030. Specifically, we had the operating companies evaluate each priority issue from two standpoints: the impact on society and the environment, and the impact on business opportunities and risks. This defined the priority activities for the group.

During the process of formulating the ESG program, we had numerous discussions with group management concerning the essence of ESG and what ESG management should be for the group specifically. I think it was also a good opportunity for each operating company, through discussion and issue identification, to consider ESG and SDGs in connection with their day-to-day tasks.

Structure of the Group ESG Committee
(from January 21, 2020)



Issues for fiscal 2020 and beyond	•Increase the quality and number of new activities to expand business opportunities •Increase the number of innovation-related activities •Study activities initiated by employees •Conduct investigations based on a long-term profit perspective

At the same time, we discovered an additional challenge facing future ESG promotion, namely that many issues of importance to the operating companies concerned risk management, and not enough concerned opportunities. The challenge will therefore be to move forward not only with respect to management of risks brought by changes in society, but also to identifying actively the growth opportunities created by those changes.

Making good use of external input

Kitagawa

When organizations set out to promote ESG, the task usually falls to the management strategy division. I believe it was somewhat unusual for the DyDo Group to situate this effort in its Corporate Communications Department, which is its department responsible for communicating with stakeholders. Our department also contains an investor relations group. Their mission is to convey the DyDo Group's philosophy and strategies to the equity markets and ensure correct understanding. However, conveying the markets' evaluation of those aspects to management, so that the feedback can be tied to management reform, is an even more important mission. This approach is also necessary for ESG. We believe avoiding strategic complacency and ultimately enabling sustainable growth requires us to analyze our risks, identify issues, and brush up the solutions we've formulated through communication with institutional investors and other external individuals.

We incorporate external opinions when formulating our ESG program. We carried out a survey of shareholders and employees of our Domestic Beverage Business. The theme of the survey was "What can we do to achieve sustainable growth?" The survey demonstrated that shareholders have high expectations with respect to the quality and safety of our products and services, while employees are focused on work environments that can make work easier and more rewarding. We believe that expanding these activities will also be important going forward.

Moreover, when the general outline of the ESG program was established in February 2020, we conducted a dialogue with stakeholders and external experts to solicit expectations of the DyDo Group from a customer viewpoint. (For details of the stakeholder dialogue, see pp. 31–32) The program activities we formulated centered on mitigation of important risks, but the dialogue indicated a need to incorporate more innovation activities to generate business opportunities. In addition, we realized that we needed to pay attention to a longer-term profit perspective.

The goals of the current ESG program are limited to generating value from existing businesses, and a gap remains with respect to the goals of Group Mission 2030. As we identify new issues, we plan to incorporate ways to close this gap in the measures and KPIs we formulate, and link them to strategies to achieve the aims of the next mid-term business plan.

Refining strategies with the next generation

Otani

To date, the process of laying ESG foundations has centered on management or mid-level managers. However, in fiscal 2020, we plan to shift the focus to the DyDo Group managers of the future. We will dig deeper to identify business opportunities and risks out to 2030, and consider measures to close the gap between current and future states. The Group ESG committee, which will launch in fiscal 2020, will gather their opinions and utilize them to enhance the sustainability of our current ESG program.

Moreover, we will communicate our ongoing progress in promoting ESG management to internal and external stakeholders. This will enable us to enhance our activities by incorporating their feedback. In addition, we hope that this process of communication and feedback will enhance employee motivation by encouraging them to maintain their daily awareness of how they can contribute.

The DyDo Group's engagement with ESG has just begun, but we are confident that these activities will help ensure sustainable growth and medium- to long-term corporate value enhancement.

Governance

Corporate Governance

Basic Approach to Corporate Governance

"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." Our corporate philosophy inspires us in our ongoing quest to ensure proper, upstanding business practices and rigid compliance with relevant laws and regulations. It motivates us to constantly improve management efficiency and transparency, and to promote the group's mutual benefits with all of our stakeholders, including our customers, our employees, our business partners, our communities, and our shareholders. It is the very cornerstone of our corporate governance, which is geared toward generating sustainable growth and improving corporate value over the medium to long term.

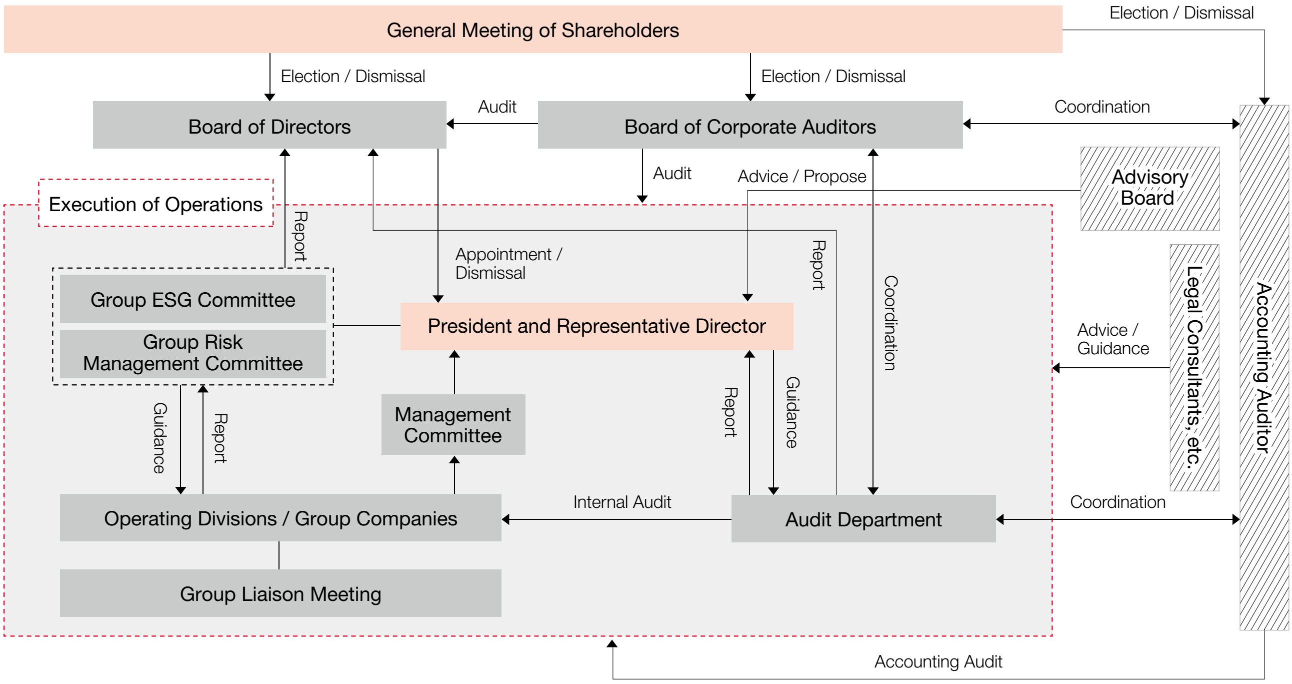
The core business of the DyDo Group is the Domestic Beverage Business, and considering the fact that 80% or more of our sales for this segment come from vending machines in the local community, it is fair to say that our soft drink products are a familiar part of consumers' everyday lives. Moreover, our operations are conducted under a "fabless management" system, which means we have no plants of our own and instead work in close cooperation with producers and distributors nationwide, to whom we outsource the manufacture and delivery of our products. We concentrate our resources on more specific roles, such as product planning and development, and vending machine operations. We have one of the industry's most extensive networks of vending machines, which are maintained by DyDo Group employees and the "Kyoeikai" (special operators that handle DyDo DRINCO's vending machines).

It is a rather unique business model that depends on the trust of our stakeholders. As such, we believe "happiness and prosperity, together with people and with society" is more than just a nice phrase for a corporate philosophy—it is our duty, and the overriding objective of our business activities. To that end, our tackling of "new challenges in a dynamic way" is founded on a bedrock of corporate governance, a steadfast platform of transparent, fair, swift, and bold decision-making. Moreover, we continually work to improve that foundation in order to contribute to the benefit of our shareholders.

Ongoing Improvements to Corporate Governance

	Pre-2012	2012	2013	2014	2015	2016	2017	2018	2019
Business expansion		June, Tarami became a subsidiary							
			December, Started Russian vending machine business						
					December, Entered the Malaysian beverage market				
						February, Entered the Turkish beverage market			
								March, Announced entry into the orphan drug business	
President				Appointment of Tomiya Takamatsu as President					
Group structure							Transition to holding company structure		
Revitalizing the Board of Directors and strengthening its functions		Introduction of an corporate officer system							
						Review of the scope of authority	Transfer of authority to group companies		
	Number of members on the Board of Directors as determined in the Articles of Incorporation: 9 or fewer					Number of members on the Board of Directors as determined in the Articles of Incorporation: 7 or fewer			
									Establishment of the Advisory Board
Improving the effectiveness of the Board of Directors							Introduction of a performance-based incentive program		
						Evaluation of the effectiveness of the Board of Directors	Disclosure of a summary of the evaluation results		
Outside directors				Appointment of two outside directors					
						Outside directors as one-third of all directors (2 of 6)			
Corporate philosophy	1984: Formulation of DyDo DRINCO Corporate Mind (company philosophy)			Formulation of a new Group Philosophy, Vision, and Slogan					
						Formulation of the Basic Approach to Corporate Governance			
									Formulation of the Group Code of Conduct

Outline of Our Corporate Governance System



	Directors	Auditors	Corporate Officers	Presidents of Major Subsidiaries*1	Roles
Board of Directors	●	●	(●*2)		•Discusses/decides management strategy and other important matters •Oversees execution of the duties of directors, and execution of the operations of each group company
Board of Corporate Auditors		●			•Receives reports, discusses, and makes decisions on important matters relating to auditing •Audits execution of the duties of directors
Management Committee	○	○	●		•Formulates policy and plans for overall execution of management, and carries out tasks including investigations, research, planning, management, communication, and coordination
Group Liaison Meeting	○	○	●	●	•Shares important matters in the group •Carries out tasks such as reporting the management situation from each subsidiary
Group Risk Management Committee	○	○	●	●	•Identifies and evaluates company-wide risks, and formulates countermeasures •Conducts checks and improvement of overall risk management
Group ESG Committee	○	○	●	●	•Investigates and approves the group's overall ESG management •Decides on, and directs improvements to, the group-wide ESG program
Advisory Board					•Formed the Advisory Board (established as a discretionary measure), which includes outside experts and will advise the president, giving evaluations and suggestions for matters requiring a high level of expertise

*1 DyDo DRINCO, DAIDO *Yakuhin*, Tarami
*2 Corporate officers who are not also directors participate as observers

● All persons concerned attended ○ Only full-time members attended

The Advisory Board

In January 2019, the DyDo Group established its Advisory Board, generally consisting of approximately three outside experts who are not outside directors or corporate auditors. When entering a new business field, one approach is to appoint an individual with expertise in that field as a director. However, in certain instances, such as that of orphan drugs, the small scale of the business and its early stage means that appointing a director would create an unbalanced structure. The Advisory Board was therefore established to act as an advisory body to me as president. The board brings an external point of view to evaluating and implementing advisory strategies, including examining proposals requiring specialist knowledge and providing suggestions relating to DyDo Group management issues, and enhances the transparency of our management.

The board has been operating for approximately a year, but has been providing effective support for management decision-making, including specialist input relating to the field of orphan drugs, where our experience remains limited, as well as useful suggestions for evaluating investment proposals.

Tomiya Takamatsu
President and Representative Director

Governance

Evaluation of the Effectiveness of the Board of Directors

To verify that the Board of Directors is carrying out its duties effectively, and to strengthen its functioning, we appraise the Board of Directors using the following analysis and evaluation method.

Analysis and Evaluation Method

In order to analyze and evaluate the effectiveness of the Board of Directors, between December 2019 and March 2020 all directors and auditors conducted a questionnaire-based self-evaluation, accompanied by individual interviews with the secretariat of the Board of Directors.

At the Board of Directors meeting held on March 13, the directors analyzed the results of their self-evaluation, shared their understanding of current issues, and engaged in constructive discussions of topics such as efforts going forward to realize a more effective Board of Directors.

Evaluation Items

The self-evaluation survey form included items addressing the following major topics so that respondents could review how the Board of Directors deliberated and dealt with issues identified through its effectiveness evaluation during fiscal 2018:

(1) Board agenda and operations
(2) Status of deliberation on medium- to long-term issues, based on Group Mission 2030
(3) Future issues in light of the Corporate Governance Code

Reference: Evaluation results in FY2018

Issues to address in order to boost the effectiveness of the Board of Directors

1. Concerning the composition of the Board over the medium to long term, it will be necessary to consider appointing an even more diverse group of directors in response to the development of the Company's management strategy and to changes in society.
2. Concerning materials provided to the Board, there remains room to improve the resources offered to directors, for example by augmenting simplified and more clearly stated briefing materials with supplemental explanation of key considerations regarding matters for discussion by the Management Committee, etc.
3. Concerning discussion of new investments and the nature and future direction of the Company's business portfolio, it will be necessary to engage in even deeper study of related issues, for example with regard to decision criteria for withdrawal from an investment.
4. Concerning management of risk in the International Beverage Business, it will be necessary to enhance the Company's management and auditing systems as a holding company, for example by assessing local issues and problems in a timely manner and studying how to identify and deal with priority issues based on the likelihood and impact of associated events.
5. The Board will supervise implementation of a strategic plan to train a new generation of executives in an appropriate manner based on its recognition of the fact that securing and developing the human resources that will be responsible for the next generation is a key management issue as the Company works to increase its corporate value over the medium to long term.

Overview of Analysis/Evaluation Results

On the basis of discussions regarding the analysis of self-evaluation survey results, the Board of Directors concluded that "the Board of Directors is functioning effectively."

Status of improvements to Board of Directors operation in FY2019

To meet a wide range of management challenges during this first year of Mid-term Business Plan 2021, the Management Committee and the Board of Directors respectively summarized and reviewed the terms of submitting matters for consideration. As a result, the Board focused on matters relating to the company as a whole, and engaged in further discussion with respect to clarifying objective standards for withdrawal from business investments.

In addition, from a risk management standpoint, the Audit Department enlarged its report relating to the status of international subsidiaries. The division also determined that reports tracking the progress of management response to issues needed to be enlarged. Consequently, it was decided to have the person in charge of each business segment submit quarterly management status reports directly to the Board of Directors. The Board also engages in deliberation concerning the strategic bases and other matters relating to the International Beverage Business. To facilitate these reviews, opportunities have been created for local managers of international subsidiaries to communicate directly with the Board. In these and other ways, the Board undertook to make improvements to facilitate a more timely, detailed grasp of the local situation.

Awareness was shared concerning the following issues, which remain to be addressed in undertaking to strengthen the functions of the Board and further enhance its effectiveness.

(1) Concerning the composition of the Board over the medium to long term, it will be necessary to continue considering the appointment of an even more diverse group of directors to respond to the development of the Company's management strategy and changes in society.
(2) Concerning materials provided to the Board, there remains room to improve the resources offered to directors, for example by making important points clearer to understand to further stimulate discussion.
(3) Concerning the operation of the Board of Directors, it will be necessary to expand the reports submitted to the Board and opportunities for deliberation concerning medium- to long-term corporate value enhancement, including securing and developing human resources, strengthening the foundation of the Domestic Beverage Business, and expanding involvement in the healthcare sector.
(4) Concerning deliberation with respect to important matters, because of the time limitations of regular Board meetings, it will be necessary to create separate communication opportunities between directors responsible for business execution and outside directors.
(5) It will be necessary to conduct discussions concerning the strengthening of management systems in response to the increasing importance of international businesses for future growth.

Future Efforts

Based on the evaluation of Board of Directors effectiveness, we will work continuously to make needed adjustments and improvements so that the Board can maximize its oversight functions, including by monitoring the handling of important management issues on an ongoing basis, selecting of topics to further stimulate discussion, and re-evaluating materials used to support Board deliberations.

Outside Director Evaluation of Effectiveness and Findings

Aim for more active discussion between internal and outside directors

Shinji Mori
Independent Outside Director

Director management is improving year by year, especially following the transition to a holding company structure in 2017. On the whole, management is reaching a fully sufficient level, including in sharing and content of briefing materials and the amount of time allocated for deliberation on the day of the meeting. However, with respect to the newly-initiated orphan drugs business, I have the sense that so far, sufficient information has yet to be gathered. The International Beverage Business started in a similar fashion, and was progressively refined as more information was gathered. As such, I would like to see refinements made to the strategic direction more gradually, until the business is ready to manage. I believe that the policy of developing human resources for the next generation, part of Mid-term Business Plan 2021, is also being discussed internally, but this would seem to be an important issue for discussion by the Board as well. Human resource development can lead to effective governance, and I would like to see discussion deepened further.

In terms of the Board's operation, the president and internal directors pay close attention to the opinions offered by us, the outside directors. However, these opinions are voiced mainly through questions and answers. The outside directors and the corporate auditors have ample opportunity outside Board meetings to exchange views, but if the internal directors could state their opinions more actively, I believe it would be extremely useful for the outside directors, facilitating deeper discussion, and leading to a more active Board.

Outside Director Evaluation of Effectiveness and Findings

Discuss important proposals in each business company-wide, from a medium- to long-term standpoint

Masataka Inoue
Independent Outside Director

The Board discussed the mid-term business plan from a medium- to long-term perspective in fiscal 2018, the year the plan was formulated. However, I believe that the time allocated to discussion from that point of view in fiscal 2019 was insufficient. In particular, the plan for the Domestic Beverage Business, which is the company's core business, is not simply an issue for the operating companies, but is an important initiative for the group. I think more discussion should take place at the level of the holding company's Board of Directors. Further, time for discussion by the Board alone is limited. As such, I have asked for opportunities, even non-public ones, to be created for further discussion.

The materials we receive in advance are clear and the explanations are detailed. However, I hope to see deeper discussion concerning the strategic significance of measures, the end state they are meant to bring about, and the KPI milestones toward that end state. For example, a medium-term goal of "establish our overwhelming superiority over other companies" was established for the Domestic Beverage Business. However, it will be essential to discuss what such a position would look like and where to set the bar for achieving it. Only then will it be possible to translate the goal into a concrete plan and a roadmap.

Time allocated to discuss overall management strategy and important investment proposals is currently increasing. However, I hope to see those whose role it is to safeguard shareholder interests seek higher investment return targets, bolster standards for withdrawing from investments to avoid losses, and be tenacious in pursuit of their objectives.

Governance

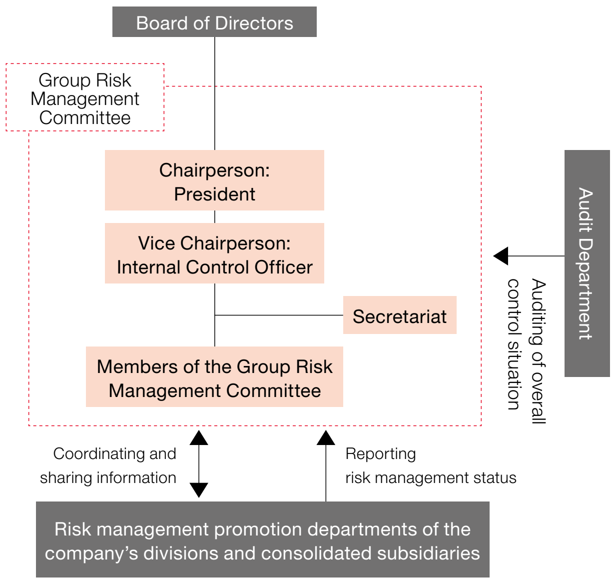
Risk Management

The external environment is changing at an unprecedented rate because of demographic and social shifts, the evolution of technology and a variety of other factors, and the risks surrounding the group are diverse and in constant flux.
In addition to regularly assessing the risks we face and the appropriateness of our counter-measures, we remain committed to strengthening our risk management system and operations in accordance with our management strategies, including expanding the scope of our business and accelerating overseas development.

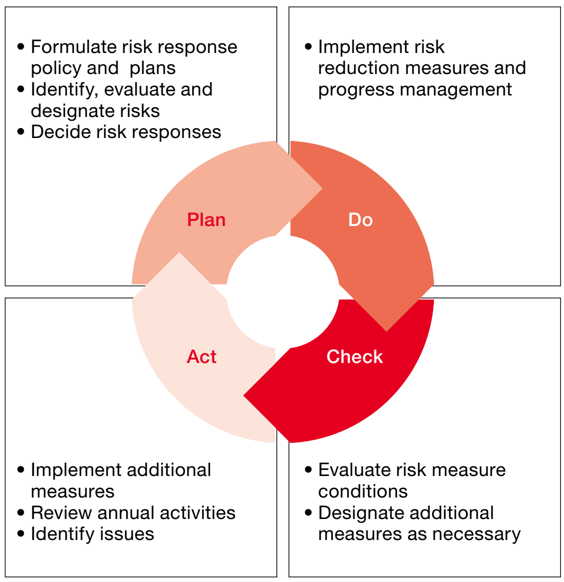
Risk Management System and Risk Management Process

The Group has established the Group Risk Management Committee, chaired by the president. As well as determining operating policy and plans for the risk management system, it identifies risks that may have a serious impact on the group and assesses the adequacy of the counter-measures in place for these.

Risk management system



Risk management process



Risk Management Evaluation and Findings

It seems to me that the DyDo Group has accumulated considerable operational knowledge and expertise thanks to continuing willingness to take on challenges in new business areas. At the same time, risk management must be carried out more meticulously as the scope of operations broadens. From that standpoint, I believe the group has much room for further improvement.

For example, it is of course important to delegate operational management in the International Beverage Business to local management teams with in-depth knowledge of their markets. However, from a risk management standpoint, it is important that head office monitoring is taking place. Local audits by the Audit Department are in progress, and the precision of those audits is increasing, but I believe it is necessary to once again carry out a comprehensive search for hidden risks and rank them by priority. In addition, pre-investment plans and actual post-investment status of new business investments may diverge. While each proposal may be evaluated carefully, business scenarios, especially negative or worst-case scenarios, need to be considered more thoroughly. I hope research and analysis at the evaluation stage will be carried out in more depth and detail to ensure that we're not just making plans without considering their outcomes.

Kazuyoshi Hasegawa
Standing Corporate Auditor

Principal Measures Implemented in FY2019 to Strengthen Our Risk Management

Strengthening Risk Management

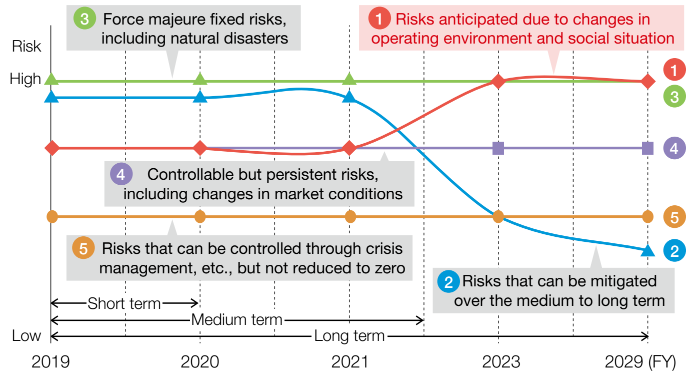
Strengthening management of medium- to long-term operating risk

In recent years, change in our business environment is accelerating, and it is likely that future changes are bigger than any so far. To achieve sustainable growth, it will be important to identify and evaluate risk from a medium- to long-term standpoint and initiate necessary measures at an early stage. In fiscal 2019, we established a time axis as a risk assessment indicator for each operating company and business division as we work to build a risk management system from a medium- to long-term perspective.

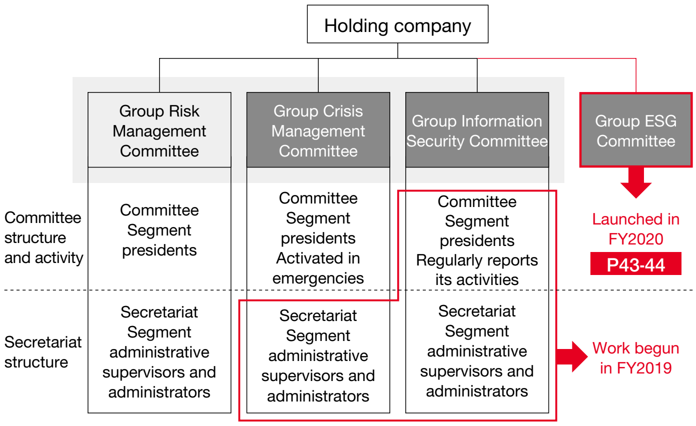
Strengthening our crisis management system

Risks are now emerging that cannot be predicted precisely, including increasingly severe natural disasters and the spread of global pandemics such as Covid-19. To cope with these risks across the group promptly and flexibly, we are undertaking to strengthen our systems. The Group Crisis Management Committee worked to bolster systems to cope with internal crises, natural disasters and other risks. In addition, group policies regarding information security were updated, and a new forum has been established to report on activities of the Group Security Committee. To strengthen information exchange within the group and collaboration at the administrative level, secretariats were established in both committees as subordinate organizations and staffed with administrative personnel.

Risk evaluation sheet sample (to be completed by operating companies and divisions)



Strengthening our group crisis management system



Covid-19 Risk Mitigation

The global spread of Covid-19 has been continuing since January 2020. In early February, the DyDo Group's Crisis Management Committee began meeting several times a week. The Secretariats Committee is hosting discussions concerning how to cope with the pandemic, centering on directors responsible for risk management for the DyDo Group and DyDo DRINCO, which have their headquarters in the same location. Response measures thus decided are shared immediately with group companies and put into effect. In addition, information from each group company, including international subsidiaries, concerning their immediate environment and operations (conditions in each operating territory, sales activities or procurement situation, etc.) is immediately shared with the secretariats. This information is reported to the directors by the secretariats as appropriate. With respect to mitigation measures, secretariat opinions are provided to management so that policies can be determined expeditiously. This facilitates a prompt group-wide response.

Activities to Inculcate the Group Code of Conduct to Strengthen Group Governance

As the DyDo Group's scope of business expands, we are hiring more non-Japanese citizens. In order to ensure that all of our employees adhere to the same principles of conduct, and to enable them to engage in conduct that will help realize the Group Philosophy, we formulated the Group Code of Conduct in January 2019. The Group Code of Conduct is also included in the Compliance Guidebook distributed to all employees, and to facilitate dissemination of the code, study groups centering on secretariat members are being held. In fiscal 2019, study groups were held 42 times in total in different locations throughout Japan for employees of DyDo DRINCO and DyDo Business Service (Domestic Beverage Business), DAIDO *Yakuhin* (Pharmaceutical-related Business), and Tarami (Food Business). Nearly all employees (more than 1,000) participated. The Code of Conduct consists of 19 articles, and the study groups selected articles for discussion that focuses on confirming and sharing what one can do now, where one is lacking, and which ways of thinking need to be strengthened. The groups also enhanced awareness of the connection between personal conduct and the conduct of business. In fiscal 2020, the scope of these study groups will be extended to group companies involved in the Domestic Beverage Business and others, with an aim of awareness enhancement through continuous dissemination activities.

Governance

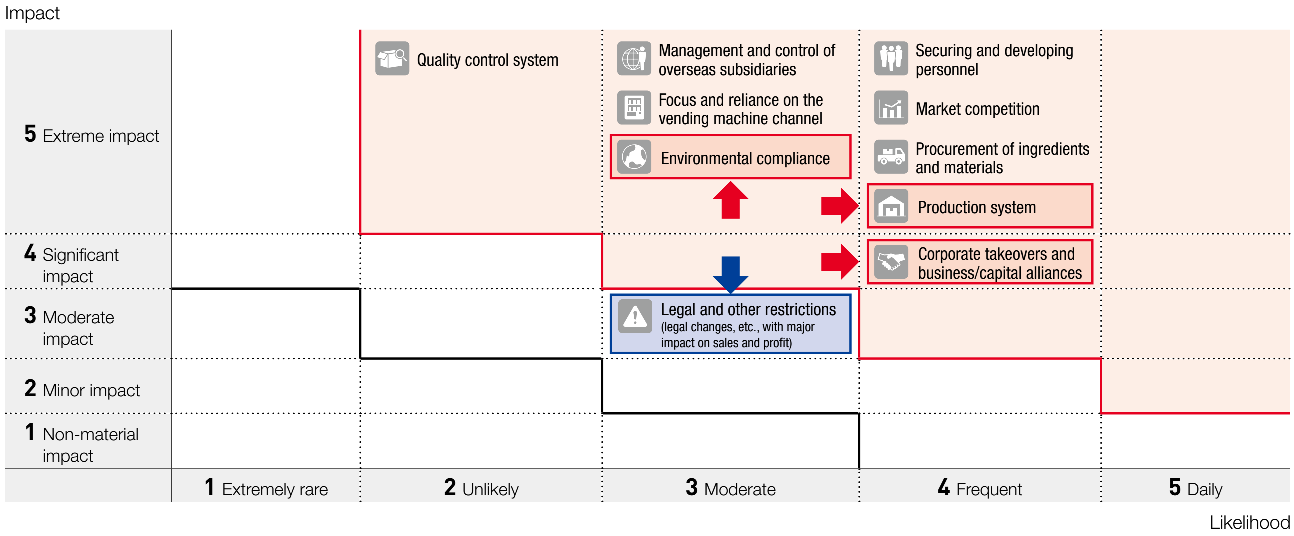
Business Risks

The risks identified and assessed by the Group Risk Management Committee in fiscal 2019 that may have a negative impact on the group's results and financial position as well as the extent of their influence are detailed below. Further, the risks listed below have changed relative to fiscal 2018, in terms of probability of occurrence and potential impact, due to changes in the business environment.

Production and distribution system	Likelihood ↑	In addition to pressure on the distribution system, the Domestic Beverage Business faces risk that the number of production lines capable of producing DyDo Group products may decline due to changes in facilities investment plans of partner production plants to which we have contracted production
Environmental compliance	Impact ↑	The impact of increased social awareness of environmental issues has been having an increasing impact on each of our businesses, and plastics-related issues have become a major challenge, not only for the Domestic Beverage Business but also for the Food Business
Corporate takeovers and business/capital alliances	Likelihood ↑	Among the investments we have made to achieve future growth are some that require review with respect to their future direction. While these investments have a relatively small impact on the group overall, we have determined that the probability of their having an impact on our management performance, etc., is increasing
Legal and other restrictions	Impact ↓	Response to legal changes affecting the International Beverage Business is largely complete

	Impact of revealed risks on business performance, etc.	
	Management strategy issues	Impact
Securing and developing personnel	•Securing personnel to operate vending machines and production plants for each business •Securing personnel with specialist expertise and experience in growth areas	•If continuous employment is hindered, sales and growth strategies for existing businesses will be negatively impacted
Management and control of overseas subsidiaries	•Prompt response to problems and phenomena that cannot not be anticipated, including changes in laws, systems, and business environments in international territories we have entered and to which we are exporting, differences in commercial culture, and the risk of foreign exchange rate fluctuations	•Losses arising from impairment or business withdrawal •Medium- to long-term impact on international business strategies
Corporate takeovers business/capital alliances	•Development of a second major source of revenue in non-beverage businesses through investment strategies including corporate takeovers and business/capital alliances •Specific risks associated with new business areas and markets	•Inability to identify investment opportunities, inability to realize initial expectations of investment performance •After investment, impairment loss realized when plan does not progress as expected
Focus and reliance on the vending machine channel	•Sales ratio of the vending machine channel for the Domestic Beverage Business is significantly higher than the industry average and fixed management costs are high •Declining number of vending machines due to shortages of operations personnel •Declining sales per machine due to an increase in the number of convenience stores and other competing retailers	•Reduced income from Domestic Beverage Business, which accounts for a large proportion of sales, can easily affect overall group operating profit
Market competition	•Apparently limited medium- to long-term growth prospects for the Domestic Beverage Business market •Increasing number of players: spread of e-commerce, accelerating increase in drug store outlets	•Drop in prevailing market prices, increase in sales promotion costs
Procurement of ingredients and materials	•Coffee beans, a major production input, are susceptible to impact from market changes and foreign exchange rate fluctuations •Unstable exchange rate and high risk of changes in procurement costs in Turkey, a major international business territory	•Market environment may not allow recovery of costs through sales prices
Production and distribution system	•Flexible response made possible by diversified production among partner production plants nationwide and diversified distribution	•Number of production lines may fall subject to partner facilities investment plan •Pressure on distribution due to personnel shortage, risk of steep distribution cost increase
Quality control system	•Product responsibility for beverages and food that customers consume	•A major distribution or other type of accident, including product contamination with foreign objects or substances, quality problems, or labeling problems, could cause an extremely serious problem, however unlikely
Environmental compliance	•Stance on efforts to address environmental issues impacts customer choice of products and services •Investigation of containers and packaging that address the global problem posed by plastic waste in the ocean •Rationalization of energy use and strengthening of laws and regulations to combat global warming, etc.	•Increase in costs to cope with tightened regulations or tightened container and packaging standards •Loss of water resources caused by climate changes, impact on coffee beans and other ingredients and materials •Emergence of heightened physical risk, including damage to production plants by large-scale natural disasters
Other risks	•Changes in economic conditions, changes in external factors including laws and regulations •Issues relating to management of customer data and to compliance	-

The domestic and international economic slowdown in 2020 as a result of the Covid-19 pandemic may have a significant impact on the DyDo Group's management results.



Likelihood and likely timing of revealed risk, measures to mitigate said risk

Risk of occurrence		Mitigation measure	Related page(s)
High	•Possibility of medium- to long-term labor shortages due to changes in population dynamics	•Strengthen personnel management system •Enhanced productivity in existing businesses •Activate the organization by hiring experienced career professionals	P62
Medium	•Conditions existing in Malaysia, Russia, and China that require close business monitoring	•Ensure stable profitability for our Turkish business, a mainstay of our international business, by expanding exports to neighboring countries •Bolster holding company business management and risk management systems	P64
High	•We are actively seeking acquisition opportunities, as such we are continuously monitoring risks	•Continuous corporate governance improvement, beginning with evaluation of the Board of Directors' effectiveness	P47-48
Medium	•Vending machine numbers are declining for the industry as a whole, and the competitive environment is increasingly challenging	•Promotion of efforts to place vending machines where they can be expected to produce stable sales •Increase sales per machine with optimized product lineups •Reduction of fixed costs through enhanced productivity of vending machine operations •Reduce dependence on vending machines by establishing a second major source of revenue	P7-8 P39
High	•The competitive environment in the beverage market is changing rapidly, including the appearance of coffee in new types of plastic bottles, and increased sales promotion costs associated with in-store distribution in chain stores	•Expand our range of products and services offering delicious taste and health •Optimize product lineups that suit the characteristics of vending machine location	P23 P35-36
High	•Product market risk and foreign exchange rate fluctuation risk are always present	•Undertake to stabilize procurement pricing by locking in future pricing with domestic coffee roasters •Promote detailed procurement strategy for each ingredient and material	-
High	•We expect distribution costs to keep rising for the present due to changes in social conditions	•Pursuing optimization through Shibusawa DyDo Group Logistics, a joint venture established with Shibusawa Warehouse	P41
Low	•Our comprehensive mitigation system minimizes risk	•Domestic Beverage Business: maintain safe, reliable production and forwarding system through stringent quality control and evaluation system for own-company and partner production plant subcontractors •Pharmaceutical-related and Food Businesses: acquire ISO 9001 and FSSC 22000 certifications •Expand number of production lines	P21-30
Medium	•Awareness of threats to the global environment heightens year by year •Natural disasters are trending toward greater intensity	•Established a Group ESG Committee •Summarize medium- to long-term challenges resulting from changes in our business from an ESG perspective •Promote ESG management	P37-38
-	-	•Create risk map with analysis of degree of impact and likelihood of occurrence; revise regularly •Reconfirm major risks, based on changes in environment, and promote risk management by implementing mitigation measures	P50

We will monitor developments closely and consider appropriate counter-measures.

Governance

Management

Board of Directors

President and Representative Director

Tomiya Takamatsu

Profile

Apr. 2004 Joined the Company
Apr. 2008 Director, the Company
Apr. 2009 Managing Director, the Company
Mar. 2010 Executive Director, the Company
Apr. 2012 Vice President and Director, the Company
Apr. 2014 President and Representative Director, the Company (incumbent)
Feb. 2016 President and Representative Director of DyDo DRINCO Split Preparation Co., Ltd. (currently DyDo DRINCO, Inc.) (incumbent)

Reason for Appointment

Since his appointment to the position of president in April 2014, Mr. Takamatsu has demonstrated strong leadership by managing the Company with rapid, decisive decision-making in line with its medium- and long-term management posture based on the perspective of all stakeholders and in keeping with the newly formulated Group Philosophy and Group Vision. He has been steadily working to build business foundations geared to achieving growth in the future which has involved strengthening the Group's management. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

Important Concurrent Posts

President and Representative Director of DyDo DRINCO Inc.

Chairman and Director

Tomihiro Takamatsu

Profile

Mar. 1971 Joined DAIDO PHARMACEUTICAL CORPORATION
Jan. 1975 Managing Director following the Company's establishment
May 1984 Executive Director, the Company
Jun. 1990 Vice President and Director, the Company
Apr. 1992 Vice President and Representative Director, the Company
Apr. 1994 President and Representative Director, the Company
Apr. 2014 Chairman and Director, the Company (incumbent)

Reason for Appointment

Having guided the company as its president for 20 years, Mr. Takamatsu brings a wealth of experience as well as a proven track record to the table. In his current position as chairman and director, he fulfills a range of roles as appropriate, including strengthening the foundation of the Group's management in areas such as governance, deciding important issues, and overseeing execution of business operations. In addition, he has worked tirelessly to revitalize the local communities in which the Company does business by orchestrating its community service activities over many years. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

Important Concurrent Posts

Board Chairman for the non-profit organization Nippon Matsuri Network

Director and Corporate Officer

Naoki Tonokatsu

Profile

Mar. 1986 Joined the Company
Jan. 2011 General Manager of the Financial Affairs Department, the Company
Mar. 2013 Corporate Officer and Division Director of the Administrative Division, the Company
Jan. 2014 Corporate Officer and Division Director of the Finance Division, the Company
Jan. 2017 Corporate Officer and General Manager of the Finance Department, the Company Director, Corporate Officer, Division Director of the Finance Division, DyDo DRINCO, Inc. (incumbent)
Apr. 2017 Director, Corporate Officer, and General Manager of the Finance Department (incumbent)

Reason for Appointment

Since joining the Company, Mr. Tonokatsu has engaged in finance for many years and has extensive experience and achievements. Currently, as the Director, Corporate Officer, and General Manager of the Finance Department, he is putting effort into sound company management such as by building a solid structure for the entire Group's financial base and contributing to improving profitability. Based on this proven track record, he has been put forward as a candidate for continued service on the Board of Directors.

Director and Corporate Officer

Naoyuki Nishiyama

Profile

Mar. 1988 Joined the company
Jan. 2014 General Manager of the Corporate Strategy Department, the Company
Feb. 2014 General Manager of the Corporate Strategy Department and General Manager of the International Business Department, the Company
Mar. 2015 Corporate Officer, General Manager of the Corporate Strategy Department, and General Manager of the International Business Department, the Company
Jan. 2016 Corporate Officer, General Manager of the Corporate Strategy Department, and General Manager of the Strategic Investment Department
Jan. 2017 Corporate Officer and General Manager of the Corporate Strategy Department, the Company
Apr. 2017 Director, Corporate Officer, and General Manager of the Corporate Strategy Department (incumbent)

Reason for Appointment

Mr. Nishiyama has engaged in a wide range of duties covering overall management such as corporate strategy, strategic investment, and international business and has extensive experience and achievement. Currently, he is leading Group companies as the Director, Corporate Officer, and General Manager of the Corporate Strategy Department and pursuing initiatives to expand into new business domains. Based on this proven track record, he is considered to be qualified for service on the Board of Directors.

Independent Outside Director

Shinji Mori

Profile

Apr. 1972 Joined the Legal Training and Research Institute of Japan
Apr. 1974 Appointed as a judge, Yokohama District Court
Apr. 1986 Appointed as a judge, Kyoto District Court
Apr. 1989 Registered as a member of the Osaka Bar Association
May 1989 Joined Chuo Sogo Law Office (currently Chuo Sogo Law Office, P.C.)
Apr. 2001 Corporate Auditor, the Company
Sep. 2003 Senior Partner, Chuo Sogo Law Office, P.C. (incumbent)
Apr. 2014 Director, the Company (incumbent)

Reason for Appointment

Mr. Mori has extensive experience and an advanced level of specialized knowledge as an attorney, and he has served the Company for 13 years as an Outside Corporate Auditor and for six years as an Outside Director. Based on that experience, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting on the Company-wide approach to risk management, and otherwise offering advice and suggestions as to the Company's management from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors as an Outside Director. Although Mr. Mori has not been involved in corporate management in a manner other than that of being an outside director/corporate auditor of the Company and other companies in the past, the Company has judged that he will be able to appropriately carry out his duties as Outside Director for the above reasons.

Important Concurrent Posts

Outside Corporate Auditor at Osaka Soda Co., Ltd.
Auditor at Credit Guarantee Corporation of Osaka

Independent Outside Director

Masataka Inoue

Profile

Apr. 1978 Joined Nakano Sumire Co., Ltd.
Jul. 2005 Director at Mizkan Group Corporation
May 2007 Managing Director at Mizkan Group Corporation
Oct. 2009 Full-time Corporate Auditor, Mizkan Group Corporation
Mar. 2011 Divisional Manager in charge of the Management Auditing Office at Mizkan Group Corporation
Mar. 2014 Appointed Divisional Manager in charge of the Business Planning Division, Mizkan Holdings Co., Ltd
Mar. 2016 Retired from Mizkan Holdings Co., Ltd.
Apr. 2016 Director, the Company (incumbent)

Reason for Appointment

Mr. Inoue has a wealth of knowledge and overseas experience in the food industry. Based on his auditing experience in areas such as business development through overseas M&As and overseas subsidiaries, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting with respect to his viewpoint on risk and returns in the course of deliberations concerning such management issues of the Company as accelerated development of the Company's business overseas and expanding into new business domains, and otherwise offering advice and suggestions from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors as an Outside Director.

Corporate Auditors

Standing Corporate Auditor

Kazuyoshi Hasegawa

Profile

Mar. 1980 Joined the Company
Mar. 1996 Manager of the Chiba Office, the Company
Jan. 2006 Head of the General Affairs Department, the Company
Mar. 2010 Head of the Wide-area Distribution Department, the Company
Mar. 2012 Head of the Corporate Sales Daisan Department, the Company
Jan. 2015 Chief Manager of the Corporate Sales Department, the Company
Apr. 2015 Full-time Corporate Auditor, the Company (incumbent)

Reason for Appointment

In his capacity as a full-time Corporate Auditor, Mr. Hasegawa is appropriately carrying out his role of auditing the execution of duties by Directors. He has been attending the Board of Directors meetings and other important meetings, and providing comments from a perspective of legality and suitability. While performing activities including the establishment of an environment for auditing and the collection of internal company information, he has been regularly monitoring the status of the construction and operation of the internal control system. Based on this proven track record, he is considered to be qualified for service as a Corporate Auditor.

Independent Outside Corporate Auditor

Sachie Kato

Profile

Apr. 1969 Joined the Legal Training and Research Institute
Apr. 1971 Public Prosecutor at the Tokyo District Public Prosecutors Office
May 1974 Registered as a member of the Osaka Bar Association
Mar. 1983 Joined Chuo Sogo Law Office (currently Chuo Sogo Law Office, P.C.)
Apr. 2014 Corporate Auditor, the Company (incumbent)

Reason for Appointment

In light of her many years of experience as an attorney, her high level of discernment as a specialist in the law, her contribution to resolving a range of legal issues faced by multiple corporations, and her deep insight into corporate management, we consider Ms. Kato to be capable of overseeing the Company's auditing operations with a high level of independence and from a broad, overarching perspective.

Important Concurrent Posts

Outside Director of Yamazen Corporation (Audit and Supervisory Committee Member)

Independent Outside Corporate Auditor

Shigeyuki Moriuchi

Profile

Oct. 1982 Joined Price Waterhouse Certified Public Accountants Office
Jul. 1998 Senior Partner at Aoyama Audit Corporation
Oct. 2005 Director and Senior Partner at ChuoAoyama Audit Corporation
May 2007 Senior Partner at Kasumigaseki Audit Corporation (currently Grant Thornton Taiyo LLC)
Jan. 2010 Managing Partner at Kasumigaseki Audit Corporation
Oct. 2013 Partner, Grant Thornton Taiyo LLC (incumbent)
Nov. 2015 Outside Director (Audit and Supervisory Committee Member), KOSHIDAKA HOLDINGS Co., LTD. (incumbent)
Dec. 2016 Outside Corporate Auditor, KATO SANGYO CO., LTD. (incumbent)
Apr. 2019 Corporate Auditor, the Company (incumbent)

Reason for Appointment

Mr. Shigeyuki Moriuchi has gained longstanding auditing experience at a major accountants office and a major audit corporation, and he has business experience in a wide range of areas including legal auditing operations, international operations, IPO support and has extensive insight as an accounting specialist. The Company therefore wishes for such expertise to be reflected in the Company's auditing and has put him in the position of Outside Corporate Auditor.

Important Concurrent Posts

Outside Director (member of Auditing Committee, etc.) at Koshidaka Holdings
Outside Audit & Supervisory Board Member at Kato Sangyo Co., Ltd.

Outside Corporate Auditor

Kiyoshi Watanabe

Profile

Feb. 1997 Registered as a certified tax accountant
Jul. 1997 Established Kiyoshi Watanabe Certified Tax Accountant Office (his current position)
Apr. 2019 Appointed Corporate Auditor of the company (incumbent)

Reason for Appointment

Mr. Watanabe has a wealth of experience in performing the duties of both certified tax accountant and management consultant, and is able to share his insight as a specialist in the taxation field. For these reasons, we consider Mr. Watanabe to be qualified for services as an Outside Corporate Auditor.

(as of April 16, 2020)

Corporate Officers

Corporate Officer and General Manager of the Corporate Communication Department

Naokazu Hasegawa

Corporate Officer and General Manager of the HR & General Affairs Department

Akikazu Hamanaka

Corporate Officer and General Manager of the International Business Management Department

Mamoru Mitamura

Corporate Officer and CEO of Turkey Business

Tadashi Sakashita

Independence Standards and Qualification for Outside Directors

We have established the following standards to govern the independence of outside directors:

1. Not a DyDo Group executive officer[*1]
2. Not a trading partner for whom DyDo Group is a major client[*2] or one of its executive officers
3. Not a major trading partner of the DyDo Group or one of its executive officers
4. Not a consultant, accounting expert, or legal expert who has obtained a large amount of money[*3] or other assets from the DyDo Group, apart from executive officer compensation
5. Not a director or other executive officer of an organization that receives donations or subsidies from the DyDo Group exceeding a designated amount[*4]
6. Not a major shareholder[*5] or executive officer of the company
7. If the executive directors and Standing corporate auditors of the company concurrently serve as outside directors or outside corporate auditors of other companies, that they are not executive officers of the other companies
8. Someone for whom none of the 7 items above have applied over the last 3 years
9. Not a close relative[*6] of any person to whom any of the 8 items above applies (however, employees in Item 1 are limited to key employees[*7])

*1 Executive officer: an executive director, operating officer, or other officer who executes the duties of a corporation, etc., or person or employee in an equivalent position

*2 Major client: a client whose payments or receipts through transactions with the DyDo Group in the most recent fiscal year exceeds 2% of total annual consolidated sales

*3 Large amount of money: for an individual, an average of 10 million yen or more over the past 3 years; for a group, an average that exceeds 2% of the group's consolidated total sales over the past 3 fiscal years

*4 Designated amount: Either 10 million yen per year on average over the past three fiscal years or 30% of the average annual costs of the organization, whichever is higher

*5 Major shareholder of the company: a person who holds, directly or indirectly, 10% or more of the company's voting rights

*6 Close relative: a spouse, second-degree relative or closer, or a co-resident relative

*7 Key employee: an employee at the department managerial level or higher

Consolidated Summary

		2008–2011	2012
DyDo Policies		Domestic Beverage Business restructuring	Appointment of Tomiya Takamatsu as vice president Promotion of new business development
	Achievements	Profit margin improvement through shift from focus on number of machines to sales per machine and slimmed-down workforce system	DyDo Blend brand strengthening
	Next steps	Secured future growth potential amid underlying downward sales trend	Business portfolio expansion

		2008	2009	2010	2011	2012
External environment		Economic turndown in wake of financial crisis	Further deflation, declining personal consumption	Rapid yen appreciation, stock price slump	Great East Japan Earthquake	Issue of insufficient power supply, persistent strong yen
	Domestic Beverage Business environment	Sluggish personal consumption			Impact on supply chain	
	Peak season (summer) situation		Unseasonable weather	Extremely high temperatures		

Management strategy

Domestic Beverage Business (excluding home shopping supplement business)

- Shift from quality to quality (2008)
  ➡Begin review and elimination of unprofitable vending machine sites
- Cost reduction through total review of operations (2009)
  ➡Business structure reform cost of 2.374 billion yen recorded as extraordinary loss
- Organizational reform of Domestic Beverage Business (2010)
  ➡Transition to function-specific organization, with separate development and operation functions
- Transition to channel-specific (vending machines, distribution) marketing division structure (2011)
  Secured operating profit through cost control
  Extraordinary loss of 758 million yen from disaster
- Launch of reformulated DyDo Blend (2012)

Other businesses

- Domestic Beverage Business
- International Beverage Business
- Pharmaceutical-Related Business
- Food Business
- Launch of home shopping supplement business P36 (2012)
- Tarami becomes consolidated subsidiary (2012)

Consolidated Financial Summary*1

	2008	2009	2010	2011	2012
Sales*2	155,941	151,048	151,369	147,404	148,902
Domestic Beverage	149,158	142,400	142,287	137,897	131,671
International Beverage	–	–	–	–	–
Pharmaceutical-Related	6,783	8,647	9,082	10,838	11,416
Food	–	–	–	– *3	6,648
Operating profit	2,619	6,060	6,539	7,295	7,934
Ordinary profit	2,935	5,518	5,809	6,687	7,725
Profit attributable to owners of parent	1,002	705	2,691	2,351	4,410
Number of employees	3,489	3,281	3,149	2,936	2,916
Domestic Beverage	3,340	3,102	2,972	2,762	2,548
International Beverage	–	–	–	–	–
Pharmaceutical-Related	149	179	177	174	207
Food	–	–	–	–	161
Other	–	–	–	–	–
Whole Company	–	–	–	–	–
ROE (%)	1.4	1.0	3.8	3.2	5.9
Profit margin (%)	0.6	0.5	1.8	1.6	3.0
Total asset turnover (times)	1.5	1.2	1.2	1.1	1.1
Financial leverage (multiplier)	1.5	1.8	1.8	1.8	1.8
FCF	(380)	18,192	13,011	15,257	6,838
Operating cash flow	1,277	19,650	14,911	17,540	16,491
Expenditures related to tangible and intangible fixed asset acquisition	(1,657)	(1,458)	(1,900)	(2,283)	(9,653)
Capital expenditure	1,386	1,184	*4 1,481	6,839	16,833
Depreciation	1,696	12,487	12,747	12,350	11,202

*1 Fiscal year for all group companies is from January 21 to January 20 of the following year *2 From FY2011, each sales figure includes internal sales between segments *3 The acquisition of Tarami Corporation (Food Business) is assumed for the purposes hereof to have taken place on July 20, 2012 and is included in consolidated accounts for six months of FY2012 *4 Transition from lease to purchasing method for vending machine procurement (starting FY2011) *5 Reduced purchasing costs per vending machine due to revised machine procurement method in Domestic Beverage Business and component recycling

Appointment of Tomiya Takamatsu as president

	2014–2018	2019 onward
	Group Philosophy and Group Vision established Our Mid-term Business Plan "Challenge the Next Stage"	Group Mission 2030 Mid-term Business Plan 2021
	Restructuring fixed costs in the vending machine channel, full-scale international business deployment	
	Improved profitability through continuous sales growth, expansion of business in the healthcare sector to establish a new business base	

2013	2014	2015	2016	2017	2018	2019 onward

Signs of economic recovery due to economic policies

Impact of consumption tax hike on personal consumption, accelerating downward price trend

Improved employment environment against background of economic policies

Economic slowdown in developing nations, heightened geopolitical risk

Continued favorable employment environment

Rising sense of labor market shortage

Successive natural disasters: earthquakes, typhoons, heavy rains, etc.

Further workstyle diversification

Convenience stores begin selling freshly brewed coffee from in-store machines

Spread of freshly brewed coffee at convenience stores, expansion of private brands in retail channel

Number of vending machines in overall market begins to decline

2017: Unseasonable weather | 2018: Extremely high temperatures | 2019 onward: Unseasonable weather

Coffee-centric marketing deployed

Sustaining of vending machine business, strengthening/expansion of retail channel

Revision of vending machine prices upon consumption tax increase

➡Sales volume decreased

Launch of bottle-can coffee from the "Supervised by the World's Top Barista" series, expanded lineup

Review of vending machine procurement method P61

40th anniversary of DyDo Blend launch

Deployment of "frontier vendors" to lessen vending machine burden on the environment and reduce costs P38

Deployment of Smile STAND

Launch of "Calorie Limit for the Mature Aged" tea series P35

Agreement with Kirin Beverage Company to use each other's vending machines

Beginning of smart operation system structuring P39

Establishment and beginning of operation of Russian local subsidiary

Acquisition of shares for Malaysia business

Acquisition of shares for Turkey business

Transition to holding company system

Home shopping supplement business becomes profitable

Other Decision to enter orphan drug business P42

Dissolution of Malaysia business joint venture

DAIDO *Yakuhin* completes Kanto Plant

(Millions of yen)

2013	2014	2015	2016	2017	2018	2019 onward
154,828	149,526	149,856	[*6] 171,401	172,684	171,553	168,256
130,400	124,597	124,192	[*7] 128,278	[*8] 126,712	124,879	121,203
–	–	–	16,735	18,547	17,154	16,004
10,857	10,220	9,126	9,068	10,536	10,964	11,097
14,299	15,360	17,155	18,013	17,560	19,114	20,643
6,004	5,174	4,988	3,857	4,891	6,071	2,893
5,962	4,470	4,262	3,741	5,382	5,998	2,857
3,712	2,322	2,347	3,269	2,504	3,856	1,778
2,770	2,767	2,887	3,602	3,771	3,912	4,160
2,424	2,418	2,511	3,221	2,575	2,597	2,658
–	–	–	–	729	827	951
172	179	183	190	198	245	299
174	170	193	191	249	217	225
–	–	–	–	–	–	6
–	–	–	–	20	26	21
4.7	2.8	2.8	3.9	2.9	4.2	2.0
2.4	1.6	1.6	1.9	1.5	2.2	1.1
1.1	1.0	0.9	1.0	1.0	1.0	1.0
1.8	1.8	2.0	1.9	1.9	1.9	1.9
3,734	3,535	4,806	6,862	5,395	(1,296)	(3,022)
14,764	13,959	14,603	15,309	14,308	10,851	11,495
(11,030)	(10,424)	(9,797)	(8,447)	(8,913)	(12,147)	(14,517)
[*5] 14,376	12,261	10,681	10,037	9,454	12,635	16,543
12,080	12,343	11,704	12,611	11,860	10,396	9,647

*6 Acquisition of Malaysian beverage business was completed in December 2015 and included in consolidated accounts starting FY2016. Acquisition of Turkish beverage business was completed in February 2016 and included in consolidated accounts for eleven months of FY2016 *7 From FY2017, changes made to reporting segments; Beverage Sales Division split between Domestic Beverage Business and International Beverage Business. Results for FY2016 adjusted to fit new reporting segments. Results for Domestic Beverage Business to FY2015 include Russia and China
*8 A change took place in assets and costs in conjunction with the transition to a holding company structure

Management Analysis of the Financial Situation, and the Status of Business Results and Cash Flow

FY2019 Achievements and Next Steps

Improving profits	
Achievements	Significantly improving profitability in the Food Business and in the Turkish beverage business
Next steps	Strengthening the foundation of our vending machine business to help restore profits in the Domestic Beverage Business

Pursuing a policy of selection and consolidation for strategic facilities overseas	
Achievements	Developing sales facilities (in the UK and Russia) to increase exports from Turkey
Next steps	Pursuing reforms in the Malaysian beverage business

Making growth investments	
Achievements	Completing construction of a new pouch packaging line at DAIDO *Yakuhin* and the new Kanto Plant
Next steps	Pursuing a growth strategy in the healthcare domain

The fiscal year is from January 21, 2019 to January 20 of the following year

Tomiya Takamatsu
President and Representative Director
DyDo Group Holdings, Inc.

1. Analysis of Business Results

Group Mission 2030 was established in fiscal 2019, and the ensuing year—the first of the plan's duration—was one of working hard to achieve its objectives for the year 2030 in line with our business policy, "For DyDo Group to create enjoyable, healthy lifestyles for people around the world." The upcoming three years have been deemed the "Platform-strengthening and Investment Stage" in which, guided by Mid-term Business Plan 2021, we will endeavor to achieve Group Mission 2030 by strengthening our existing businesses and undertaking new investments aimed at establishing a second major source of revenue to complement the Domestic Beverage Business.

Unfortunately, our performance in fiscal 2019 did not live up to expectations. Our core business, the Domestic Beverage Business, was affected by the climate—in particular, a wet summer, autumn typhoons, and a warm winter—and the decrease in sales meant final performance was disappointing. Conversely, in the Food Business, long years of effort to improve costs and a careful sales strategy helped improve revenues dramatically. Similarly, the Turkish beverage business, which has steadily implemented post-merger integration since 2016 continued to perform robustly in the local currency, thus bringing us within sight of our goal of making the International Beverage Business profitable overall within the Mid-term Business Plan 2021 period.

We must recognize, however, that the Domestic Beverage Business's struggles are systemic and cannot be explained away simply by capricious weather. The vending machine business, for instance, faces declining vending machines numbers across the market as a whole, as well as increased competition from stores, including the rise of drug stores in addition to convenience stores. As a result, sales per vending machine are on a downward trend, and these systemic issues had a major impact on revenues in fiscal 2019.

FY2019 consolidated results

(Millions of yen)

	FY2018 results		FY2019 results			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	171,553	100.0%	168,256	100.0%	(1.9%)	(3,297)
Operating profit	6,071	3.5%	2,893	1.7%	(52.3%)	(3,178)
Ordinary profit	5,998	3.5%	2,857	1.7%	(52.4%)	(3,141)
Profit attributable to owners of parent	3,856	2.2%	1,778	1.1%	(53.9%)	(2,077)

Results by segment

(Millions of yen)

	Net sales				Segment profit			
	FY2018 results	FY2019 results			FY2018 results	FY2019 results		
			% (YoY)	Amount (YoY)			% (YoY)	Amount (YoY)
Domestic Beverage Business	124,879	121,203	(2.9%)	(3,675)	7,106	3,948	(44.4%)	(3,158)
International Beverage Business	17,154	16,004	(6.7%)	(1.149)	(704)	(306)	—	398
Pharmaceutical-Related Business	10,964	11,097	1.2%	133	847	210	(75.1%)	(637)
Food Business	19,114	20,643	8.0%	1,529	235	464	97.2%	229
Other	—	—	—	—	—	(148)	—	(148)
Adjustment	(559)	(693)	—	(134)	(1,413)	(1,275)	—	138
Total	171,553	168,256	(1.9%)	(3,297)	6,071	2,893	(52.3%)	(3,178)

*Includes internal sales between segments. "Other" represents the orphan drugs business, which is not included in the reported segments.

2. Mid-term Business Plan 2021 Guidelines and FY2019 Achievements

Over the three years of Mid-term Business Plan 2021, we aim to improve the profitability of our existing businesses. There will be a temporary decline in profits, but in our view it provides a platform for comprehensive investment for the future. To that end, we have not set fixed numerical targets for those three years, instead establishing guidelines based on key indicators that will serve as the basis for annual targets to be instituted each year taking into account the changing business landscape and our progress toward achieving key strategies and investment strategies.

In fiscal 2019, regular capital investments in existing business activities were combined with around 5.8 billion yen in growth investments, including for the construction of a new plant, the Kanto Plant, for our Pharmaceutical-related Business, and for a new production line for pouch-packaged products in our home base of Nara. Overall, capital investments totaled approximately 16.5 billion yen. Furthermore, although we have no major investments underway at the moment such as new M&A or orphan drug projects in the healthcare market, we are looking into these as a potential means of establishing a second major source of revenue.

Operating cashflow improved in fiscal 2019 over the preceding year, but still reached only about 11.4 billion yen. It is vital that we boost operating cash flow to fund growth investments aimed at increasing corporate value over the medium to long term, and with that goal in mind, we will redouble our efforts to improve the profitability of our existing businesses.

	Guidelines		FY2019 results
Sales	•Organic growth in existing businesses along with new M&As		**¥168.2 billion**
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		**1.7%**
Cash flows (CFs)	•Operating cash flows created by existing businesses •Capital investment necessary in existing businesses	¥40 billion or greater About ¥28 billion	Sales cash flow: **¥11.4 billion** Capital investment: **¥16.5 billion**
Investment strategy	•Growth investments in existing businesses	About ¥12 billion	Of which, growth investments in the Pharmaceutical-related Business (construction of a new Kanto Plant and a new pouch packaging line at our Nara Plant): **¥5.8 billion**
	•Investment in the health care domain 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		**¥60** per share

3. Mid-term Business Plan 2021 Progress

Despite its struggles in the vending machine channel in fiscal 2019, our core Domestic Beverage Business made solid progress toward improving corporate value over the medium- to long-term in its other channels and businesses.

As stated above, in terms of revenues (see the first basic policy on the next page), there were significant gains in the Food Business, while the growth of our Turkish beverage business means our goal of overall profitability for the International Beverage Business is in sight.

Regarding the Domestic Beverage Business's product range (see the second basic policy), the "Calorie Limit for the Mature Aged" teas that were developed jointly with FANCL are experiencing robust sales growth in the store (i.e., mass retailers, convenience stores) space without resorting to discounting, even among the crowded "foods with function claims" drink market. Meanwhile in the home shopping channel, through which we sell supplements and health foods, we have acquired a number of loyal customers. These factors have resulted in a large increase in sales and made a significant contribution to revenues.

In the International Beverage Business, the process of selection and consolidation of facilities continues (see the third basic policy). Although there is growth in our Turkish operations, this is tempered by the potential impact on business performance of short-term trends such as an economic downturn and medium- to long-term instability in the Turkish lira. In light of which, we are endeavoring to stabilize our Turkish business by expanding its export operations. To that end, we established a local subsidiary in the UK in fiscal 2019 and set up a sales office in Russia.

In the Malaysian beverage business, however, we have dissolved our joint venture in that country to make a fresh start, while in Russia, where we had hoped to pursue opportunities in the vending machine sector, we have pulled out of most of our operations (with the exception of some profitable locations) and have begun winding up our local subsidiary.

Regarding investments aimed at facilitating the growth of existing businesses and the creation of new businesses (see the fourth basic policy), we are looking into investments and M&A in the Pharmaceutical-related Business, while in the Domestic Beverage Business, we are testing new ways of working that incorporate IoT technology to allow efficient vending machine operations in this age of labor shortages, and we look forward to implementing these in earnest within the Mid-term Business Plan 2021 period.

The bedrock that underpins all these is our workforce (see the fifth basic policy). I see the ideal employee as someone who puts their best foot forward, both on the job and in their private lives, and the most fundamental prerequisite for that is employee health. To ensure this, we seek to implement systems and policies under the DyDo Group Health Declaration that help employees maintain and improve their health. In this way, we hope that each employee is ready and able to take the initiative and help the DyDo Group stay abreast of the times and make real progress toward achieving our Group Philosophy and Vision. Already, the new Code of Conduct, instituted in 2019, has become firmly established and there is a palpable feeling of increased awareness regarding these issues.

On the other hand, urgent, specific challenges remain in our quest to develop a workforce to propel our businesses into the future. The decrease in vending machine numbers—a major factor in the Domestic Beverage Business's troubles in fiscal 2019—has the potential to harm the very foundations of our business. We are working to bolster our sales framework so as to arrest and reverse the fall in vending machine numbers, but our progress in doing so is not fast enough and that is the group's biggest and most pressing problem. Moving forward, we will continue to strengthen our set-up, including taking on more new staff, and work on overcoming our biggest challenges: beefing up the foundations on which the Domestic Beverage Business is built.

Progress for each basic policy

Mid-term Business Plan 2021 basic policy	Progress in implementation at present		
① Working to maximize cash flows through measures that focus on improving profit		○	In the Food Business and in our Turkish beverage business, profits improved significantly.
		△	Some segments of our International Beverage Business are poised to return to profitability.
		×	Conditions in the vending machine channel remain challenging, and operating profit fell below the previous year's level.
② Expanding products and services designed to deliver delicious flavor and health		○	Robust sales of "Calorie Limit For the Mature Aged" helped us establish a strong position in the functionally labeled food market.
		○	Significant growth in mail-order supplement sales contributed to profits.
		○	Tarami (Food Business) increased its market share.
③ Pursuing a policy of selection and consolidation at strategic facilities in the International Beverage Business		○	We developed sales facilities (in the UK and Russia) to increase exports from Turkey.
		△	We dissolved the joint venture in our Malaysian beverage business and began a new chapter in our operations there.
		△	We reviewed unprofitable vending machine locations to prepare for a series of adjustments in how our Russian subsidiary operates.
④ Making strategic investments to spur growth in existing businesses and to create new businesses		○	DAIDO *Yakuhin* finished construction of a pouch packaging line and new Kanto Plant.
		△	We invested in IoT and carried out trials and tests as part of an effort to establish smart operational structures.
	Other	△	We continued to research and study potential M&A transactions.
⑤ Adopting strategies to train human resources who will lead the DyDo Group to sustained growth	Other	○	We worked to ensure compliance with the Group Code of Conduct.
	Other	○	We pursued health-oriented management based on the DyDo group Health Declaration.
		△	We strengthened sales structures related to developing vending machine locations.

4. Analysis of Finances and Cash Flow

In fiscal 2019, investments designed to facilitate growth in existing businesses, such as building DAIDO *Yakuhin's* new Kanto Plant, resulted in an increase in property, plant, and equipment and a decrease in current assets, but this did not affect the health of our finances, as the current asset ratio was 146.6% at the end of fiscal 2019, the fixed asset ratio was 92.5%, and the equity ratio was 53.9%.

While there was a slight decrease in accounts receivable and inventories, the drop in operating income meant that there was only a slight increase in cash flows from operating activities. We are well aware that we need urgently to bolster the foundations of our vending machine business, the source of the group's cash flow, in order to keep generating the cash needed to maintain ongoing growth investments.

Consolidated balance sheet (Millions of yen)

	FY2018	FY2019	Amount (YoY)
Current assets	89,852	81,968	(7,883)
Non-current assets	81,780	81,415	(365)
Total assets	171,632	163,383	(8,249)
Current liabilities	42,175	55,911	13,735
Non-current liabilities	35,517	18,261	(17,225)
Total liabilities	77,692	74,172	(3,519)
Total net assets	93,940	89,210	(4,729)

(Millions of yen)

	Capital investment			Depreciation expenses		
	FY2018	FY2019	Amount (YoY)	FY2018	FY2019	Amount (YoY)
Domestic Beverage Business	6,712	6,853	140	8,062	7,148	(914)
International Beverage Business	539	434	(104)	675	628	(46)
Pharmaceutical-Related Business	3,953	7,466	3,512	624	696	71
Food Business	941	1,252	310	683	765	82
Group-wide (including "Other")	489	537	48	350	408	57
Total	12,635	16,543	3,907	10,396	9,647	(749)

The changes in accounts receivable and inventories reflect seasonal fluctuations

January 20, 2019

(Millions of yen)

Assets		Liabilities and net assets	
Financial assets*1	86,783	Interest-bearing debt*2	35,111
		Accounts payable	19,716
		Other	22,863
Accounts receivables	19,804	Net assets	93,940
Inventories	8,782		
Property, plant and equipment Intangible assets	45,193		
Other	11,069		
Total assets	171,632	Total liabilities and net assets	171,632

January 20, 2020

(Millions of yen)
Change from previous year shown underneath each figure

Assets		Liabilities and net assets	
Financial assets*1	73,240 (13,543)	Interest-bearing debt*2	33,713 (1,398)
		Accounts payable	18,623 (1,092)
		Other	21,835 (1,028)
Accounts receivables	18,497 (1,306)	Net assets	89,210 (4,729)
Inventories	8,444 (337)		
Property, plant and equipment Intangible assets	50,831 5,637		
Other	12,369 1,300		
Total assets	163,383 (8,249)	Total liabilities and net assets	163,383 (8,249)

*1: Cash and deposits, securities, investment securities (excluding shares of subsidiaries), and long-term deposits
*2: Short- and long-term loans payable, short- and long-term lease liabilities and obligations, bonds payable, and long-term guaranty deposits

5. Challenges to Improving Capital Efficiency

In order to improve the DyDo Group's capital productivity, we need to reinvest operating cash flows provided by existing businesses to generate growth and harness excess funds for strategic investments in new businesses. Under Group Mission 2030, the Mid-term Business Plan 2021 period is the "Platform-strengthening and Investment Stage" in which we pursue growth investments. We will pool the group's capital in a holding company and allocate funds as appropriate, and each potential investment will be judged soberly in accordance with quantitative and qualitative criteria to ascertain their profit potential and efficiency.

6. Challenges of the Post-Covid-19 World

As of writing in fiscal 2020, Covid-19 is wreaking havoc on the world's economic status. When this global crisis eventually subsides, we predict that there will have been a fundamental shift in the way people think about food and health, our core business domains, and in how they do business. We will respond flexibly to these rapid changes in the business environment so that the DyDo Group can continue to create enjoyable, healthy lifestyles for people around the world.

Status of cash flows

(Millions of yen)

	FY2018	FY2019	Amount (YoY)
Cash flow from operating activities	10,851	11,495	644
Cash flow from investing activities	(16,876)	(15,472)	1,403
Cash flow from financing activities	(2,618)	(4,099)	(1,481)
Effect of exchange rate change on cash and cash equivalents	(464)	(86)	377
Net increase (decrease) in cash and cash equivalents	(9,107)	(8,163)	943
Cash and cash equivalents at beginning of period	47,520	38,413	(9,107)
Increase in cash and cash equivalents due to new consolidation	—	3	3
Cash and cash equivalent at end of period	38,413	30,253	(8,159)

Major factors affecting increases/decreases in free cash flow

(Millions of yen)

	FY2018	FY2019	Amount (YoY)
EBITDA*	16,880	12,932	(3,947)
Working capital cash flow increase (decrease)	(2,217)	182	2,400
Other	(3,812)	(1,620)	2,191
Cash flow from operating activities (a)	10,851	11,495	644
Purchase of property, plant and equipment and intangible assets (a)	(12,147)	(14,517)	(2,370)
Free cash flow (a-b)	(1,295)	(3,022)	(1,726)

* EBITDA = operating income + depreciation expenses + amortization of goodwill

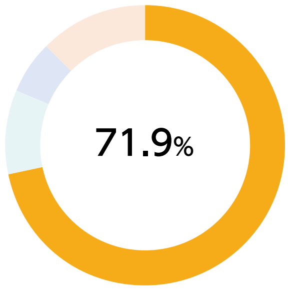
Our Business Segments: Achievements and Next Steps

In the case of revisions stemming from changes in segments and accounting standards, the effects of those changes are applied retroactively only to the figures for the year immediately preceding the year in which the change took place.

Domestic Beverage Business

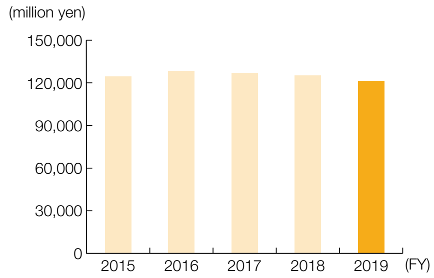
P.21-24

Breakdown of net sales

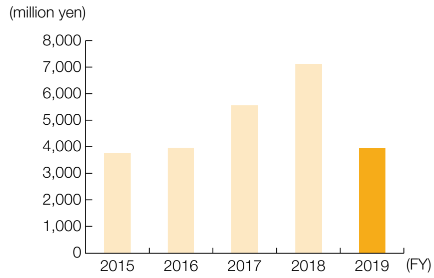


(Breakdown of sales to external customers)

Net Sales



Segment Profit*



(Millions of yen)

Business year	2013	2014	2015	2016	2017	2018	2019
Net sales	130,400	124,597	124,192	128,278	126,712	124,879	121,203
Segment profit	4,578	3,839	3,745	3,958	5,542	7,106	3,948
Segment profit margin (%)	3.5%	3.1%	3.0%	3.1%	4.4%	5.7%	3.3%
Segment assets	129,275	130,485	145,737	110,241	52,219	50,117	50,148
Capital expenditure	13,741	11,500	9,788	7,017	6,505	6,712	6,853
Depreciation	10,961	11,287	10,657	10,643	9,246	8,062	7,148
ROA (%)	3.6%	3.0%	2.7%	3.1%	10.3%	13.9%	7.9%

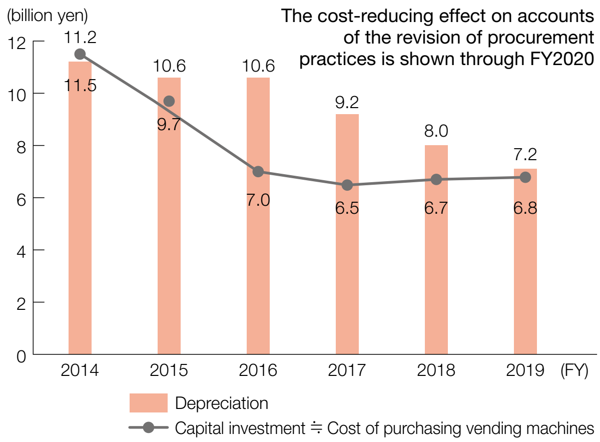
The fiscal year for each business runs from January 21 to January 20 of the following year
*Results from fiscal 2017 and after take into account the effect of the transition to a holding company structure

In Review: The Revision of Vending Machine Hardware Procurement Practices

As part of our efforts to make the Domestic Beverage Business leaner, we revised our procurement practices in 2014 for new vending machines. Reducing per-machine procurement costs by tighter selection of vending machine models and suppliers has enabled us to bring fixed costs down while maintaining machine numbers.

As a result, capital investment in fiscal 2016 was approximately 4.5 billion yen lower than in fiscal 2014, the year in which we began investigating these changes, and depreciation and amortization costs have also decreased gradually in the five years* from fiscal 2016 to fiscal 2020. At the same time, we have also striven to extend the useful life of each vending machine, and the cost savings realized through these initiatives are being directed toward strengthening our next business foundation.

*Five years is the useful life span of a vending machine.



Extending the Useful Life Span of Vending Machines
Starting with the year ending January 2021, we have revised the figure given as the theoretical useful life span of our vending machines to ten years to better reflect the longer periods for which machines are now used. For details on the impact of this revision, see the latest account information on our website.

Mid-term Business Plan 2021 Progress

FY2019 Achievements and Next Steps

Achievements	Dramatic growth in supplement sales via home shopping channels contributes to profits
Next steps	Strengthening the foundation of our vending machine business to help restore profits

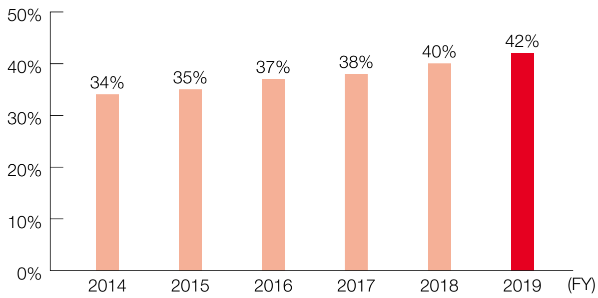
Takanori Nakashima
Director, Executive Officer, Director of the Vending Machine Sales Division
DyDo DRINCO, Inc.

Strengthening Our Vending Machine Location Scouting Capabilities

The Domestic Beverage Business is at the very core of the DyDo Group, and our chief task under Mid-term Business Plan 2021 is sustaining and expanding cash flows. However, since the second half of fiscal 2018, a shortage of vending machine operations staff has contributed to a decrease in vending machine numbers, particularly in the non-metropolitan regions covered by the Kyoeikai (special vending machine operators that handle DyDo products). In fiscal 2019, we worked to strengthen sales activity aimed at developing new locations for installing vending machines directly (i.e., without going through the Kyoeikai). This went some way to improving the situation—development efficacy per head was up and a greater proportion of our vending machines are now installed in more profitable high-footfall locations such as offices and factories—but it was not enough to cover the losses created by the drop in vending machine numbers.

Revitalizing the foundation of the group's business, the vending machine network that generates our cash flows, is our foremost challenge. We will work to further improve quality and raise the number of new installations per staff member, while shoring up our sales framework through intragroup redeployment of staff and increased mid-career hiring. In doing this, our top priority is to return to an upward trend in in-service vending machine numbers, and we will do whatever we can to ensure this happens quickly.

Trends in the proportion of vending machine locations considered to be high-footfall locations



Establishing a Smart Operation Structure

I believe that one of the main factors behind the decline in vending machine numbers in recent years is the shortage of people to fill post-installation operational positions. These are the people who keep vending machines stocked, fine-tune each machine's selection of products to suit the season and local characteristics, and generally maintain the machines' locations. Arresting this decline means boosting operation staff numbers, but in an era of medium- to long-term decrease in the working-age population overall, this alone will not solve the underlying issues.

We need a smart operation structure, in which new digital technologies are harnessed to enable each staff member to handle a larger number of machines, thus ensuring that we can maintain vending machine numbers with fewer people.

Establishing a smart operation structure begins with installing communication devices on vending machines and hooking them up to the Internet of Things (IoT). This will provide real-time stock levels and other information that would normally remain unknown until a staff member visited each machine. As a result, we can prepare the appropriate varieties and volumes of products for restocking and optimize the frequency of visits to machines. Moreover, receiving data from machines in this way allows for effective division of labor; whereas each operations staff member has traditionally been responsible for both product preparation and restocking, this can now be split for more efficient operations.

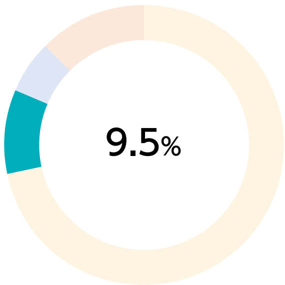
This system was subjected to tests in fiscal 2019 across multiple sales bases in locations and areas with different characteristics. Each test allowed us to identify issues, devise improvements, and test again, and as a result, substantial productivity gains are now well within reach.

In order to get maximum benefits from our investment in the IoT, it is certain that the frontline practices we have built up over the decades will need to evolve, but our wealth of hard-won operational expertise will remain as valuable as ever. For the time being, we will incorporate more sales bases into testing and concentrate on ensuring each employee is fully aware and up to speed. The sooner we establish a smart operation structure, the sooner we can adapt to today's declining workforce and solidify our competitive advantages in the industry.
(For details about our smart operating structures, see p. 39)

International Beverage Business

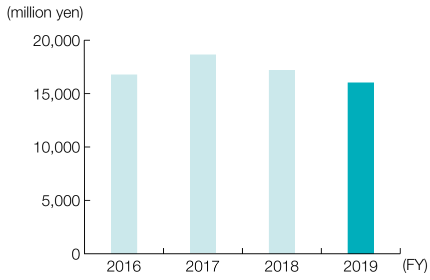
P.25-26

Breakdown of net sales

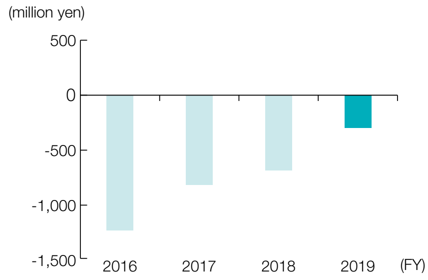


(Breakdown of sales to external customers)

Net Sales



Segment Profit



(Millions of yen)

Business year	2013	2014	2015	2016	2017	2018	2019
Net sales	—	—	—	16,735	18,547	17,154	16,004
Segment profit	—	—	—	(1,266)	(838)	(704)	(306)
Segment profit margin (%)	—	—	—	—	—	—	—
Segment assets	—	—	—	21,744	20,717	15,129	14,266
Capital expenditure	—	—	—	1,882	842	539	434
Depreciation	—	—	—	907	918	675	628
Goodwill amortization costs	—	—	—	182	171	114	94
ROA (%)	—	—	—	—	—	—	—

The fiscal year for each business runs from January 1 to December 31 of the following year

Overview of DyDo's Turkish and Malaysian Beverage Operations

		Turkey	Malaysia
Acquired stake in		February 2016	December 2015
Method		Acquired shares in the soft drinks department of Yildiz Holdings A.S., which has Turkey's biggest confectionery manufacturers under its umbrella	Invested in the beverage division of Mamee-Double Decker, which has the top share of the Malaysian snacks and instant noodle market. Joint venture dissolved in FY2019
Initial share in main target company		90%	51%
Current share in main target company		90%	100%
Line of business		Production and sale of beverages	Sale of beverages
Main products		Mineral water, carbonated beverages, etc.	Milk whey beverages, carbonated beverages, etc.
Sales channels		Mineral water: Delivery to offices, etc. Mineral water, carbonated beverages: Distributed via mass retailers, etc.	Distributed via mass retailers, convenience stores, etc.
Post-merger integration	Brands	Inherited the brands of Yildiz, which have a high degree of recognition in Turkey; investing marketing resources in selected brands to develop them	Inherited brands gradually phased out, from fiscal 2019 onward DyDo brands launched and sales strengthened
	Sales network	Yildiz's sales network gradually being brought under DyDo's operational control. Changeover basically completed with some exceptions.	Mamee-Double Decker sales network gradually switched to DyDo channels
	Production	Operating five plants in Turkey	Fabless
		Optimizing plants acquired through M&A; new plants acquired	Mamee-Double Decker plants used to produce some products

Mid-term Business Plan 2021 Progress

FY2019 Achievements and Next Steps

Achievements	Huge improvement in profitability of the Turkish beverage business
Next steps	Pursuing reforms in the Malaysian beverage business

Mamoru Mitamura
Corporate Officer, and General Manager of the International Business Management Department
DyDo Group Holdings, Inc.

Turkish Beverage Business: Strengthening Our Business Foundation to Seek Further Growth

Our goal under Mid-term Business Plan 2021 is to bring the International Beverage Business to profitability overall, and the steady growth of the Turkish beverage business, which accounts for a large part of sales in this segment, is contributing to progress toward that end. Efforts to bolster our value chain in fiscal 2019, such as through work on our production and sales structures, as well as robust sales of “Saka” mineral water, our core brand in Turkey, have resulted in increased sales in Turkish lira and a sharp jump in profits. The concentration of resources in core brands—“Saka,” “Çamlıca” carbonated beverages, and “Maltana” among others—has boosted brand recognition in the market and sparked a level of growth in excess of that of the beverage industry overall.

Turkey’s large youth demographic means this market has high growth potential. This, combined with increasing health consciousness among consumers, gives us cause to consider this a promising market forecast to grow significantly over the medium to long term. However, the Turkish economy is in a period of slowdown, making it difficult for us to sustain the high growth rates we have seen so far. Therefore, while we continue to seek solid growth within Turkey, we are also looking to expand exports from that country. To this end, we have been working to pave the way for expanded sales of Turkish products in Russia (specifically Moscow), and in September 2019 established a new local subsidiary in the UK, where Yildiz Holdings has been exporting products through local agents for at least 15 years and built up product recognition on the local market.

Moving forward, our key focus will be on continuing to expand sales of our core brands such as “Saka.” We will also endeavor to establish a stronger distribution channel among small owner-operated stores—the last of the existing issues to be addressed in the post-M&A period—so as to create a steadfast business foundation on which to build our efforts to reach the next stage of success.

A New Set-Up for the Malaysian Beverage Business

The Malaysian beverage business is key to our quest to bring the International Beverage Business to overall profitability. As of fiscal 2019, our operations in Malaysia had not turned a profit since the M&A, and we must now make a judgment on whether or not to continue with this business.

Our Malaysian beverage business began in 2015 when we invested in the soft drinks department of a major local confectionery manufacturer, and subsequently entered into a joint venture deal. That joint venture was dissolved in 2019, however, and we made a fresh start with a beverage sales company wholly owned by the DyDo Group. We have gradually cut back on sales of the brands inherited from our former joint venture partner, and have sought to rebuild our brand portfolio by launching our own brands such as “BeFine” and “vida,” which were developed using a fine blend of our own wealth of expertise and the invaluable views of local staff.

As things stand, we have shifted to a 100% DyDo-led management structure, and are working hard to improve profitability by expanding sales of our new products.

New, certified-Halal products for the Malaysian market

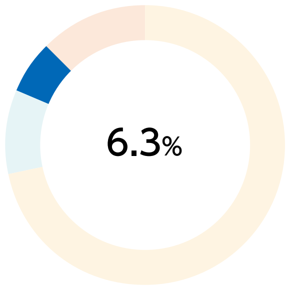
“BeFine” yogurt drinks

“vida” carbonated drinks

Pharmaceutical-Related Business

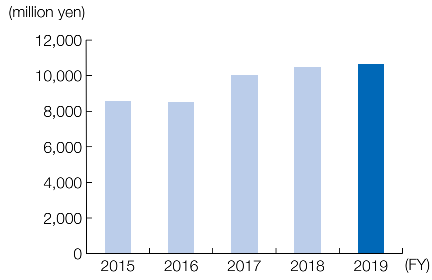
P.27-28

Breakdown of net sales

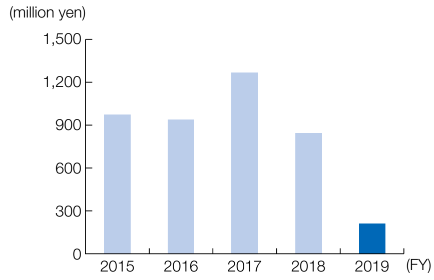


(Breakdown of sales to external customers)

Net Sales



Segment Profit



(Millions of yen)

Business year	2013	2014	2015	2016	2017	2018	2019
Net sales	10,857	10,220	9,126	9,068	10,536	10,964	11,097
Segment profit	1,227	1,135	979	944	1,271	847	210
Segment profit margin (%)	11.3%	11.1%	10.7%	10.4%	12.1%	7.7%	1.9%
Segment assets	13,807	13,684	13,568	14,962	17,001	17,764	22,587
Capital expenditure	337	291	298	423	1,248	3,953	7,466
Depreciation	530	483	459	430	517	624	696
ROA (%)	8.8%	8.3%	7.2%	6.6%	8.0%	4.9%	1.0%

The fiscal year for each business runs from January 21 to January 20 of the following year

DAIDO *Yakuhin's* Plants

	Nara			Kanto
Location	Katsuragi, Nara Prefecture			Tatebayashi, Gunma Prefecture
Site area	Approx. 43,000 m²			Approx. 27,000 m²
Yearly production capacity	Approx. 350 million units		30 million units	Approx. 150 million units
	Plant 1	Plant 2	Plant 3	—
Construction completed	1991	1999	2019	2019
Fully operational	—	—	February 2020	July 2020
Product format capabilities	Bottles	Bottles	Pouches	Bottles
Number of assembly lines	3	1	1	1
Product size capabilities	20ml/30ml/50ml/75ml/100ml/120ml	80ml/100ml/150ml/260ml	—	100ml
Capital investment	—	—	Approx. 2 billion yen	Approx. 6 billion yen

*All plants are able of producing pharmaceutical and quasi-drug products
*DAIDO *Yakuhin* is licensed for: Pharmaceutical manufacturing, Second-class pharmaceutical manufacturing and sales, Quasi-drug manufacturing, Quasi-drug manufacturing and sales, Beverage manufacturing

Mid-term Business Plan 2021 Progress

FY2019 Achievements and Next Steps

Achievements	Completing construction of a new pouch packaging line at DAIDO *Yakuhin* and the new Kanto Plant
Next steps	Securing a stable supply of orders

Makoto Miyaji
President and Representative Director
DAIDO *Yakuhin*

With the Kanto Plant, We're Better Positioned to Capture Demand

At DAIDO *Yakuhin*, which is responsible for the Pharmaceutical-related Business, we are steadily investing to spark future growth in line with the investment strategy set forth in Mid-term Business Plan 2021.

Construction of the new Kanto Plant in Tatebayashi, Gunma Prefecture, was completed on schedule in October 2019, and went fully operational in July 2020. Not only does the new plant enable us to expand our production capacity, which was nearing its limits as orders increased in recent years, but its proximity to the Tokyo metropolitan area, a major consumer hub, will enable us to reduce distribution costs. In addition, savings in labor costs achieved through plant automation will make it more cost-competitive, while dispersion of production locations helps solidify our business continuity plan, all of which contribute to efforts to boost our competitive advantage. Moreover, we will optimize production efficiency, for instance by catering to large-lot orders at the Kanto Plant while our existing production facilities in our home base of Nara can handle small-lot, high-variety orders.

New DAIDO *Yakuhin* Kanto Plant

Attracting a Broader Variety of OEM Orders

At the Nara Plant, construction of a third plant, this one able to produce pouch-packaged jellies, has been completed and went fully operational in February 2020. Demand for the products has grown in recent years, driven by their practicality, but only a few companies are able to produce pharmaceuticals and quasi-drug products in this format—and we are one of them. We will leverage our advanced product development capabilities and quality, forged through long years of experience, to come up with new products and categories as a means of attracting a broader variety of orders from existing clients and acquiring new clients.

We have already received considerable interest from many pharmaceutical and cosmetic manufacturers, but everyone knows that applying and receiving permits, testing, and other requirements mean it takes a long time to bring a pharmaceutical or quasi-drug product to market. Operations will begin with food products, but we intend to ramp up production of pharmaceuticals and quasi-drug products starting in the second half of fiscal 2021.

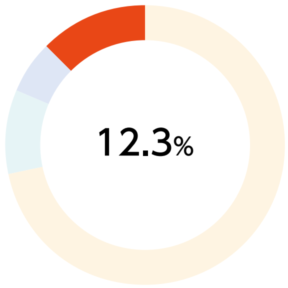
Moving forward, we aim to swiftly optimize production across our four plants in two locations, and bolster our ability to attract and process orders with maximum efficiency.

DAIDO *Yakuhin's* headquarters and Nara Plant, with the new Plant 3 to the right in the rear.

Food Business

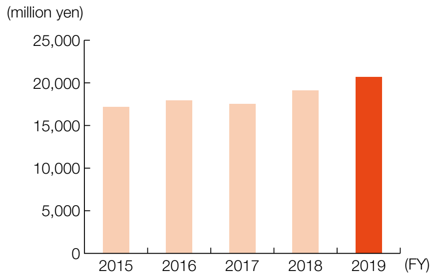
P.29-30

Breakdown of net sales

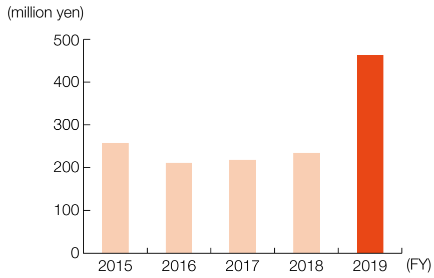


(Breakdown of sales to external customers)

Net Sales



Segment Profit



(Millions of yen)

Business year	2013	2014	2015	2016	2017	2018	2019
Net sales	14,299	15,360	17,155	18,013	17,560	19,114	20,643
Segment profit	205	198	259	212	219	235	464
Segment profit margin (%)	1.4%	1.3%	1.5%	1.2%	1.2%	1.2%	2.3%
Segment assets	17,105	17,166	17,537	17,395	17,791	17,459	18,595
Capital expenditure	297	470	595	742	465	941	1,252
Depreciation	588	572	587	632	656	683	765
Goodwill amortization costs	306	306	306	298	298	298	298
ROA (%)	1.2%	1.2%	1.5%	1.2%	1.2%	1.3%	2.6%

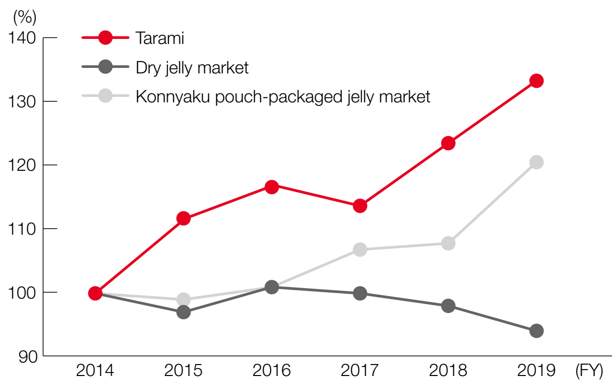
The fiscal year for each business runs from January 1 to December 31 of the following year

Leveraging Our Top Market Share to Improve Profitability

Tarami, the core company of our Food Business, has in recent years successfully parlayed its industry-leading brand strength into a larger share of the market, even at a time when sales in the dry jelly market have flattened out overall. Moreover, delivering its distinctive values to consumers in existing categories within the expanding pouch-packaged jelly market has enabled Tarami to drive sales growth. Profitability, too, has improved dramatically in fiscal 2019 as the company has worked strategically to expand sales of higher profit products and undergone a companywide revision of the cost structure across its development, production, distribution, and sales operations, founded on a concerted effort to raise awareness among employees.

Trends in sales

(FY2014 results are taken as 100%)



Source: Intage, Inc.

Mid-term Business Plan 2021 Progress

FY2019 Achievements and Next Steps

Achievements	Profitability improved through effective cost reductions and increases in the unit price of products
Next steps	Ongoing improvement of profitability

Yutaka Wada
Representative Director
Tarami Corporation

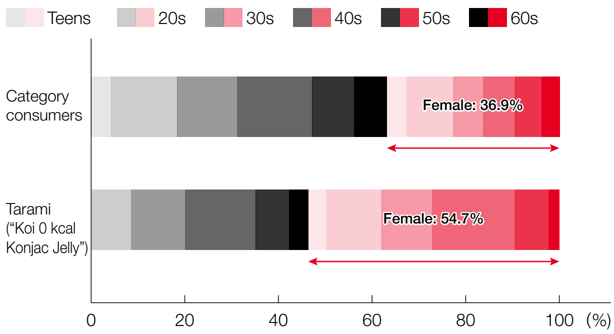
Crossing Product Category Boundaries

Sales in the dry jelly market as a whole have been flat over the past few years, but a closer look at discrete price ranges reveals some movement. For instance, the share of “popularly priced” items at around 100 yen is shrinking, while that of mid-to-high-priced value-added items is growing. Meanwhile, pouch-packaged jellies, which allow people to consume the product quickly and without fuss or mess, offer a convenience that matches recent consumer demand, leading to continued growth in that market.

At Tarami, we have successfully anticipated changing consumer needs and worked hard to expand sales of value-added products in the generally stagnant dry jelly market, resulting in a larger market share and improved profit margins in fiscal 2019. We have also launched a range of products into the growing pouch-packaged jelly market that enable consumers to enjoy the fruity goodness of Tarami jelly in a new format.

The pouch-packaged jelly segment developed on the back of demand from men, the main consumers of pouch-packaged nutritional support jellies. Providing our products in this format has broadened the target demographic—particularly at convenience stores—to include women, and driven sales growth. I believe that this development is the result of our pride in the sheer deliciousness that represents Tarami’s brand value showing through in our sales and marketing activities.

Consumers of pouch-packaged products via convenience stores



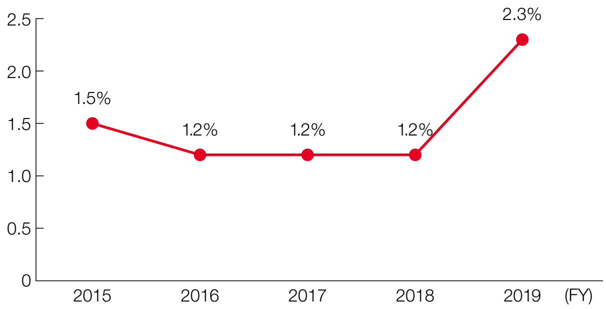
Source: Intage, Inc., SRI retail store panel survey
Distribution channel: Convenience stores
Survey period: March–April 2019

“Koi 0 kcal Konjac Jelly” series

Multifaceted Review of Costs Improves Earning Ability

Our investors have repeatedly pointed out that our rate of profitability is rather low for a food producer with a top market share. Tarami’s solid performance in fiscal 2019 was the result not only of robust sales, but also by a major increase in profits achieved through ongoing efforts to improve productivity, including capital investments and a restructuring of our supply framework. We will continue to seek improvements in earning ability, to which end we will further enhance the value of the Tarami brand and pursue improvements in all our development, procurement, production, distribution, and administrative processes.

Segment profit margin



Status of Shares / Rating Information / Corporate Bond Information

(as of January 20, 2020)

Status of Shares

Total Shares / Number of Shareholders

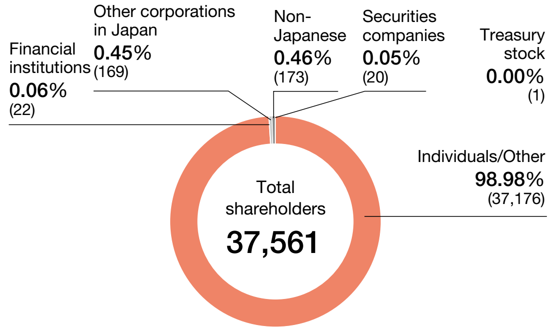
Authorized number of shares: 50,000,000

Number of shares outstanding:
16,568,500 (including 1,021 shares of treasury stock)

Minimum trading unit: 100 shares

Number of shareholders: 37,561

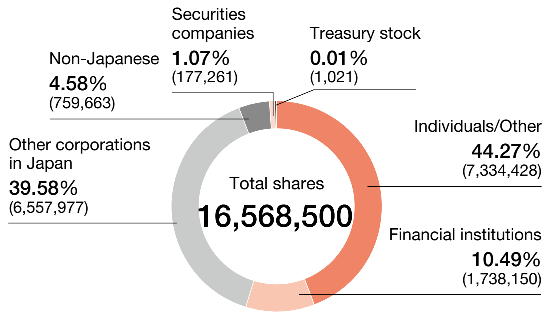
Number of Shareholders by Shareholder Category



Major Shareholders

Shareholder name	Number of shares	Percentage of voting rights (%)
HighWood Co., Ltd.	2,470,800	14.91
Santomi	2,011,600	12.14
Taita Corporation	718,100	4.33
Tomihiro Takamatsu	495,000	2.98
Tomiya Takamatsu	495,000	2.98
Akira Takamatsu	494,000	2.98
Japan Trustee Services Bank, Ltd. (Trust Account)	312,400	1.88
Tamon Takamatsu	305,800	1.84
The Master Trust Bank of Japan, Ltd. (Trust Account)	302,100	1.82
Lemongas Kagoshima Co., Ltd.	250,000	1.50

Number of Shares by Shareholder Category



Trends in Total Shareholder Returns (over five years)

	FY2015	FY2016	FY2017	FY2018	FY2019
Share value at the end of the period (yen)	5,120	5,980	5,880	5,490	4,385
Dividend per share (yen)	60	60	60	60	60
Total shareholder return (%)	104.8%	123.4%	122.5%	115.9%	94.7%

(Comparative index: TOPIX net total return index)

TOPIX	Advance/decline rate compared with FY2015 (%)	97.7%	114.3%	143.9%	121.2%	139.2%

Highest and Lowest Share Values by Fiscal Year

	FY2015	FY2016	FY2017	FY2018	FY2019
High (yen)	5,720	6,290	5,990	7,120	5,570
Low (yen)	4,530	4,935	5,070	5,110	4,000

Rating Information / Corporate Bond Information

Rating Information

The DyDo Group has been given the following rating by the credit rating agency listed below.

(as of July 24, 2019)

Rating agency	Rating	Outlook
Japan Credit Rating Agency, Ltd. (JCR)	A-	Stable

Corporate Bond Information

Description	First unsecured straight bond (with a limited inter-bond pari passu ranking clause)
Date of issue	October 16, 2015
Total amount issued	¥15 billion
Interest rate	0.341% (per year)
Redemption date	October 16, 2020

Corporate Data / Group Companies (as of January 20, 2020)

Corporate Data

Company Name	DyDo Group Holdings, Inc.
Head Office	2-2-7 Nakanoshima, Kita-ku, Osaka 530-0005, Japan
Representative	President and Representative Director Tomiya Takamatsu
Established	January 27, 1975
Fiscal Year	From every January 21 to January 20 of the following year
Paid-in Capital	1,924 million yen
Stock Exchange Listing	Tokyo Stock Exchange, 1st Section
Securities Code	2590
Number of Employees	Consolidated: 4,160

Group Companies

Domestic Beverage Business

DyDo DRINCO, INC. — Consolidated Subsidiary
Business Outline: Sales of soft drinks, etc.
Location: Osaka

DyDo Beverage Service, Inc. — Consolidated Subsidiary
Business Outline: Contract sales of soft drinks, etc.
Location: Osaka

DyDo Business Service, Inc. — Consolidated Subsidiary
Business Outline: Business processing services for the Group
Location: Osaka

DyDo Beverage Shizuoka, Inc. — Consolidated Subsidiary
Business Outline: Sales of soft drinks, etc.
Location: Fukuroi, Shizuoka

DyDo West Vending, Inc. — Consolidated Subsidiary
Business Outline: Sales of soft drinks, etc.
Location: Yonago, Tottori

DyDo DRINCO Service Kanto, Inc. — Consolidated Subsidiary
Business Outline: Sales of soft drinks, etc.
Location: Shimotsuga, Tochigi

DyDo-Takenaka Beverage, Inc. — Equity Method Affiliate
Business Outline: Manufacture and sales of soft drinks, etc.
Location: Muroto, Kochi

DyDo-Takenaka Vending, Inc. — Equity Method Affiliate
Business Outline: Sales of soft drinks, etc.
Location: Nankoku (registered location: Kochi), Kochi

Akita-DyDo Corporation — Equity Method Affiliate
Business Outline: Sales of soft drinks, etc.
Location: Akita

Gunma-DyDo Corporation — Equity Method Affiliate
Business Outline: Sales of soft drinks, etc.
Location: Sawa, Gunma

DyDo Vending Kinki, Inc. — Equity Method Affiliate
Business Outline: Sales of soft drinks, etc.
Location: Kawanishi, Hyogo

Shibusawa DyDo Group Logistics Co., Ltd. — Equity Method Affiliate
Business Outline: Freight forwarding on consignment
Location: Osaka

International Beverage Business

Shanghai DyDo DRINCO, Inc. — Consolidated Subsidiary
Business Outline: Sales of soft drinks, etc.
Location: Shanghai, China

DyDo DRINCO RUS, LLC — Consolidated Subsidiary
Business Outline: Sales of soft drinks, etc.
Location: Moscow, Russia

DyDo DRINCO Malaysia Sdn. Bhd. — Consolidated Subsidiary
Business Outline: Sales of chilled drinks and soft drinks, etc.
Location: Johor Bahru, Malaysia

Della Gıda Sanayi ve Ticaret A.Ş. — Consolidated Subsidiary
Business Outline: Production of soft drinks, etc.
Location: Istanbul, Turkey

Bahar Su Sanayi ve Ticaret A.Ş. — Consolidated Subsidiary
Business Outline: Production of soft drinks, etc.
Location: Istanbul, Turkey

DyDo DRINCO TURKEY İçecek Satış ve Pazarlama A.Ş. — Consolidated Subsidiary
Business Outline: Sales of soft drinks, etc.
Location: Istanbul, Turkey

Mavidağ Gıda Pazarlama Sanayi ve Ticaret Ithalat Ihracat A.Ş — Consolidated Subsidiary
Business Outline: Production of soft drinks, etc.
Location: Muğla, Turkey

DyDo DRINCO UK Ltd — Consolidated Subsidiary
Business Outline: Sales of soft drinks, etc.
Location: London, UK

Pharmaceutical-Related Business

DAIDO Pharmaceutical Corporation — Consolidated Subsidiary
Business Outline: Sales and production of drinkable preparations (medicines, quasi-medicines, soft drinks), etc.
Location: Katsuragi, Nara

Food Business

Tarami Corporation — Consolidated Subsidiary
Business Outline: Sales and production of fruit dessert jellies, etc.
Location: Nagasaki

Shunnotoki Inc. — Consolidated Subsidiary
Business Outline: Sales of fruit dessert jellies, etc.
Location: Isahaya, Nagasaki

Other

DyDo Pharma, Inc. — Consolidated Subsidiary
Business Outline: Manufacture and sales of healthcare pharmaceuticals and equipment, etc.
Location: Osaka

こころとからだに、
おいしいものを。

Offering delicious products
for sound mind and body

DyDo Group Holdings, Inc.

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