



DyDo GROUP HOLDINGS, INC.

Q2 Financial Results Briefing for the Fiscal Year Ending January 2021

August 27, 2020

Event Summary

[Company Name]	DyDo GROUP HOLDINGS, INC.	
[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending January 2021	
[Fiscal Period]	FY2020 Q2	
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[Venue]	Webcast	
[Speakers]	Tomiya Takamatsu Naokazu Hasegawa	President and Representative Director Corporate Officer, General Manager of Corporate Communication Department

Presentation

Takamatsu: I am Takamatsu, President. Thank you very much for your support.

First, I would like to express my thoughts to everyone affected by COVID-19 and to everyone involved. I would also like to express my sincere respect to everyone who is making efforts to prevent the spread of the infectious disease. Today, thinking of the current situation, we have decided to hold an online financial result briefing. Thank you for your understanding.

Today, I will first explain the growth strategies we are currently implementing and our initiatives for social reform after COVID-19, and then briefly report on our performance. Finally, I would like to explain about our initiatives for achieving sustainable growth going forward. We will enter the question & answer session after that.

Social Changes Resulting from the Covid-19 Pandemic

- ▶ The outbreak of Covid-19 has spurred changes in consumer awareness and behavior, as well as in the prerequisites for businesses



Health

Changes in awareness of health, disease prevention, and hygiene are occurring

As a result of Covid-19, awareness has soared



Environment

People are more aware of issues facing environmental conservation



Innovation

Major social changes are taking place due to the rapid pace of digital transformation (DX)

With the advent of working from home, the locations in which our core vending machine business can sell drinks are changing



People

Diverse values in regards to working styles are emerging



Major shifts in society can fuel significant reforms in the DyDo Group

Please see page four.

In 2020, COVID-19, which has become a major force around the world, has had a significant impact on the economy. However, there has been a growing movement toward the new normal. As there are already signs of change, social and human values and behaviors are expected to change significantly after the COVID-19 problem is resolved.

The fact that many people have experienced telecommuting and have been able to perform their work online seems to mean that the base of rapid development of DX has been cultivated, and work styles have also become more diverse. In our core Vending Machine Business, we are seeing significant changes in our business assumptions, such as changes in the places where our products are sold. We intend to take advantage of these major changes in society to make significant reforms in our business model.

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

Together with our customers.



Nurturing our customers' health

We will deliver products and services that help improve health and quality of life for our customers around the world, in a tireless quest for delicious taste.

Together with the next generation.



Creating new value for future generations

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

Together with society.



Taking the lead in social reform

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

Together with our people.



Connecting people to people

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

Page five shows the Group Mission 2030: "For DyDo Group to create enjoyable, healthy lifestyles for people around the world," and the aspirations of the Group for 2030, which we formulated last year.

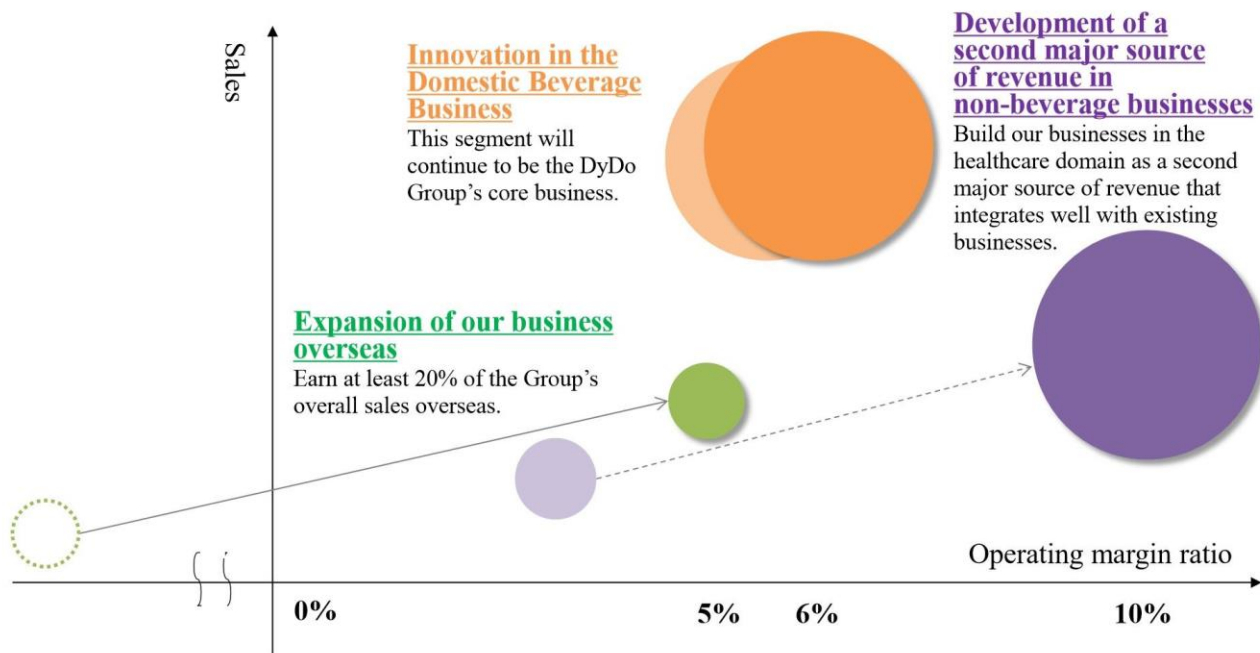
The COVID-19 pandemic has triggered significant changes in the business climate. However, there has been no change in the direction we should aim for. Rather, we intend to do business with a sense of speed being bolstered by the heightened health awareness of people.

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Group Mission 2030 Basic Policies

- ▶ We will constantly follow the basic policies of Group Mission 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.

Announced January 2019

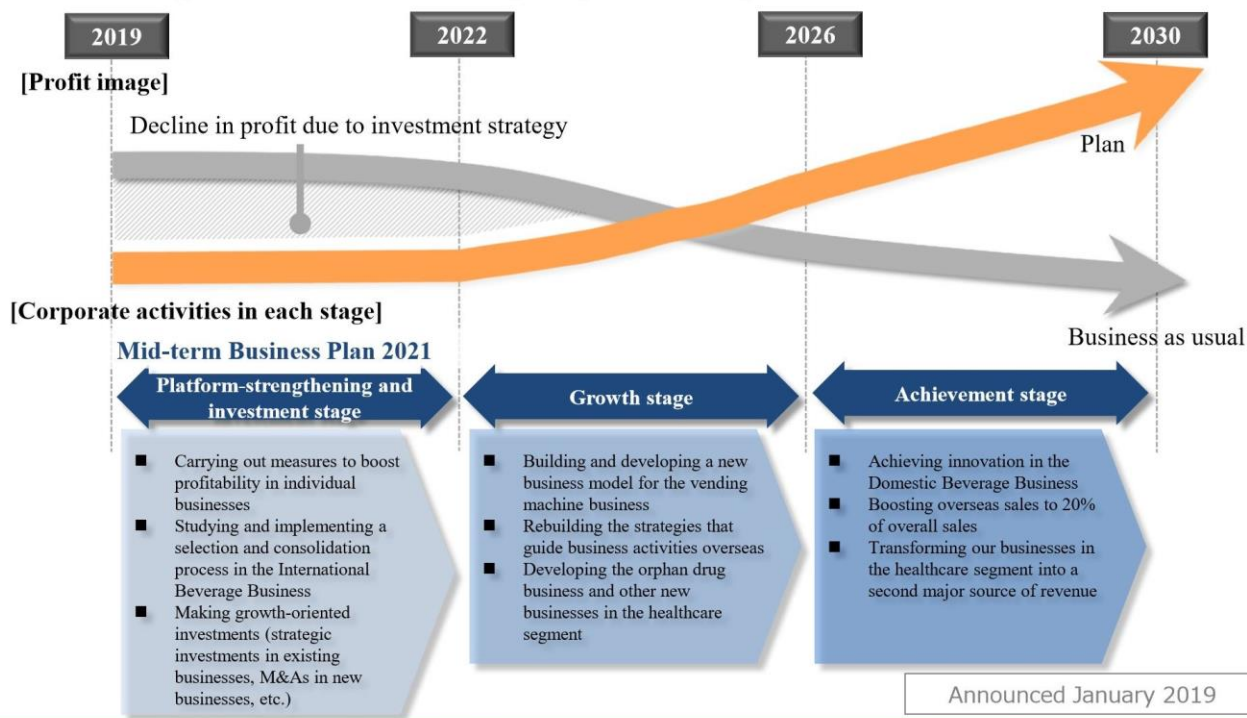
Page six shows our business portfolio for 2030. Through innovation in our core Domestic Beverage Business, we aim to strengthen our ability to generate cash. At the same time, by acquiring new Healthcare-Related Businesses, we aim to build a second earnings pillar in our Non-Beverage Businesses.

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Group Mission 2030 Roadmap



- ▶ We will make forward-looking investments that aim to achieve sustainable growth, although this will result in a temporary decline in profits



To achieve this, we have created a roadmap that divides the 12 years up to FY2030 into three stages. We are currently in the process of implementing Mid-Term Business Plan 2021, which we have positioned as a stage of platform strengthening and investment, the first step of the roadmap. These three years are positioned as a period of upfront investment for future growth.

Investment Strategy and Progress in the Mid-term Business Plan 2021

- ▶ There are no changes to the strategic investments outlined in Mid-term Business Plan 2021 (FY2019-2021)

[Investment resources]



There is no change in our thinking regarding the investment strategies outlined in the Mid-Term Business Plan on page eight.

Because of the impact of COVID-19, we need to make strict investment decisions on individual projects. However, we will steadily implement investments for future growth, such as investments to build the second pillar in the Healthcare field and investments in IoT to streamline the Domestic Beverage Business, and will contribute to the creation of enjoyable and healthy lifestyles for people around the world.

In the interest of time, I have made a brief explanation today. The background of the formulation of the Group Mission 2030 and its details are posted on our website, so please refer to the Integrated Report.

Risks and Opportunities in the Vending Machine Business, and the DyDo Group's Responses

- ▶ The DyDo Group will make use of changes in society to drive business model reforms, and create a more sustainable business model

- (1) Transition to new workstyles**
- (2) Create a smart operational structure**
- (3) Contribute to achievement of a recycling-oriented society**

Social reforms resulting from Covid-19	Risks and opportunities in the vending machine business
Changing consumer lifestyles and behavior	Advent of working from home requires changes in where we sell Competitors' approaches to the vending machine business are changing
Rapid digital transformation	Values regarding workstyles are changing Society is moving away from work structures that are predicated on long working hours
Changing consumer values	As awareness of health, disease prevention, and hygiene grow, what consumers want from products and services is changing Awareness toward environmental issues, such as plastic waste, is also rising

The Vending Machine Business, our core business, is a channel in which sales fell significantly due to COVID-19, and some investors may feel uncertain about the future. Nevertheless, we believe that these major changes in the operating environment represent significant business opportunities.

Amid changes in the vending machine market, we are already seeing positive changes, such as an increase in the number of our vending machines. What is needed for us now is to change our way of doing business and the places where we do business in line with changes in society so that our Vending Machine Business is sustainable for us and for society as a whole.

COVID-19 has triggered a change in the place where products can be sold, and competitors have changed their attitudes toward the Vending Machine Business. Taking advantage of the opportunities created by these changes, we will create a sustainable Vending Machine Business model by flexibly responding to the risks that arise.

As shown in the slide, we are currently working on three specific initiatives: transition to new workstyles, creating a smart operational structure, and contributing to achievement of a recycling-oriented society.

(1) Transition to New Workstyles

Change

Tasks should no longer require face-to-face meetings

Response

Introduced a new workstyle on June 1
(completed amendments to work regulations, etc.)

Expected effect

A flexible work system will help employees achieve work-life synergy



Prioritize
communication
with colleagues
when in the office



**For employees whose work is
predominantly indoor office work**

Concentrate on
tasks while
working at
home, up to
three days a
week

Raise productivity of sales activities
through flex time and recommending
sales staff travel directly between
external meetings and home, rather
than coming into the office



For employees whose work is predominantly sales activities



Promote sales activities that can be done
remotely, for example online, by
introducing a teleconferencing system, etc.

In response to COVID-19, it became assumed that everyday business, including business negotiations, would be conducted in a non-face-to-face manner. In order to respond to changes in the environment, it is important that employees work autonomously.

We shifted to telecommuting in response to the declaration of a state of emergency. Based on this experience, we introduced a new work style on June 1. With this new work style, we aim to realize work-life synergies while maintaining an environment in which the organization is revitalized through concentrated work at home and communication with colleagues.

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(1) Transition to New Workstyles

Changes

Advent of working from home requires changes in where we sell
Competitors' approaches to the vending machine business are changing

Response Decided to establish remote sales teams

Expected effect

The digital transformation in sales activities will drive location
development activities toward locations where we can sell our goods



✓ Use online business negotiation tools



✓ Proceed with business negotiations
through online meetings



✓ Business negotiations in person,
leading to installation

Remote sales

On-site sales

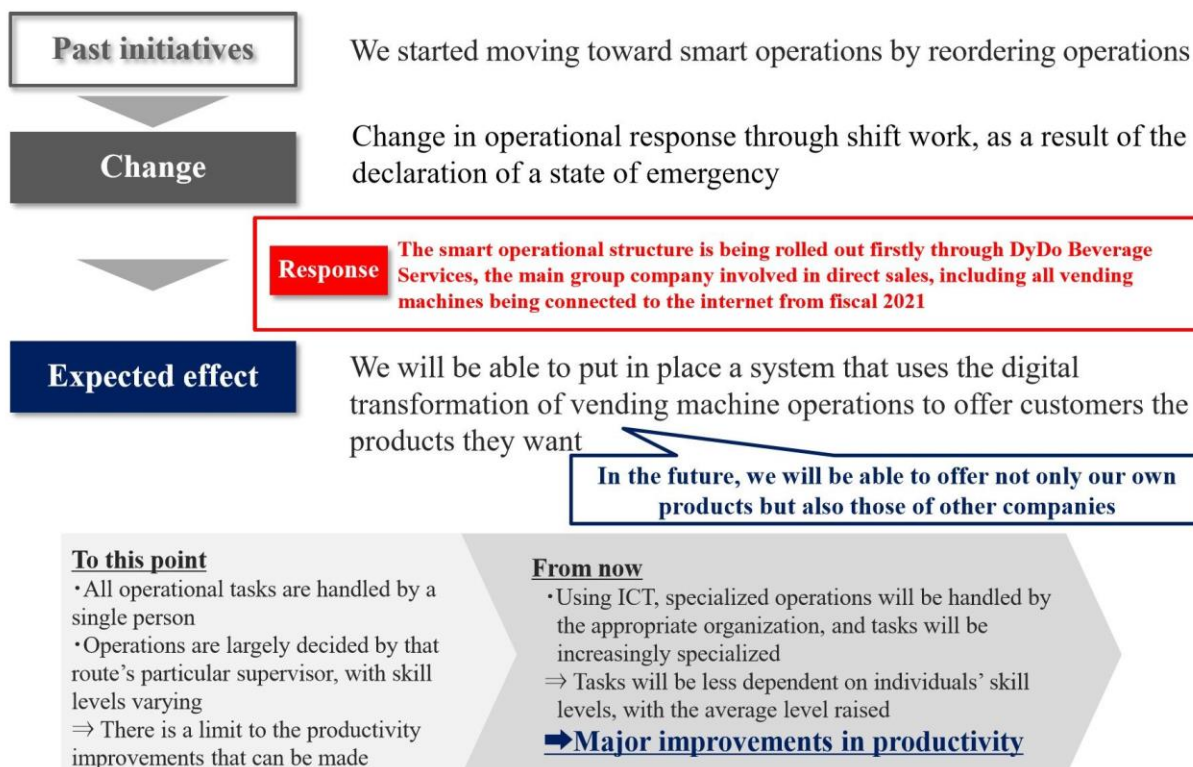
Contract

In our sales activities, we are thoroughly implementing mobile work using flextime. Customer companies are also working from home, and online negotiations are gradually gaining acceptance. Accordingly, we have been promoting remote sales for the development of new vending machine installations, and we have decided to establish a dedicated team to promote business negotiations online in September.

However, as face-to-face sales are ultimately important, we will raise the productivity of development by increasing both the volume and quality of sales activities while leveraging the advantages of remote sales and on-site sales.

COVID-19 crisis has had a major impact on the vending machine market. However, a detailed analysis of its sales reveals not the fact that consumers are no longer purchasing beverages from vending machines, but the fact that the place where beverages sell has changed. We will flexibly change the target of places where we sell products in the location development activities based on the data, we accumulate every day, and maintain and expand our vending machine network.

(2) Create a Smart Operations Structure



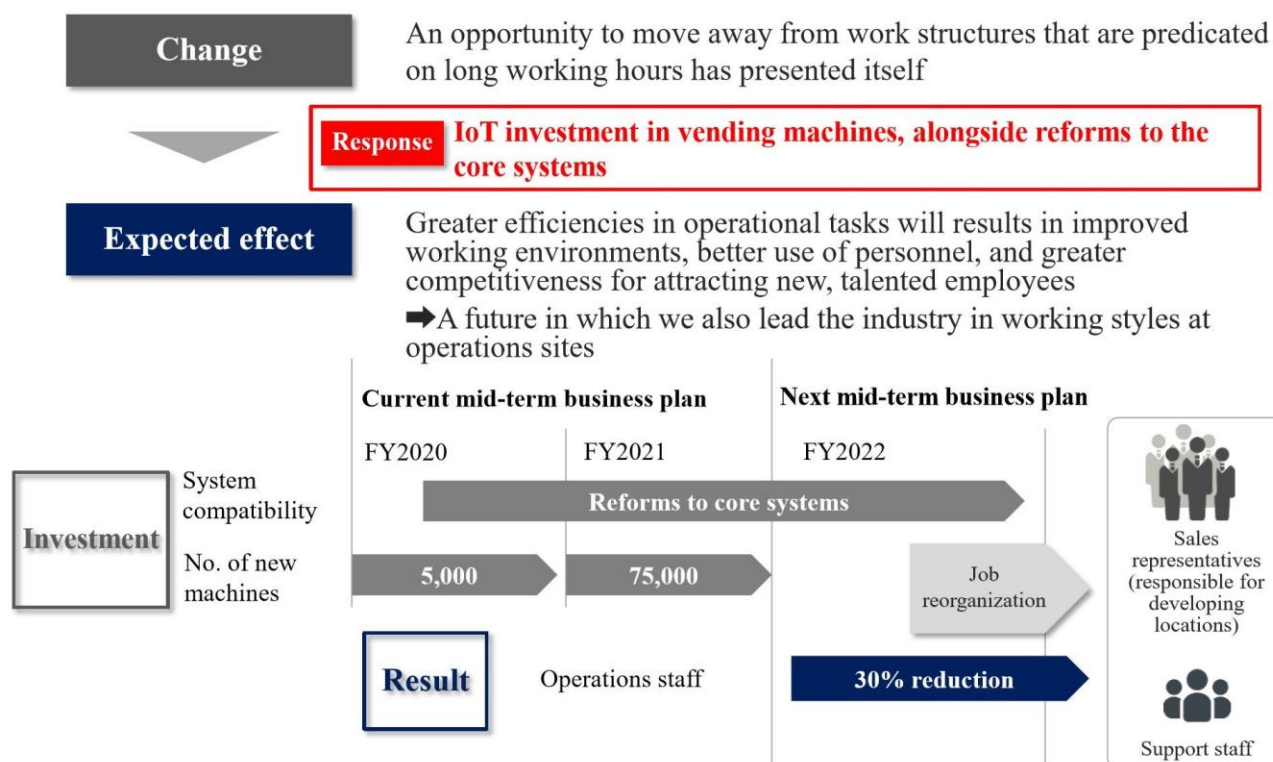
Our current Mid-Term Business Plan calls for the establishment of a Smart operation structure. The aim is to improve operational efficiency by making all vending machines online, optimizing the setting of the route for vending machine operations and the product mix, as well as preparing beverages to be replenished by each vending machine in advance. We are currently working on testing and verification at multiple sales offices and optimizing operation procedures accordingly.

Regarding operational reforms, one of the challenges facing the Company was a change of the awareness of employees, from the awareness that each employee is in charge of each vending machine to one that sales offices are in charge.

However, as COVID-19 spread, sales offices, which are responsible for vending machine operations, introduced shift-work system to reduce the risk of infections. As a result, work-sharing was promoted. This movement has had a gradual impact on the reform of awareness, which was an issue.

In addition, although the Company planned to determine the area in which smart operations will be deployed during the current fiscal year, in response to changes in the awareness of on-site employees regarding the way they work, the Company decided to deploy these Smart operations Company-wide at DyDo Beverage Services, which is an operation company under the direct control of the Company.

(2) Create a Smart Operations Structure



To maximize the effects of Smart operations, we have also decided to renew our core systems. As a result of these efforts, the number of personnel involved in operations is expected to decline gradually, falling 30% by the end of FY2022.

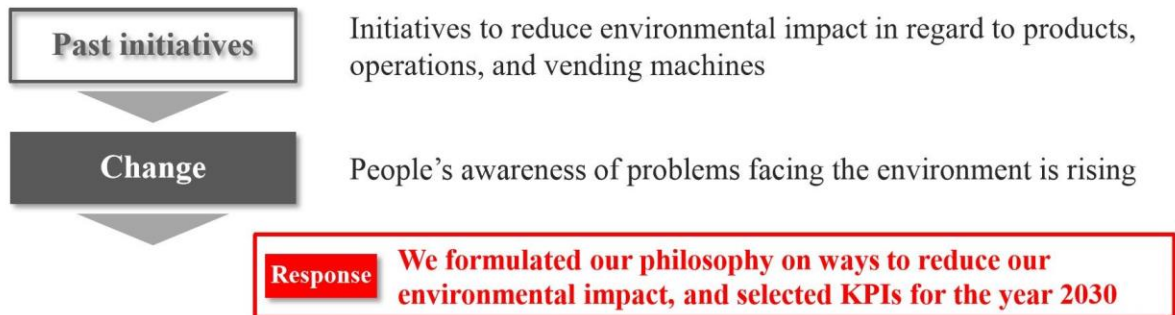
With regard to human resources who are well-versed in the workplace, we will relocate them to businesses, in which the expertise that has been cultivated through experience can be able to be utilized, such as fine-tuning the product lineup to suit the location, which AI alone will not be able to follow, or to sales department to cultivate new locations. Doing so, we will work on improving the productivity of the entire organization.

We believe that this division of labor will lead to solutions to labor problems, such as long working hours in vending machine operations, which are an issue for the industry as a whole.

In addition, we believe that the smart operation system, which is intended to prepare beverages to be replenished beforehand, will allow operations beyond the existing DyDo Soft Beverage Vending Machine Business.

We believe that this will serve as the foundation for our transformation into a future business model that we deliver products needed to the places needed. By optimizing the vending machine operation system, we aim to improve productivity and effectively utilize human resources, thereby becoming an industry leader in the work style at operation sites as well.

(3) Contribute to Achievement of a Recycling-Oriented Society



► Our philosophy on ways to reduce environmental impact:

We will help to achieve a sustainable, recycling-oriented society by making effective use of resources alongside our employees and other stakeholders, through all major stages of the supply chain

- ✓ We will raise the efficiency of our work processes, including smart operations, and improve the recycling rate for empty containers
- ✓ We will continue to improve the life of our vending machines and minimize waste of iron and other resources, even as we expand our vending machine operations
- ✓ We will provide customers with products that contribute to the effective use of resources

The third point is to contribute to achievement of a recycling-oriented society through the vending machine channel. Due to COVID-19, awareness of global environmental issues is expected to further rise. In addition, efforts related to containers and packaging, including marine plastic issues, have become a major social issue.

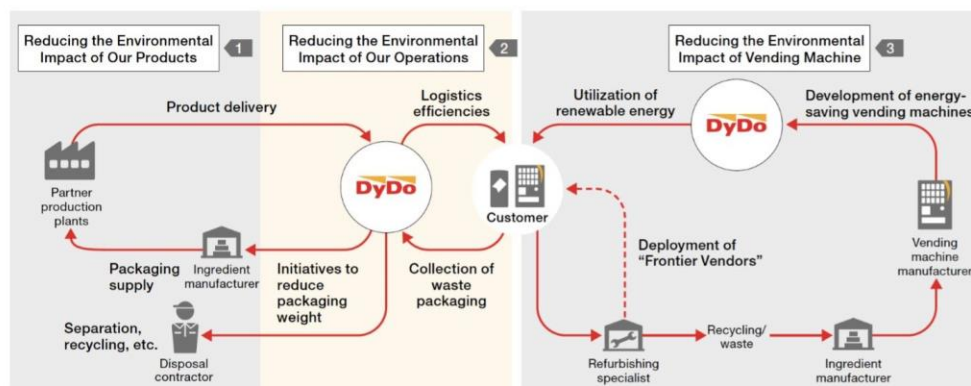
Each company in the industry has announced a policy to promote bottle-to-bottle recycling by converting used PET bottles into raw materials and reusing them into new PET bottles. However, securing collecting volumes and improving the quality are major issues, and efforts to establish an effective packaging recycling scheme are still in progress.

Our core business is the Vending Machine Business. Our responsibilities include the process of collecting empty PET bottles and other containers, not only selling products. We believe that our strengths in operations enable us to achieve high quality also in container collection.

In addition, with regard to extending the life of vending machines, which is an issue in terms of the effective use of iron resources, we are boasting an industry-leading track record through the "Frontier Vendor" and other initiatives. In this way, we will continue to promote initiatives that we only can do as a Vending Machine Business.

(3) Contribute to Achievement of a Recycling-Oriented Society

▶ We set KPIs for our initiatives in the vending machine business



Contributions to achieving the SDGs



Ensure sustainable consumption and production patterns

12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse



Conserve and sustainably use the oceans, seas and marine resources

14.1: By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

We always have been working to reduce the environmental impact of vending machines in each aspect. In order to accelerate our efforts in the collection of packaging and the development of "Frontier Vendor," we have set KPIs up to 2030.

(3) Contribute to Achievement of a Recycling-Oriented Society



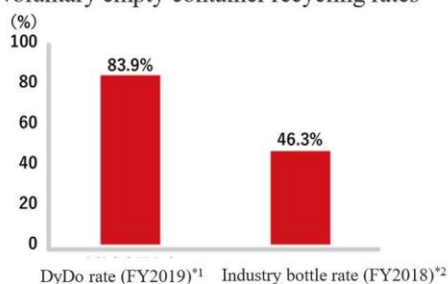
KPI for 2030: Achieve a recycling rate of 100% for empty containers

Expected effect

By improving the recycling rate for our empty containers, we can create a recycling loop and contribute to 100% effective use of plastic bottles

- Initiatives toward a 100% recycling rate:
 - ✓ Placing recycle boxes for empty containers next to our vending machines, and emptying these when we stock up the machines
 - ✓ Promoting recycling and reducing waste alongside our employees and other stakeholders

● 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



Newly introduced vehicles have twice the capacity for empty containers

Page 17 shows the first KPI, achieving a recycling rate of 100% for empty containers. At present, more than 80% of PET bottles shipped are voluntarily collected from the clean boxes of vending machines, leading to appropriate recycling.

In order to build a sustainable Vending Machine Business model, we have set the goal of recycling 100% of our total production volume, not limited to PET bottles, creating a recycling loop for beverage containers by 2030.

We hope to contribute to the reduction of disposable plastic by realizing a 100% collection rate in cooperation with employees and other stakeholders.

(3) Contribute to Achievement of a Recycling-Oriented Society



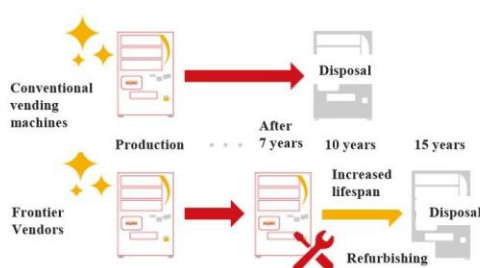
KPI for 2030: Achieve a 15-year average useful lifespan (average length of use) for vending machines

Expected effect

Longer useful lifespans for vending machines will result in less iron used, and greater reuse of components, leading to both less environmental impact and lowered vending machine procurement costs

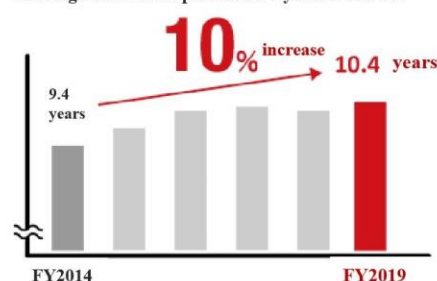
● Frontier Vendor initiatives

- ✓ Further strengthening efforts to increase the useful lifespan since 2014
- ✓ Working to increase useful lifespans by replacing internal components, for which durability varies, as needed, as well as adding the latest functions (“Frontier Vendor” is a term we use for our refurbished vending machines)



- Change in the average useful lifespan of vending machines

Vending machine lifespans in the 6 years from 2014



The other is to extend the average number of years of vending machine use to 15 years, as shown on page 18.

Rather than simply continuing to use the machines newly introduced to the market, this initiative aims to lengthen the life of vending machines while offering customers a satisfactory use by adding vending machine materials and the latest functions after a certain period of time from the introduction.

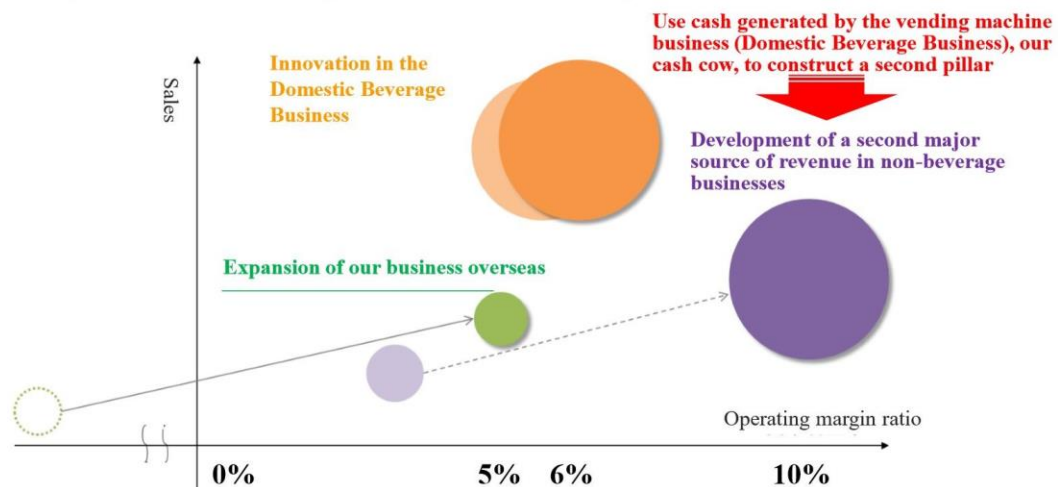
We started these initiatives in FY2014, and the effects are shown in the graph at the lower right. We call the modified vending machine "Frontier Vendor." By increasing the number of “Frontier Vendors” in operation, we aim to reduce both environmental impact and vending machine procurement costs.

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Working Towards the Goals of Group Mission 2030

- ▶ Establishing a dominant competitive edge and continually expanding cash flows in the vending machine business
- ▶ Making strategic investments in the healthcare domain to create a second major source of revenue
 - 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.

As we have repeatedly stated, our core business is the Domestic Beverage Business.

By establishing a sustainable Vending Machine Business model that looks ahead to the social reform caused by COVID-19, we will expand cash flows and invest to establish a second pillar in the Healthcare field, thereby increasing our corporate value over the medium to long term.

(1) Impact of the Covid-19 Pandemic on Business

- ▶ Impact on each business, and on financial performance in the 2nd quarter
- ▶ Demand is gradually recovering, however we forecast that the negative impact on sales will continue
- ▶ We forecast an associated impact in the 3rd quarter in the Pharmaceutical-Related Business, which is involved in the contract business

		January	February	March	April	May	June	July
External environment	(Domestic)			Requests for large-scale events to cancel voluntarily	State of emergency	→ May 25: rescinded		
	(International)			Growth of demand for items that make spending time at home more comfortable, mainly at supermarkets and other volume retailers People refraining from going out, or working from home, leads to slump for convenience stores and vending machines				
Business activities	Sales/internal affairs				Promotion of working from home and online business negotiations			
	Manufacturing Overseas-stationed staff				Operations continued, including at external contractors In principle, employees were to return temporarily to Japan			
Impact on performance	Domestic Beverage Business				Bottomed out in April/May, gradual recovery since			
	International Beverage Business (Turkey)				Bottomed out in April/May, gradual recovery since			
Operating period	International Beverage Business (Malaysia)				Bottomed out in April/May, recovery delayed			
	Pharmaceutical-Related Business				Impact of stock piling up at partners gradually becoming apparent			
	Food Business				Despite the change in the mix of sales channels, the impact was minimal			

In this section, I will explain our financial results for Q2. First, let me briefly explain the impact of the spread of COVID-19 on our business.

The COVID-19 impacted Q2 results of our Domestic Beverage Business and International Beverage Business. While each of those is gradually recovering, the impact on sales is expected to continue to a certain extent.

In the Pharmaceutical-Related Business, the impact is gradually materializing since we do a Contract Business, and the impact is expected to continue until Q3.

(1) Impact of the Covid-19 Pandemic on the Company's Performance

- It is currently unclear when the current situation will be resolved, and there is a possibility that it will affect our future financial performance

	Impact on Q2 performance	Anticipated future impacts
Domestic Beverage Business	<ul style="list-style-type: none"> As the tendency to avoid going out and to work from home has been extended, the primary impact has been on sales in the vending machine channel Profits have grown thanks to a decline in advertising spending and in depreciation expenses associated with vending machines, etc. 	<ul style="list-style-type: none"> Sales bottomed out in April/May, but have seen a gradual recovery since. However, it is expected that the change in consumer behavior will have a major impact on the vending machine market
International Beverage Business	<p><u>Turkey</u></p> <ul style="list-style-type: none"> While sales opportunities decreased, strong demand for mineral water ensured that sales were similar to the previous year on a lira basis Initiatives to strengthen exports to the UK and Russia were delayed <p><u>Malaysia</u></p> <ul style="list-style-type: none"> The strict restrictions on movement and behavior during April and May led to a large decrease in sales 	<p><u>Turkey</u></p> <ul style="list-style-type: none"> The easing of restrictions on leaving the house has meant that sales started recovering in June, but profits will be impacted by the economic situation where it is difficult to adjust prices to account for rapid growth in the cost of raw materials due to exchange rate fluctuations Moving to full-scale exports to the UK and Russia will take time <p><u>Malaysia</u></p> <ul style="list-style-type: none"> Even after lockdown restrictions are eased, times will be needed before the economy recovers, and this will impact sales and profit
Pharmaceutical-Related Business	<ul style="list-style-type: none"> Orders for beauty drinks from customers in China decreased, and people staying at home in Japan, among other factors, has also impacted client companies, which has resulted in fewer orders The Kanto Plant started full-scale operations two months later than originally planned, in July 	<ul style="list-style-type: none"> The outlook for beauty drink orders from customers in China is unclear, and there is the possibility that recovering orders in Japan may take time
Food Business	<ul style="list-style-type: none"> While convenience store sales dropped, sales to retailers remained strong, leading to increased profit 	<ul style="list-style-type: none"> Sales to volume retailers are strong, but there are concerns that the impact of fewer customers visiting convenience stores may continue

The table on page 22 summarizes the business performance by segment in Q2 and the expected future impacts. In the Domestic Beverage Business, net sales from the vending machine channel were mainly impacted by COVID-19. However, as I mentioned earlier, the vending machine market has changed dramatically, and the number of our vending machines has begun to increase. Sales are gradually recovering after hitting bottom in April and May.

In the Beverage Business in Turkey, which is the core of the Overseas Beverage Business, the demand for mineral water for households was very high, and sales on a local currency basis were roughly the same as the previous year. Meanwhile, in the Beverage Business in Malaysia, which had made a smooth start with the launch of new products, sales declined significantly in the Q2 due to the lockdown. The business in Turkey has been on a recovery trend since June, but conditions remain severe in Malaysia.

In the Pharmaceutical-Related Business, in which we do the OEM Businesses of drinkable preparations, orders for beauty drinks from customers in China declined, and orders in Japan also decreased due to the impact of voluntary restraints on outings on business partners' over-the-counter sales. In the Chinese market, in addition to the impact of COVID-19, competition is intensifying, and the outlook is uncertain. The Japanese market is also expected to take time to recover orders.

Finally, the Food Business. While sales through the convenience store channel declined due to a decline in the number of visiting customers, sales to supermarkets and other mass retailers remained strong. Along with the productivity improvement initiatives that we have implemented to date, profits increased. This trend is expected to continue in the second half of the year.

(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

FY2020 2nd Quarter Financial Highlights

- ▶ The COVID-19 pandemic has spread globally and this has had an impact on sales in each of our business segments, resulting in consolidated sales during the second quarter totaling ¥77,773 million (down 9.0% year on year)
- ▶ A decrease in advertising and promotional costs in the Domestic Beverage Business, and a change in the useful life span of vending machines led to operating profit of ¥2,776 million (up 36.6% year on year)

(Millions of yen)

	Q2 (January 21 to July 20)						Full-year					
	FY2019 results		FY2020 results				FY2019 results		FY2020 outlook			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	85,438	100.0%	77,773	100.0%	(9.0%)	(7,664)	168,256	100.0%	158,000	100.0%	(6.1%)	(10,256)
Operating profit	2,033	2.4%	2,776	3.6%	36.6%	743	2,893	1.7%	1,800	1.1%	(37.8%)	(1,093)
Ordinary profit	1,785	2.1%	2,455	3.2%	37.5%	670	2,857	1.7%	1,700	1.1%	(40.5%)	(1,157)
Net quarterly loss attributable to owners of parent	1,226	1.4%	1,301	1.7%	6.1%	74	1,778	1.1%	500	0.3%	(71.9%)	(1,278)
EPS	74.47		80.44			¥5.97	¥108.00		¥30.91			(¥77.09)
Dividend per share	¥60		¥60			-	¥60		¥60			-

As a result, consolidated net sales for the first half of the fiscal year under review decreased 9% YoY to JPY77,773 million.

Meanwhile, operating profit increased by 36.6% YoY to JPY2.776 billion due to a decline in advertising and sales promotion costs in the Domestic Beverage Business and a decline in depreciation costs associated with a change in the useful life of vending machines.

(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

FY2020 2nd Quarter Consolidated Earnings (by Segment)

- ▶ As a result of people staying at home due to the declaration of a state of emergency, revenue dropped in all business segments
- ▶ Sales in the Food Business were comparatively strong, which massively improved profitability

(Millions of yen)

		FY2019 2nd quarter	FY2020 2nd quarter		FY2019 results	FY2020 full-year outlook			
			% (YoY)	Amount (YoY)			% (YoY)	Amount (YoY)	
	Domestic Beverage Business	60,809	54,822	(9.8%)	(5,987)	121,203	114,200	(5.8%)	(7,003)
	International Beverage Business	8,009	6,769	(15.5%)	(1,239)	16,004	13,200	(17.5%)	(2,804)
	Pharmaceutical-Related Business	5,753	5,409	(6.0%)	(343)	11,097	10,600	(4.5%)	(497)
	Food Business	11,268	11,184	(0.7%)	(83)	20,643	20,700	0.3%	56
	Other	—	—	—	—	—	—	—	—
	Adjustment	(402)	(413)	—	(11)	(693)	(700)	—	(6)
Total net sales		85,438	77,773	(9.0%)	(7,664)	168,256	158,000	(6.1%)	(10,256)
	Domestic Beverage Business	1,675	2,793	66.7%	1,118	3,948	4,680	18.5%	731
	International Beverage Business	133	(41)	—	(174)	(306)	(250)	—	56
	Pharmaceutical-Related Business	358	(63)	—	(421)	210	(440)	—	(650)
	Food Business	574	857	49.4%	283	464	770	65.7%	305
	Other	—	(75)	—	(75)	(148)	(840)	—	(691)
	Adjustment	(707)	(694)	—	13	(1,275)	(2,120)	—	(844)
Total operating profit		2,033	2,776	36.6%	743	2,893	1,800	(37.8%)	(1,093)
Total depreciation expenses		4,805	3,084	(35.8%)	(1,721)	9,647	6,830	(29.2%)	(2,817)

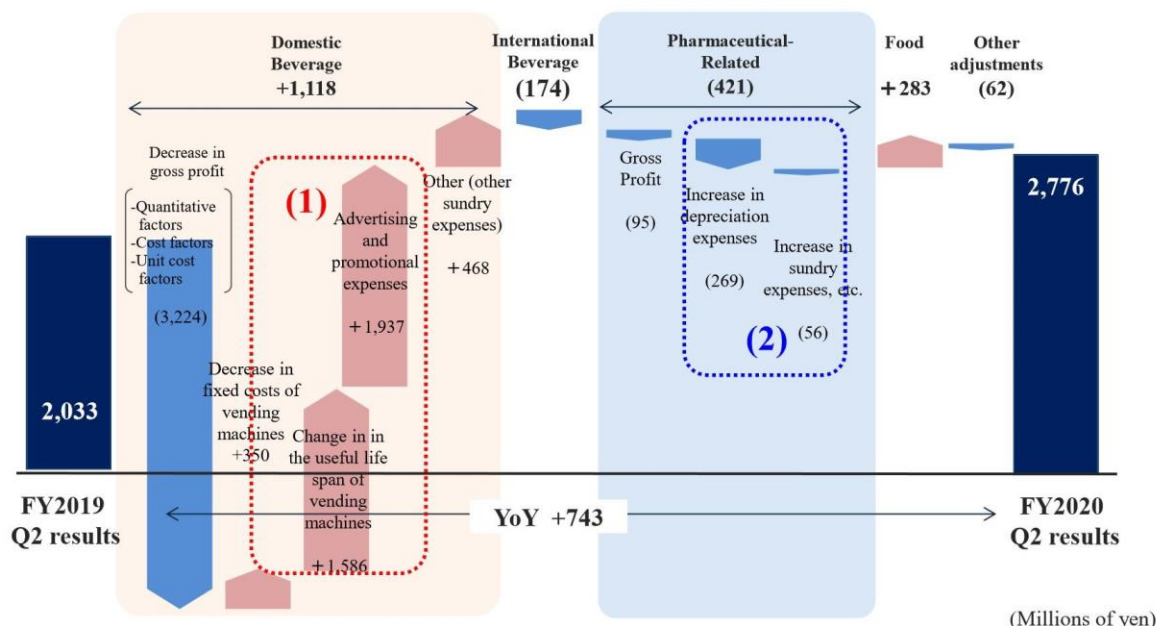
"Other" represents the orphan drug business, which is not included in the reported segments.

Page 24 shows results by segment. In Q2 of the fiscal year under review, sales declined in all segments due to the impact of restraint on going out due to declarations of emergencies and other factors. In terms of profits, the Domestic Beverage Business posted higher profits, while the Food Business significantly improved its profit margin.

(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

Factors Contributing to Changes in Operating Profit in FY2020 2nd Quarter

- ▶ In the Domestic Beverage Business, a change in the useful life span of vending machines, the decrease in costs for sales promotions and advertising, and other factors led to an increase in profit (1)
- ▶ In the Pharmaceutical-Related Business, the completion of the Kanto Plant (in October 2019) and other factors led to an increase in depreciation expenses, etc. (2)



The main changes in operating profit are as follows.

In the Domestic Beverage Business, depreciation expenses decreased due to changes in the useful life of vending machines, as shown in the red frame. Advertising expenses for the first half of the year declined in reaction to the previous year. In addition, sales promotion expenses were lower than expected due to a decline in sales volume. As a result, the Domestic Beverage Business achieved an increase in profits.

Regarding changes in the useful life of vending machines, we used the statutory useful life of five years as the depreciation period, but we changed it to ten years in accordance with the actual conditions of use and applied the change from the beginning of the fiscal year.

On the other hand, the reduction in fixed costs of vending machines on the left-hand side was due to the effects of a review of vending machine procurement costs in FY2014. For more information, see page 61 of the Integrated Report.

In the Pharmaceutical-Related Business, the depreciation burden of the Kanto Plant, which was completed in October last year, contributed to a decrease in profits from the previous fiscal year.

(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

Full-year Performance Outlook

- ▶ We will announce the full-year outlook, which in the 1st Quarter Financial Highlight we designated as “undetermined”
- ▶ At present, the COVID-19 pandemic is alternating between phases of spreading and phases of returning to normal, yet we are taking it that the domestic and international economies will gradually recover
- ▶ We have forecast a set level of impact on sales and profit resulting from Covid-19 will continue

(Millions of yen)

	FY2019 results		FY2020 full-year outlook (Announced August 27)					Ref: initial announcement	
		Component		Component	YoY		Compared to initial announcement		Amount (YoY)
		ratio		ratio	%	Amount	%	Amount	
Net sales	168,256	100.0%	158,000	100.0%	(6.1%)	(10,256)	(6.5%)	(11,000)	169,000 743
Operating profit	2,893	1.7%	1,800	1.1%	(37.8%)	(1,093)	(21.7%)	(500)	2,300 (593)
Ordinary profit	2,857	1.7%	1,700	1.1%	(40.5%)	(1,157)	(29.2%)	(700)	2,400 (457)
Net profit attributable to owners of parent	1,778	1.1%	500	0.3%	(71.9%)	(1,278)	(64.3%)	(900)	1,400 (378)
EPS	¥108		¥30.91			(¥77.09)			¥84.99 (¥23.01)
Dividend per share	¥60		¥60			-			¥60 -

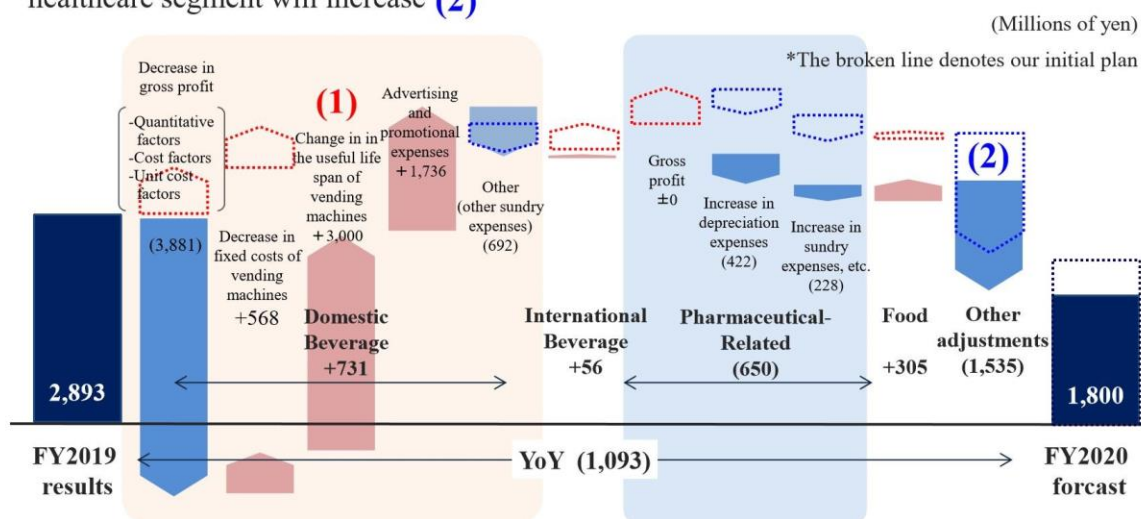
This is our next earnings forecast. Due to the impact of the spread of COVID-19, we had not been determined the outlook at the time of Q1 results briefing, but we will announce it today.

We assume that the domestic and overseas economies will recover moderately, although COVID-19 will alternate spreading and calming down for the time being.

Full-year consolidated net sales are expected to decrease by 6.1% YoY to JPY158 billion and operating profit by JPY1.8 billion. Net profit attributable to owners of parent is expected to decline 71.9% YoY to JPY500 million, assuming extraordinary gains and losses equivalent to those in the first half of the fiscal year under review.

Factors Contributing to Changes in Operating Profit in the FY2020 Full-year Performance Outlook: Compared to the Previous Year

- ▶ Total operating profit for existing businesses (Domestic Beverage Business, International Beverage Business, Pharmaceutical-Related Business, and Food Business) increased by ¥442 million year on year
- ▶ In the Domestic Beverage Business, measures to strengthen vending machine locations and expand smart operations led to increased expenses, but depreciation and other expenses broadly fell **(1)**
- ▶ We estimate that costs associated with implementing our growth strategies in the healthcare segment will increase **(2)**



The figures on page 27 are the factors behind the changes in operating profit in the revised full-year outlook compared to the previous fiscal year.

In the Domestic Beverage Business, operating profit will increase due to a substantial decrease in depreciation expenses, despite an increase in costs for strengthening vending machine installation and deploying smart operations. In other segments as well, we expect the impact of the decline in sales to be reduced through appropriate cost control, resulting in an increase in operating profit in existing segments.

In addition, the forecast takes into account the costs incurred in implementing the growth strategy in the Healthcare field, specifically, the costs incurred in the Orphan Drug Business and the possibility of expenses arising from M&A.

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(2) FY2020 2nd Quarter Financial Highlights and Full-year Outlook

Financial Position: Principal Changes in the Consolidated Balance Sheet

- ▶ The principal factor behind the increase in financial assets and interest-bearing debt was our issuance of a total of ¥20 billion of bonds payable (bond redemption of ¥15 billion scheduled for October 2020)
- ▶ Net assets decreased due to the acquisition of treasury stock and other factors

(Millions of yen)		(Millions of yen)	
Financial assets*1	73,240	Interest-bearing debt*2	33,713
		Accounts payable	18,623
		Other	21,835
		Net assets	89,210
Accounts receivable	18,497		
Inventories	8,444		
Property, plant and equipment	50,831		
Intangible assets			
Other	12,369		
Total assets	163,383	Total liabilities and net assets	163,383
January 20, 2020		July 20, 2020	
Financial assets*1	86,349	Interest-bearing debt*2	54,299
	13,108	Accounts payable	20,585
		Accounts payable	21,016
		Other	20,503
		Other	(1,331)
Accounts receivable	21,122	Net assets	85,444
Inventories	10,808		
Property, plant and equipment	51,001		
Intangible assets	170		
Other	11,982		
Total assets	181,263	Total liabilities and net assets	181,263
	17,880		17,880

*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

Next is the state of the balance sheet. In July, we issued a total of JPY20 billion in bonds, resulting in an increase in financial assets and interest-bearing debt. We are scheduled to redeem a JPY15 billion bond in October. In addition, the Company purchased treasury stock for approximately JPY3 billion from April to early June.

Major Changes in Free Cash Flows

- ▶ We will work to recover operational cash flows by strengthening the foundations of our vending machine business

(Millions of yen)

	FY2019	FY2020	Amount (YoY)
EBITDA (operating profit + depreciation expenses + amortization of goodwill)	7,035	6,050	(985)
Working capital cash flow increase (decrease)	(2,852)	(2,948)	(96)
Other	756	(1,123)	(1,879)
Cash flow from operating activities (a)	4,940	1,979	(2,961)
Purchase of property, plant and equipment and intangible assets (b)	(6,021)	(4,673)	1,348
Free cash flow (a-b)	(1,081)	(2,694)	(1,613)

■ Investment in equipment and facilities

(Millions of yen)

	FY2019	FY2020	Amount (YoY)
Domestic Beverage Business	4,003	3,097	(906)
International Beverage Business	176	442	265
Pharmaceutical-Related Business	3,314	244	(3,070)
Food Business	919	475	(443)
All companies (incl. Other)	316	74	(241)
Total	8,731	4,334	(4,397)

■ Depreciation expenses

(Millions of yen)

	FY2019	FY2020	Amount (YoY)
	3,648	1,710	(1,937)
	336	258	(78)
	249	518	269
	375	399	24
	197	197	0
	4,805	3,084	(1,721)

The following is a summary of cash flows. Cash flows from operating activities decreased significantly due to a substantial decline in net sales in all business segments caused by COVID-19.

We will work to recover operating cash flow by placing top priority on acquiring vending machine installation locations and strengthening the Vending Machine Business foundation.

- ▶ From April, in line with the declaration of a state of emergency and since, people have increasingly avoided leaving their homes, and this has had an impact on sales

(Millions of yen)

	FY2019 2Q results		FY2020 2Q results			FY2019 results		FY2020 outlook		
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio	% (YoY)	Amount (YoY)
Net sales	60,809	—	54,822	—	(9.8%)	(5,987)	121,203	—	(5.8%)	(7,003)
Operating profit	1,675	2.8%	2,793	5.1%	66.7%	1,118	3,948	3.3%	4.1%	731
Depreciating expenses	3,648		1,710		(53.1%)	(1,937)	7,148		(49.9%)	(3,568)

(Accounting period under review: January 21 to July 20)

Review of the first half of FY2020 and future outlook

- ✓ Sales will drop considerably from last year, due to the greater tendency for people to stay at home
- ✓ A change in the useful life span of vending machines, and reduced advertising and promotional costs, have resulted in increased profit
- ✓ Working toward a strengthened foundation for the vending machine business, by actively investing in personnel, increasing our installations in prime locations, and controlling our sales activities, we are moving toward having a larger number of operating vending machines, despite numbers having decreased in recent years

Issues and future actions

- ✓ We are prioritizing initiatives that address new vending machine locations, to achieve a V-shaped recovery in fiscal 2021
- ✓ Link the changes in the external environment to reforms in employee awareness of changes in the external environment
- ✓ By strengthening remote sales, we will increase the productivity of development activities for new installation locations
- ✓ We will promote digital transformation, and reform operational tasks

➡ pp. 11–14

Now let's go to the explanation for each segment. As I have already explained the situation in Q2, I will provide a brief explanation of the challenges and future actions.

The first is the Domestic Beverage Business. Although COVID-19 will continue to have an impact throughout FY2021, we will prioritize the acquisition of new locations in preparation for a V-shaped recovery in FY2021.

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(1) Domestic Beverage Business

Trends in the Beverage Market and Future Actions

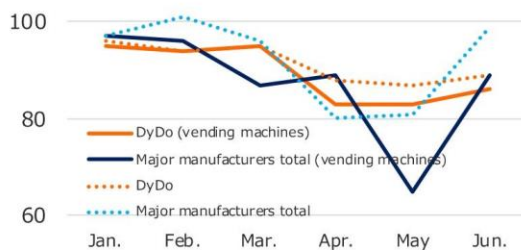
- ▶ Under the state of a declaration of emergency, vending machine and convenience store sales are tight across the board
- ▶ As a high proportion of our vending machines are located in rural areas, there has been less of a depressing impact on our vending machines than the industry average

Future actions

Strengthening new installation location development

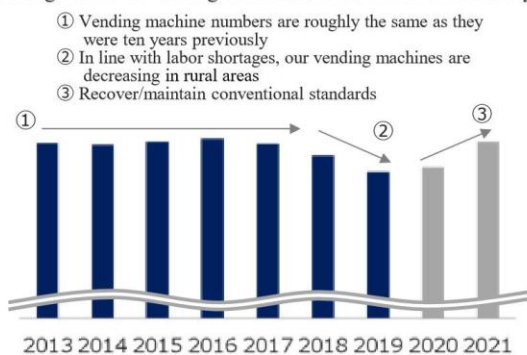
- ✓ Work to reinforce the sales structure so that it can accelerate measures aimed at securing prime locations is progressing
- ✓ Initiatives are underway that prioritize strengthening the foundations of our vending machine network, with an eye to FY2021
- ➡ Maintaining locations where sales are expected to return, while developing locations where new demand is expected

- Year on year comparison on the soft drink market (based on units shipped)



Source: Food Marketing Research Center

- Change in no. of vending machine for the end of each fiscal year



As you know, sales in the vending machine market as a whole fell sharply in Q2, but our slump was less than the industry. This is due to the fact that we have a strong base in local areas, which is a major difference from our competitors.

Changes in consumer behavior are expected to change the place where products are sold in the future. We will try to maintain our vending machine network by identifying the locations and not withdrawing from the location where sales are expected to eventually return even if there is an impact of COVID-19.

The image of our number of vending machines is shown at the lower right. Until FY2017, the number of machines had remained unchanged for ten years, but since FY2018, particularly after second half of the year, it has been declining, mainly in rural areas, due to the shortage of the labor force. Our urgent goal is to return to the previous level by the end of FY2021.

Fortunately, at the end of first half of the year, which was greatly affected by COVID-19, we were able to exceed the number at the end of FY2020. I feel that our efforts to date have begun to produce results. Going forward, we will continue to focus on maintaining and expanding the foundations of our Domestic Beverage Business and vending machine network, which is the foundation of our business.

- ▶ We have begun verification tests of a facial recognition payment service that utilizes NEC facial recognition technology
 - ✓ Useful in locations like the office where workers don't carry their wallets or phones on them
 - ✓ Allows purchases in locations like factories or data centers where workers are not allowed to take in personal belongings



Press release (July 6, 2020)

<https://www.dydo.co.jp/corporate/news/> (Japanese only)

- ▶ Anti-viral measures for vending machines
 - ✓ Parts of vending machines that customers touch are receiving an anti-viral coating



- Coating will be applied to the areas indicated by red boxes
- Vending machines that have been treated with the anti-viral coating will display this sticker



Press release (August 25, 2020)

<https://www.dydo.co.jp/corporate/news/>

In developing new vending machines, the appeal of the vending machines themselves will also become important.

In addition to promoting initiatives for future vending machines, such as conducting demonstration tests of face recognition payment services in collaboration with NEC, we will also focus on developing vending machines that can be selected in terms of hardware by progressively implementing anti-virus measures for all operating vending machines in order to ensure that they can be used with peace of mind.

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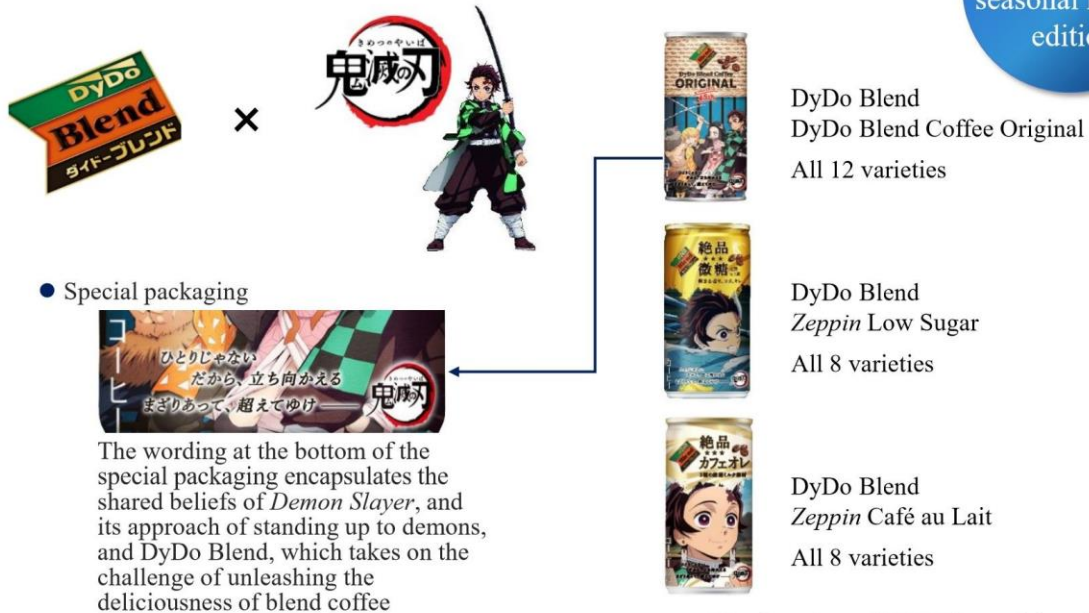
(1) Domestic Beverage Business

Product Strategy for Autumn/Winter FY2020



- ▶ To commemorate 45 years of DyDo Blend Original from the DyDo Blend range, we collaborated with the hugely popular TV anime *Demon Slayer* (*Kimetsu no Yaiba*)
- ▶ We plan to invigorate the stay-on-tab canned coffee market

October 5:
Launch of
seasonal limited
edition



©Koyoharu Gotoge/SHUEISHA, Aniplex, ufotable

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In this fall, we will launch a collaborative product with a popular TV anime, *Demon Slayer* ("Kimetsu no Yaiba").

We are working to revitalize the SOT canned coffee market by introducing products such as low-sugar-type products, which are in trend, and cafe-au-type products, in addition to our famous DyDo Blend Coffee Original, which marks the 45th anniversary of its launch.

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(1) Domestic Beverage Business

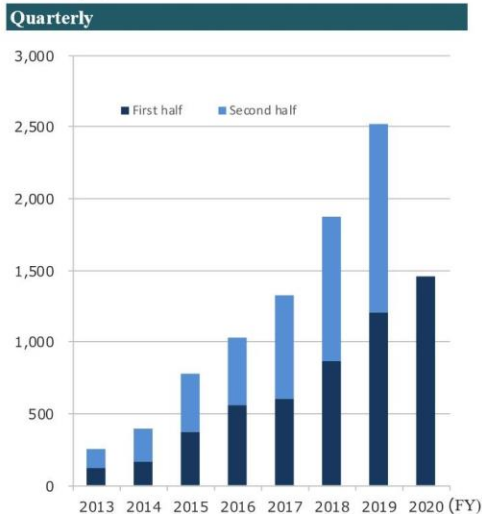
Progress in the Home Shopping Sales Channel

► There has been steady growth in the home shopping sales channel

- ✓ The number of regular customers has steadily increased, and growth continues in both sales and profit
- ✓ We have enhanced measures that target new customers and ensure that they become regulars

● Changes in sales in the home shopping sales channel

(Millions of yen)



● The flagship channel product, “Locomo Pro,” is driving the growth of the customer base



The flagship product is advertised online, and via TV and newspapers, and has helped us acquire new customers



We’ve created stronger relationships with our customers through communication, such as through our members club magazine or the points system



Established customer base, growth in sales and profit



Page 35 shows the progress of the supplement mail-order channel. Both sales and profits continue to grow. The number of regular customers is steadily increasing as a result of steady communication with customers.

(2) International Beverage Business Overview by Segment

- ▶ We have factored in the impact of COVID-19 on the second quarter, the decreasing value of the Turkish lira, and the slump in sales in Malaysia into our performance outlook

(Millions of yen)

	FY2019 2Q results		FY2020 2Q results				FY2019 results		FY2020 outlook			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	8,009	—	6,769	—	(15.5%)	(1,239)	16,004	—	13,200	—	(17.5%)	(2,804)
Operating profit	240	3.0%	48	0.7%	(79.8%)	(191)	(95)	(0.6%)	(53)	—	—	42
Amortization of goodwill, etc.	107	1.3%	90	1.3%	(15.7%)	(16)	210	1.3%	196	1.5%	(6.5%)	(13)
Operating profit after subtracting amortization of goodwill, etc.	133	1.7%	(41)	(0.6%)	—	(174)	-306	(1.9%)	(250)	—	—	56
Turkish lira	¥19.63		¥16.55		(¥3.08)		¥19.26		¥15.00		(¥4.26)	
Malaysian ringgit	¥26.72		¥25.42		(¥1.30)		¥26.39		¥25.50		(¥0.89)	

(Accounting period under review: January 1 to June 30)

Review of the first half of FY2020 and future outlook

- ✓ Since June, the Turkish economy has been starting to recover, while economic activity in Malaysia has been delayed
- ✓ We have reviewed our forecast for the exchange rate with the Turkish lira (the original forecast of ¥18 to the lira was changed to ¥15)
- ✓ We have factored in a drop in sales resulting from slow recovery of the Malaysian economy

Issues and future actions

- ✓ We will work to secure profit in the Turkish beverage business through cost controls
- ✓ We will pay close attention to the Malaysian beverage business

Changes in exchange rates



Next is the International Beverage Business.

I will explain about Turkey, which is the core, and Malaysia in the next slide.

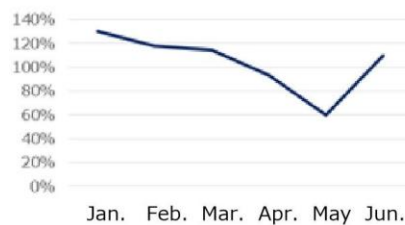
(2) International Beverage Business Overview of the Turkish Business

▶ In the first quarter, business went well, but in the second quarter the impact of Covid-19 is apparent

- ✓ Sales in the local currency for the second quarter fell 15% year on year (a cumulative total of -1.3%)
- ✓ As the Covid-19 pandemic has spread, the Turkish lira has continued to lose value. Raw materials have shot up in price, and it is currently very difficult to pass on that increase to the sales price. We will work to secure profit through cost-cutting measures and improvement to work tasks
- ✓ Work on exporting to the UK and Russia has been delayed
- ✓ The full-year outlook on a local currency basis supports our initial calculations

Local-currency-basis results			1st quarter	2nd quarter	3rd quarter	4th quarter	Year
FY2020	Sales, YoY	Quarter	+19%	(15%)			(1%)
	Exchange rate (JPY per TRY)	Cumulative results	17.48 yen	16.55 yen			15.00 yen
FY2019	Sales, YoY	Quarter	+30%	+17%	+2%	+15%	+14%
	Exchange rate (JPY per TRY)	Cumulative results	20.57 yen	19.63 yen	19.40 yen	19.26 yen	19.26 yen

● Changes on a local currency basis compared to the same month last year



Mineral water brand, "Saka"

First, the Turkish Business. In Q2, sales decreased significantly in May due to the impact of COVID-19. However, sales began to recover from June, resulting in only a slight decline in cumulative sales.

For the full fiscal year, we are working to reduce costs and improve operations, and the initial forecast is maintained on a local currency basis. Revenues and profits are expected to decrease on a Japanese Yen basis due to revisions to the assumed exchange rates in light of the current exchange rate trends.

- ▶ We dissolved our joint venture with Mamee-Double Decker, and made the sales company into a wholly-owned subsidiary

2015

Invested in the soft drinks department of a major local confectionery manufacturer and launched the Malaysian business (51% ownership of the sales company, 49% of the manufacturing company)
Utilized our joint venture partner's sales network, and predominantly sold existing brands

2018

Increased ownership of the sales company (to 90%), and strengthened development of original brands

2019

Dissolved the joint venture, and gradually shifted to handling our own brands

2020

We aim to increase revenue and improve profitability by expanding sales of our own brands

- ✓ While our initial moves went well, the impact of COVID-19 means that even after the Malaysian government rescinded its movement control order sales have continued to drop
- ✓ Our forecast predicts that with the market in the situation it is, and with a normal situation seemingly distant, it will take time to recover sales



Yogurt drink, “BeFine,” a product that has received halal certification in Malaysia

Next is the Malaysian Business.

In 2015, we entered the market as a joint venture with a major local confectionery manufacturer. In 2019, we dissolved the joint venture and gradually switched to our own brand.

In 2020, when we began full-fledged sales of our own-brand products, we made a smooth start. However, the impact of the spread of COVID-19 has been significant, and sales have been declining. In addition, the recovery of the Malaysian economy is slow, and it is expected that it will take time for sales to recover.

▶ As an OEM business, Covid-19 is gradually making its presence felt

(Millions of yen)

	FY2019 2Q results		FY2020 2Q results				FY2019 results		FY2020 outlook			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	5,753	—	5,409	—	(6.0%)	(343)	11,097	—	10,600	—	(4.5%)	(497)
Operating profit	358	6.2%	(63)	(1.2%)	—	(421)	210	1.9%	(440)	—	—	(650)
Depreciation expenses	249		518		108.2%	269	696		1,200		72.4%	503

(Accounting period under review: January 21 to July 20)

Review of the first half of FY2020 and future outlook

- ✓ The decrease in beauty drinks orders for export products destined for China through TCI that has resulted from the spread of Covid-19 has had a major impact and orders for products for the domestic market have also fallen
- ✓ With the new pouch line at the Nara Plant (installed in September 2019, began operations in February 2020) and completion of the Kanto Plant (October 2019, began operations in July 2020), depreciation expenses rose
- ✓ As a result of people avoiding going out, and working from home, sales at our customers' stores decreased. Stock at warehouses and other storage facilities have piled up, and this will continue to have an impact on our performance in the third quarter
- ✓ Beauty drinks for the Chinese market are facing increasingly fierce competition in China, and their future seems unclear

Issues and future actions

- ✓ We will aim for efficient operations at both the Nara and Kanto Plants and across four production lines, and focus efforts on receiving orders
- ✓ We will undertake initiatives to enhance our quality control system and to strengthen our internal affairs, such as by improving our production technologies. We will also work on enhancing our corporate essence

Next, the Pharmaceutical-Related Business.

The pouch line at the Nara Plant began operations in February, and the new Kanto Plant in July. Despite certain limitations in sales activities due to COVID-19, we receive many inquiries for pouch-type products that went into operation last year. We will steadily proceed with business negotiations and developments.

In addition, the workplace, where the operating rate has remained close to 100% in recent years, could take time to work to strengthen the internal structure, for example by upgrading the quality control system and strengthening production technologies.

Taking this opportunity, we will further strengthen our corporate structure, in order to further strengthen our position in the industry by leveraging the increased manufacturing capacity that we have acquired through the completion of the Kanto Plant.

- ▶ The impact of Covid-19 has been relatively minor, and our solid performance is forecast to continue in the future

(Millions of yen)

	FY2019 2Q results		FY2020 2Q results				FY2019 results		FY2020 outlook			
		Component ratio		Component ratio	% (YoY)	Amount (YoY)		Component ratio		Component ratio	% (YoY)	Amount (YoY)
Net sales	11,268	—	11,184	—	(0.7%)	(83)	20,643	—	20,700	—	0.3%	56
Operating profit	750	6.7%	1,033	9.2%	37.8%	283	816	4.0%	1,122	5.4%	37.4%	305
Amortization of goodwill, etc.	176	1.6%	176	1.6%	0.0%	0	352	1.7%	352	1.7%	0.1%	0
Operating profit after subtracting amortization of goodwill, etc.	574	5.1%	857	7.7%	49.4%	283	464	2.3%	770	3.7%	65.7%	305

(Accounting period under review: January 1 to June 30)

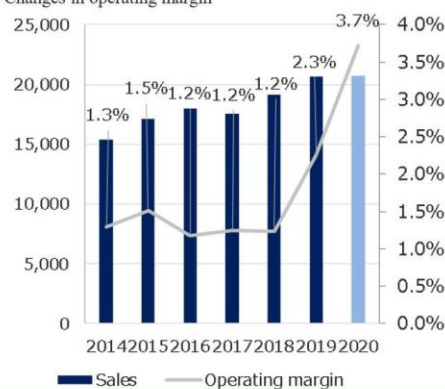
Review of the first half of FY2020 and future outlook

- ✓ Sales in the convenience store channel have decreased as the number of visitors to the stores has dropped. This decrease is negated, however, by increased sales in supermarkets and other volume retailers
- ✓ Due to a decrease in the cost of sales and changes in the mix of sales channels we use, sales promotion expenses were lower (our performance outlook has been amended to reflect this) and our profit higher

Issues and future actions

- ✓ We will continue with initiatives to increase productivity and aim to increase our revenue power

Changes in operating margin



Next, we will focus on the Food Business.

In first half of the year, we secured an increase in profits by reducing costs and controlling sales promotion expenses. We expect operating profit to grow significantly in terms of the full-year outlook as well.

As shown in the graph at the bottom right, our profit margin has been rising steadily in recent years. We will continue our efforts to improve productivity and aim to further strengthen profitability.

- ▶ A return to the original medicine business to resolve societal issues

March 2018

Announced our entry into the orphan drug business



Employed specialists with proven results in the healthcare industry

January 2019

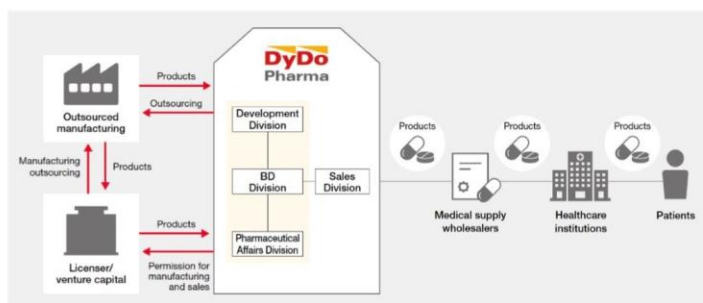
Established DyDo Pharma, Inc.

August 2019

Began business activities

● DyDo Pharma business model

- ✓ Aiming to develop and receive approval in Japan for pharmaceuticals that have been developed abroad
- ✓ Contract manufacture of pharmaceuticals to outside organizations for a lean business model

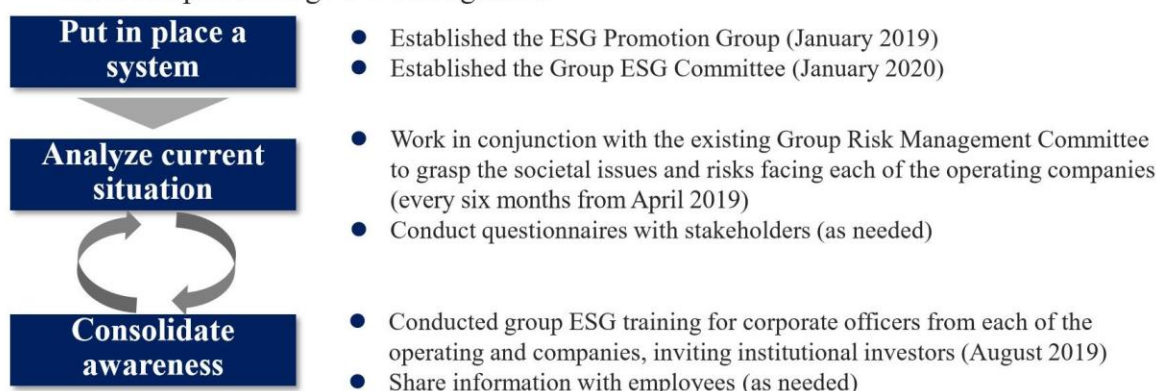


Finally, I will explain about DyDo Pharma of the Orphan Drug Business, which we newly entered.

This is a business model that aims to introduce a new drug, which is already being developed overseas, into Japan. Since its launch in August last year, a specialist team made up of members from pharmaceutical companies has been evaluating seeds. We would like to make an announcement when this will be realized.

(1) Aiming to Increase Corporate Value by Promoting ESG Management

- ▶ We are working to increase corporate officers' and employees' understanding as a step toward implementing ESG management



- ➡
- ✓ At DyDo, the concepts espoused by ESG management have always been part of our corporate culture, evident in our spirit of striving for happiness and prosperity together
 - ✓ In the future, alongside reacquainting ourselves with the links with our businesses, we will foster an awareness of the need for reforms that match the external environment

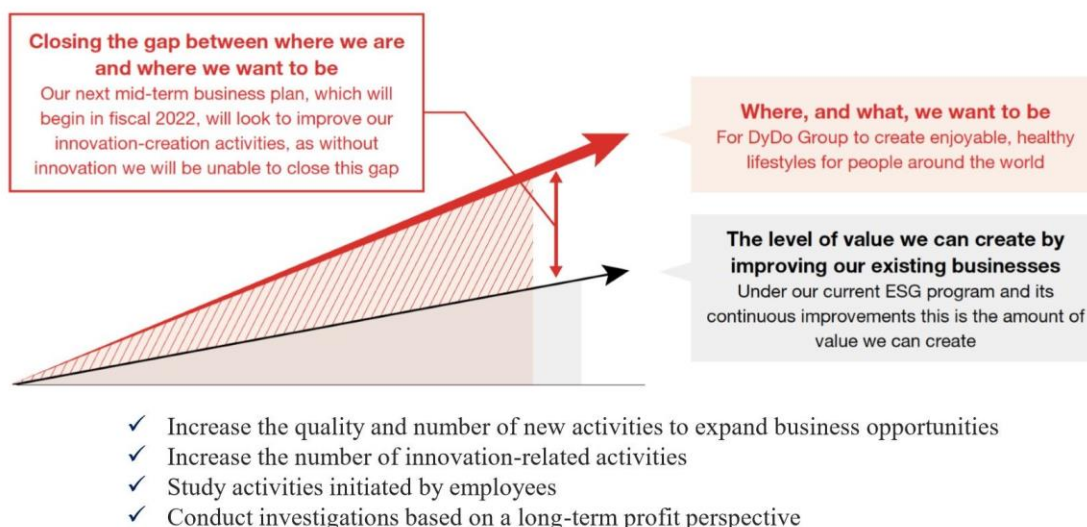
Finally, I would like to talk about our efforts toward achieving sustainable growth.

We established the ESG Promotion Group and the Group ESG Committee in order to improve corporate value through the promotion of ESG management and established an organizational structure. We are currently at the stage of analyzing the current situation and standardizing the awareness of executives and employees with regard to it.

As a company that has grown based on the spirit of coexistence and co-prosperity, the ESG philosophy itself is firmly established as a corporate culture. In the future, we will be aware of the relationship between “E” and “S” in particular and our business, and will work to foster a strong mindset that will transform our business according to the risks and opportunities arising from changes in the external environment.

(1) Aiming to Increase Corporate Value by Promoting ESG Management

- ▶ There is a gap between the value that can be created by taking the approach outlined in Group Mission 2030, “For DyDo Group to create enjoyable, healthy lifestyles for people around the world,” and the value that can be created by merely improving our existing businesses
- ▶ By accelerating initiatives aimed at innovation, we can close that gap
- ▶ To create a system to promote such initiatives, we established the ESG Committee in January 2020



At present, we are working toward realizing the Group Mission 2030, but there is a gap between the goals set in this vision and the value created by the extension of existing businesses, and it is necessary to implement measures with something extra.

While each business segment is working diligently to reduce the risks arising from changes in society, there is still a need to raise awareness of expanding opportunities.

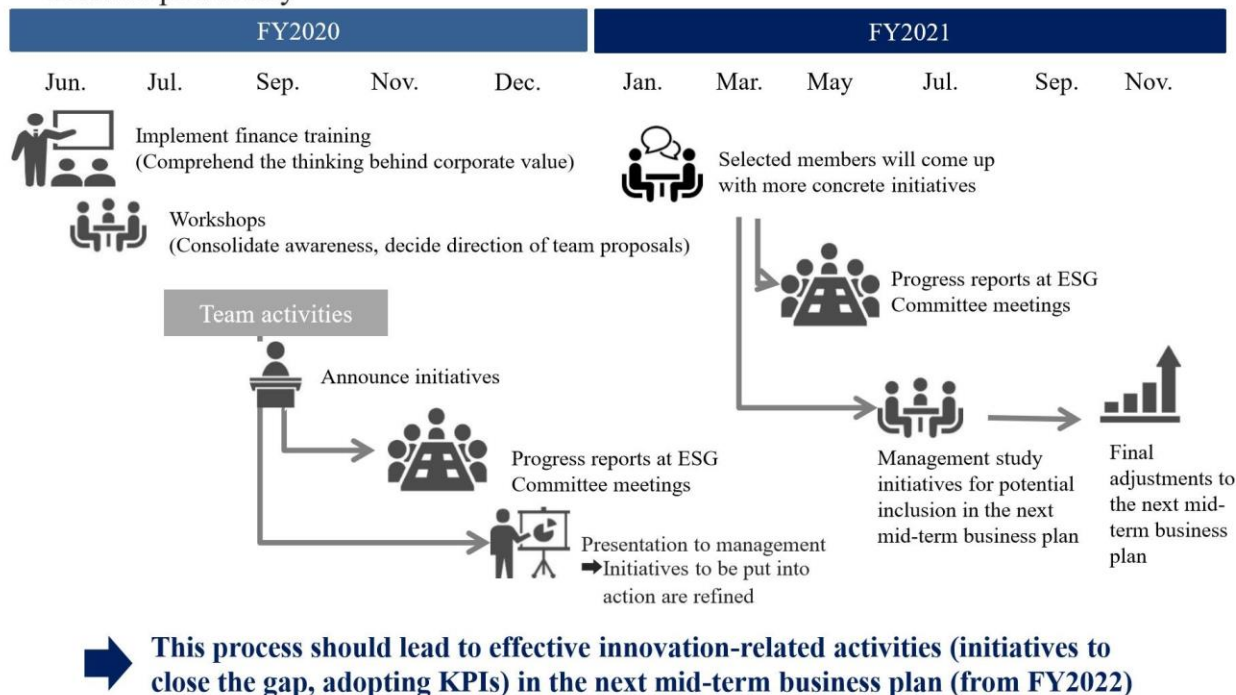
We need to fill this gap by accelerating innovation, and we have established the ESG Committee as a mechanism to promote it.

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(2) Initiatives to Bring About ESG Management (Next-generation Workshops)

- ▶ Employees who will be the next generation of managers look at ways to close the gap outlined previously



To achieve this, we believe it is important to incorporate ideas that will lead the next generation. Accordingly, people in their 40s are examining measures. Together with these measures and the measures discussed by the ESG Committee, in the next Mid-Term Business Plan starting in FY2022, we intend to enhance our innovation-related activities and introduce KPIs to fill the gap.

Changes in the business environment and the pinches caused by these changes are also opportunities for innovation. Moreover, as this time is a major change, it is a major opportunity.

By responding flexibly to these changes and taking advantage of change, we will work toward our Group Mission 2030 "For DyDo Group to create enjoyable, healthy lifestyles for people around the world."

We look forward to your continued support.

Question & Answer

Q. I would like to confirm the direction of your vending machine strategy once again. I think other companies that greatly reduced their sales volumes from vending machines are seeing a new direction toward the reform of vending machines, such as accelerating the withdrawal of unprofitable vending machines, seeking to partner alliances, and so on.

What impact do you think the direction of other companies will have on your vending machine strategy? Please tell me about your thought in detail.

A. Regarding the future direction of the vending machine strategy, our basic stance will remain unchanged, and we will work to increase the number of vending machines and improve profitability.

Certainly, the impact of COVID-19 has certainly led to a significant drop in sales in some locations. One of our strengths is, however, that we have a foundation in local areas while we have vending machines nationwide. Therefore, the impact of COVID-19 has been relatively small compared to other companies.

Despite these circumstances, while analyzing the current sales trends, we are currently revising our targets for new locations. However, there is no change in our policy of expanding this business model by increasing the number of machines and improving top-line operations, while advancing the establishment of smart operations to further raise productivity and generate stable cash flows on an ongoing basis.

Some manufacturers have referred to alliances with other companies, but we have not changed our stance significantly due to the impact of COVID-19. Basically, if in the form that we have the initiative, we will consider it.

Nonetheless, we have made steady progress in the development and testing of smart operations as planned, and in the coming fiscal year we will expand our operations nationwide. First and foremost, at the present time, we will prioritize the completion of nationwide in-house deployment of Smart operations.

This may also be related to the second question, but if this smart operation can be deployed nationwide, it may be an option to collaborate with other companies, restructure the industry, or absorb operators. We believe that smart operations have the potential to bring our business into a scheme that ensures profitability even if we incorporate sales of products of other companies. First of all, we would like to give priority to this issue.

Q. I would like to ask about the vending machine operators. To be honest, all of vending machine operators are in the hot seat. Are such moves, such as the restructuring of operators and their incorporation, actually taking place?

Also, as your Company has the DyDo Vending Partner Association, do you need to address the issue with regard to it? I would like to confirm whether or not these changes are emerging.

A. It is true that some operators and our DyDo Vending Partner Association are becoming increasingly difficult to manage due to the impact of COVID-19. This has not resulted in a crisis where restructuring or closing business are needed.

Nevertheless, we expect the effects of COVID-19 to continue to some extent in the future, so we need to keep a close watch on the environment. As I just mentioned, it is not enough simply to incorporate the sluggish business. Therefore, we intend to improve productivity thorough our own Smart operation system, and then, as the next step, we will consider expanding the scale of our business.

Q. The third is the number of vending machines. You told us that the number of vending machines has increased. Please tell us the background to this increase, the background to the jump up towards 2021.

A. The number of vending machines in operation began to increase from around April of this year. As we have always mentioned, one of the major factors behind this is that we have finally achieved results by strengthening our sales structure and focusing on recovering the number of machines in operation.

We have increased the number of sales representatives, including mid-career hires, and these efforts are progressing as planned. In the past, we have worked to raise our sales skills by deploying such sales skills of problem-solving sales activities for our customers throughout the company. As a result, the number of new machines acquired per employee has dramatically increased compared with the previous year.

While the COVID-19 pandemic since April has made it difficult for us to engage in face-to-face business negotiations, we have been able to increase the number of machines. I believe that this is a result of our efforts we made so far.

In order to raise efficiency and productivity, we have distributed mobile PCs to all salespeople and introduced a management system to thoroughly manage sales activities. Even when the impact of COVID-19 began to materialize, the results of the efforts to engage in online business negotiations with customers, or to conduct sales training at on-line meetings have been steadily emerging.

Q. Excluding the impact of the change in the useful life of vending machines, the segment will post a loss for the full year. For the second half of the year, you said investments in Healthcare are also incorporated, but even after taking into account the effects of the change in useful lives, you expect a deficit. Is the outlook of the business performance so severe?

A. As you pointed out, we were able to maintain profitability by changing the useful life of vending machines and changing the method of recording depreciation expenses in the period under review. Excluding the impact of this, our financial results were extremely severe.

Again, sales have declined due to the impact of COVID-19. The decline in gross profit had a significant impact. For the time being, the impact of COVID-19 will continue, so in order to maintain profitability, it will be necessary to cut fixed costs and review our expenses in order to overcome the difficulties.

In the medium term, as I mentioned earlier, the Company is aiming to improve profitability by significantly improving productivity through the establishment of smart operations. By continuing to focus on increasing the number of vending machines that form the foundation for sales, we aim to recover the top line as well. We will focus our efforts on fundamentally improving profitability.

Q. The effect of depreciation expenses will remain for the time being, and the market is expected to normalize somewhat in the next fiscal year. How will the balance be between upfront investments and profits, such as in Healthcare?

A. We made the forecast incorporating a relatively large amount of investments in the Healthcare field in the second half of the year.

The Company intends to continue these investments to some extent in the next fiscal year. This is based on the assumption that we will recover the results of the Vending Machine Business, which has a strong cash-generating capacity, in order to recover cash flows. This is the major premise.

Therefore, there will be somewhat a reaction to this year's increase in the next fiscal year. But as President mentioned earlier, we will strengthen the vending machine installation and raise the top-line, and, conversely, reduce fixed costs by developing smart operations. Through these efforts, the Company will strongly restore its ability to generate cash and invest in the Healthcare field. We intend to establish such a balance.

Q. Whether operating profit will exceed JPY5 billion, because it will be positive as a reaction to the decline in gross profit of JPY3.9 billion in the current fiscal year.

A. Frankly to say, the operating profit forecast for the next fiscal year will still be formulated in the future. We are not able to answer the specific numbers. However, as I mentioned earlier, basically in the Domestic Beverage Business, we will strive to recover profits and increase our ability to generate cash flows. However, as I mentioned earlier, we will also invest in smart operations in the next fiscal year, and also in the Healthcare field.

While balancing these points, we should look ahead to the future while consolidating our current earnings, as we can lead to optimal targets and future growth. We intend to make this type of budget.

Q. Would you tell us about your revised operating cash flow and capital expenditure plans for the current fiscal year?

A. I will continue to answer the question. Please refer to page 24 of the material. Although we do not present this in the form of the revised cash flow plan, we assume that operating profit will be JPY1.8 billion and depreciation expenses will be JPY6.83 billion for the full year. If you add up, the figure will be JPY8.6 billion, so I think that around this is the expected annual operating cash flow.

We have made no major changes to the capital investment plan from the beginning of the fiscal year.

Q. Monthly sales in August also remained negative, but sales of coffee products through vending machines were positive. What was the big background for this?

A. The monthly sales volume in August is less than the previous year in total, but if we limit our sales from coffee beverages through vending machines, we can see a positive result. Since this is for a single month, there are uncertainties.

First, I think there are weather factors compared to the previous year. August is usually a difficult month to sell coffee, but it had been rainy for a relatively long period in the first half of August. There is a possibility of such an effect.

Another reason is that sales through vending machines are on a recovery trend. In particular, sales in the local market are relatively strong. There are areas where there are more fans of coffee where we are strong. We believe that these factors may have had an impact.

Q. Please explain specifically what kind of digital transformation will be achieved by using IoT for vending machines. In addition, please tell us which IT company you are jointly developing with.

A. Regarding the specific details of the IoT introduction for vending machines, we will put all vending machines on line so that sales data can be obtained in real time. Based on this, we will optimize the cycle of appropriate replenishment routes and the product lineup based on data.

In addition, related to the Smart operation, in order to replenish the vending machine, the standard operation method has been to check the sales data in front of the vending machine and pick out the necessary products from the truck.

In the future, we will receive sales data from online vending machines in advance, and only the required number will be picked up in advance at the warehouse. As a result, without the picking out in front of the vending machines, the replenishment operation will be simple. We aim to increase the productivity of our vending machine operations by 1.5 times, and we are currently considering a system that can improve productivity.

It's not clear whether this is a DX, but sometimes in the time between the time that sales data are obtained and the time that the machine is replenished, products can be sold. We are currently in the process of constructing a picking data that automatically calculates sales forecasts based on the time and reduces the gap between the forecast and the actual number to be replenished as much as possible.

I am sorry I cannot tell you specifically which company we are developing with at present.

[END]

Disclaimer

These materials were prepared by DyDo Group Holdings Inc. as a summary of questions asked and answers provided concerning the Group's financial performance in the FY2020 (Year Ending January 20, 2021) 2nd Quarter from the standpoint of fair disclosure.

The plans, future projections and strategies for the DyDo Group stated in this document, with the exception of past or current facts, are projections of our future performance, and are based on the judgment and postulations of our management team based on the information available at the present time. Accordingly, the actual performance may differ greatly from these due to unforeseen factors, the economic situation and other risks. This document is not intended to solicit any investment. Please use your own judgment when making investment decisions.