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August 27, 2020

DyDo Group Holdings, Inc.
Questions and Answers Concerning
the Group's Financial Performance in the FY2020 (Ending January 2021) 2nd Quarter

Q1: 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.

A1: 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.

Q2: 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.

A2: 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.

Q3: 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.

A3: 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.

Q4: 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?

A4: 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.

Q5: 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?

A5: 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.

Q6. 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.

A6. 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.

Q7. Would you tell us about your revised operating cash flow and capital expenditure plans for the current fiscal year?

A7. 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.

Q8. Monthly sales in August also remained negative, but sales of coffee products through vending machines were positive. What was the big background for this?

A8. 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.

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