

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



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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.

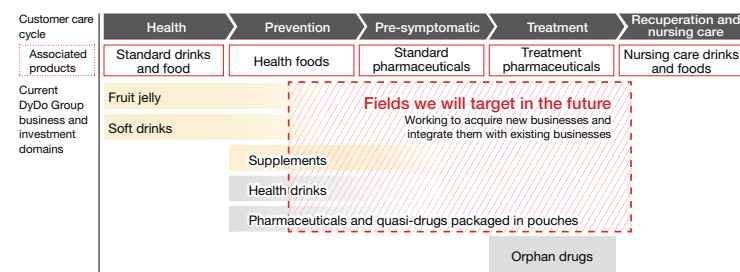
Positive outcomes have also been achieved in areas other than vending machines, including stronger distribution channels and establishment of a new mail order channel centered on dietary supplements, which has brought profitability.

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.

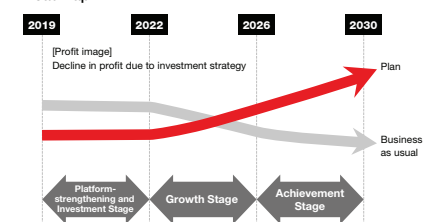
The trading environment for the core vending machine business remains tough, and if we continue running the business in the same way as before, it is inevitable that profits will gradually decline. Naturally, return on sales and total asset turnover will also drop. Therefore, the three-year period from 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 <ul style="list-style-type: none"> <li>Domestic Beverage Business 3.3% → 6%</li> <li>International Beverage Business Loss → 5%</li> <li>Pharmaceutical-Related Business 1.9% → 10%</li> <li>Food Business 2.3% → 10%</li> </ul>
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

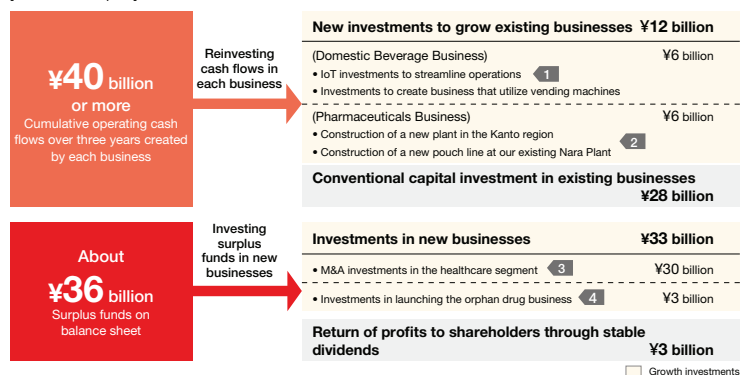
For the Platform-strengthening and Investment Stage, we have established Mid-term Business Plan 2021, which stipulates a four-pronged investment strategy. First is to establish a smart operation structure through IoT investments aimed at streamlining operations in our core vending machine business (see ❶ 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 ❷, M&A investments in the healthcare sector ❸, and investments in launching the orphan drug business ❹—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]



#### Key strategies

	<b>Domestic Beverage Business</b> <ul style="list-style-type: none"> <li>Establishing a reliable position in the vending machine market through measures such as smart operational structures that add IoT functionality to vending machines</li> <li>Establishing robust business platforms</li> <li>Fostering the development of human resources and building our organization to support businesses over the long term</li> </ul>
	<b>International Beverage Business</b> <ul style="list-style-type: none"> <li>Reassessing strategic countries to achieve overall business profitability</li> <li>Implementing cross-cutting measures between strategic countries</li> <li>Strengthening exports of Japanese products with high added value and developing new overseas markets</li> </ul>
	<b>Pharmaceutical-Related Business</b> <ul style="list-style-type: none"> <li>Achieving a smooth start of operations at new Kanto Plant</li> <li>Developing and manufacturing new contract products and product formats</li> <li>Developing more sophisticated quality control structures</li> </ul>
	<b>Food Business</b> <ul style="list-style-type: none"> <li>Strengthening development of high-value-added products</li> <li>Improving profitability through a multifaceted reassessment of costs</li> <li>Creating business models that transcend categories</li> </ul>
	<b>New businesses and other</b> <ul style="list-style-type: none"> <li>Developing new markets in the healthcare segment and fostering the development of the orphan drug business</li> <li>Making growth investments in new and existing businesses for example to add IoT functionality to vending machines</li> <li>Hiring and fostering the development of a next generation of workers</li> </ul>

#### 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.

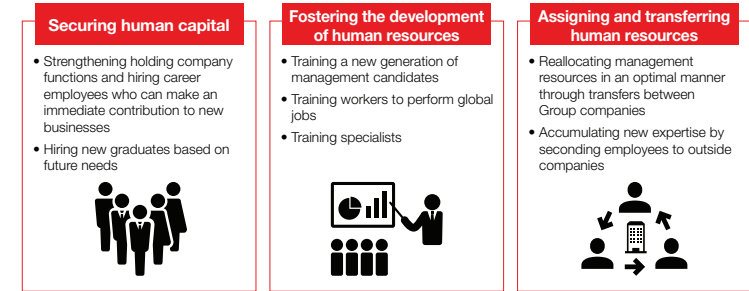
### Building Robust, Resilient DyDo People

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



### 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'être*—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.