

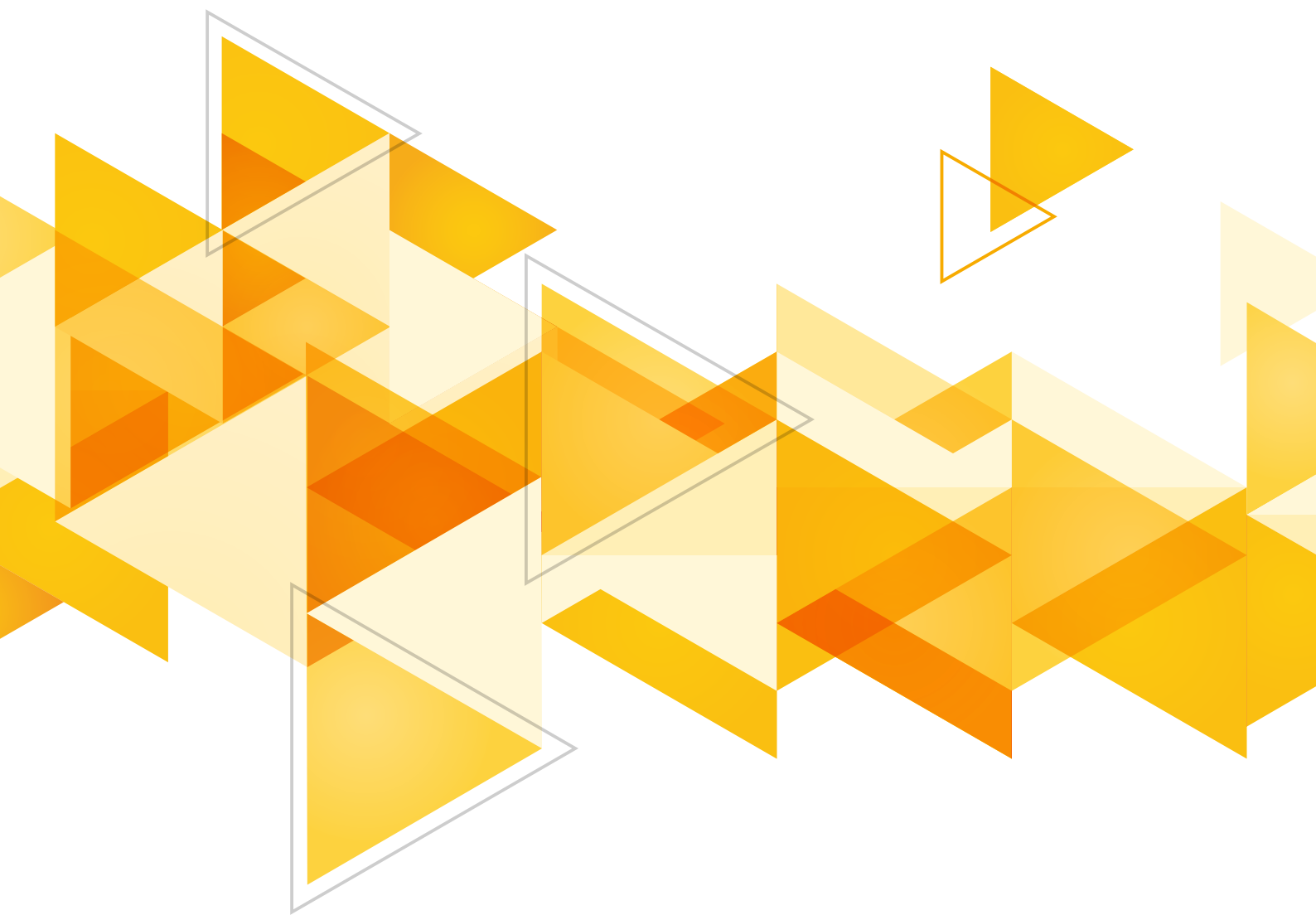
こころとからだに、
おいしいものを。



Offering delicious products
for sound mind and body

DyDo Group Holdings

Integrated Report 2021



DyDo Group Corporate Philosophy

Creating happiness and prosperity, together with people and with society.

To achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way.

DyDo Group Corporate Vision

Together with our customers.

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

Together with society.

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

Together with the next generation.

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

Together with our people.

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

DyDo Group Slogan

こころとからだに、
おいしいものを。



Offering delicious products
for sound mind and body

The commitment behind our slogan

If the mind is full of energy, the body wants to be active.
If the body moves with positivity, this links to the greater happiness of the mind.

The DyDo Group is committed to bringing this joy to the minds and bodies of our customers.

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

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

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.

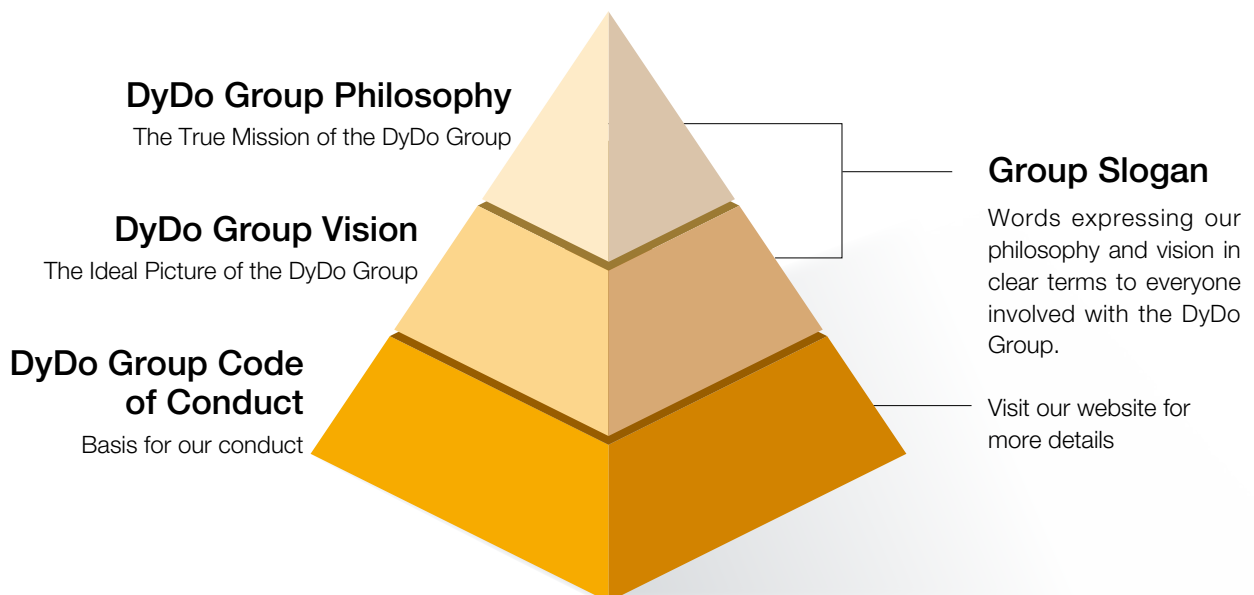
Together with our people.



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.

DyDo Group Philosophy System



Editorial Policy

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

In January 2019, we announced Group Mission 2030: "For DyDo Group to create enjoyable, healthy lifestyles for people around the world." The COVID-19 pandemic period has seen massive change to the social environment, and companies' initiatives to make society more sustainable now draw a great deal of attention. Those things may have changed, our direction has not. We do believe, however, that we should accelerate our efforts further.

This report has been compiled to act as an integrated source for information on the DyDo Group, intended to disclose the group's current thinking on Group Mission 2030: our corporate philosophy, our business models, strategies, and the interrelationship between the ESG issues we must tackle.

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

July 2021

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



The Period to Which This Report Applies

In principle, this Integrated Report pertains to activities in fiscal 2020 (the period from January 21, 2020 to January 20, 2021), however, where DyDo Group Holdings has deemed it necessary to deepen our investors' understanding, it also contains pertinent updates and additions concerning more recent activities and information.

Statement Regarding Use of Forward-Looking Statements

DyDo Group plans, outlooks, strategies, etc., that are contained in this Integrated Report and that make statements pertaining to matters other than past or present facts are forecasts of future performance and are based on reasonable judgments or hypotheses by DyDo Group Holdings management, which are made in accordance with information available as of May 26, 2021. Such statements may contain known or unknown risks, uncertainties, and other such elements, and do not guarantee the future of such plans or forecasts. Such risks, uncertainties, and other such elements include the contents of DyDo Group Holdings' latest securities reports and quarterly reports, and DyDo Group Holdings shall bear no obligation whatsoever to publish updates or corrections to forward-looking statements. Please use this Integrated Report and other materials disclosed by DyDo Group Holdings with reference to information obtained from other sources and make your own conclusions and judgments. DyDo Group Holdings bears no liability whatsoever for any damage that may arise as a result of this Integrated Report.

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The Beginnings of Change in Corporate Culture and Continued Transformation



Tomiya Takamatsu
President and Representative Director

Today's Business Model, Underpinned by Our Founding Philosophy

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

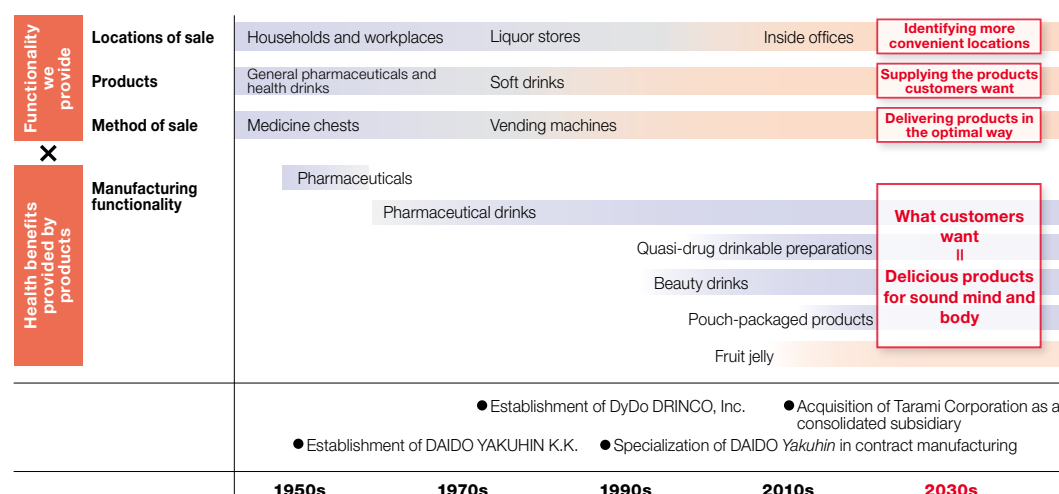
However, the spark that really ignited the group's growth was the vending machine business, now the core of our operations. Japan's rapid economic development in the 1970s brought a sudden increase in road traffic, and we focused on a new demographic, truck drivers. We installed showcases full of our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

Thus, although our evolution from the "use first, pay later" medicine business to the vending machine business may appear to be a significant change in our business model, we see it as a continuation of the same business practice: that is, 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 packers to whom we outsource drink production, the owners of the locations where we place our vending machines, 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.

Changes in DyDo Group's business and future goals



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. Within our group, which has shown growth in the vending machine business over a number of years, there was an attitude that if we continue in this same fashion, that things would turn out well. 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 corporate culture. The Group Philosophy also expresses the spirit of striving to achieve happiness and prosperity together that has been with us since our founding.

Change Has Accelerated under COVID-19

Transforming a corporate culture is not easy, and although the initiatives instituted in my time are gradually starting to take effect, there have been times when progress has felt elusive. 2020 was indelibly marked by the havoc caused by COVID-19, and while the coronavirus did at one stage impact our business negatively, that was also the year in which I could feel the great changes within DyDo Group employees. It was a year that seemed longer than usual, but also a rewarding one in which employees and management alike recognized the opportunities presented by the changes in the world, and dared to act on them.

In Japan, after the first cases of COVID-19 were confirmed, anxiety gradually became prevalent among the public. I myself felt considerable unease about the future of the DyDo Group’s business. Although vending machines involve no personal contact, without our employees and the Kyoekai to carry out vending machine operations, our vending machine business would grind to a halt. Concerns like that made executive decisions painfully hard at first, but when the first State of Emergency was declared in April 2020, the government decree that drinks and food businesses must continue to operate galvanized awareness of our role as a vital lifeline and reinforced our sense of mission. Sales declined amid the chaos, but watching the daily figures allowed us to estimate where the market would bottom out and allowed us to pursue our business confident in the knowledge that there was a future for us.

Since becoming president, I have constantly said that environmental changes are ideal opportunities for business transformation, but the social change wrought by COVID-19 has been unlike anything we have ever experienced. The sudden shift in thinking and behavior among people throughout society left us in a tough spot; the pervasive unease was shared by DyDo Group employees, and it appeared that many other companies had been stopped in their tracks by the coronavirus. Following the declaration of the first State of Emergency in April 2020, I took to spreading the message inside and outside the group that these major upheavals represented significant chances for us. At the same time, I instituted changes in working practices. Following an in-depth review of our personnel system, we kept shifts for frontline operations as these are an effective way to ensure business continuity, but instituted changes in other areas, including teleworking for office-based workers, and traveling directly to and from sales calls and online meetings for sales staff. We intend to continue with new workstyles even after the world returns to post-COVID-19 “normal.” (See **P19** for more on our new workstyles.)



As part of my monthly message to employees via the intranet, I have been reporting on the positives of the new system, including beneficial outcomes we have noticed, the results of online sales calls, and the good things that have happened as a result of those changes. The outcomes of these initiatives are easily recognizable for being undertaken when change was inevitable, but even so, after having said so many times that being ready to respond flexibly will bring big opportunities, I must admit it is nice to see the appearance of tangible benefits changing the atmosphere within the group's companies.

For example, vending machine numbers had declined steadily in accordance with the shrinking market in recent years, but we succeeded in increasing machine numbers in fiscal 2020, leading to new confidence among staff that we can sustain that trend. The sales staff who seek out new vending machine locations have long striven to avoid simply competing on price by presenting vending machines as a solution to the issues and challenges faced by clients. This is painstaking work that involves earning the trust of their counterparts at client companies, for instance by listening to their concerns and suggesting ways we can help. In this way, we hope to inspire clients to actively want a DyDo vending machine. It is normal for years to elapse between the first meeting and installment of a machine, and it takes real strength to come up with different approaches to see a prospect through to sale. Here in Japan, companies are still struggling to find ways to work and pursue their business amid the COVID-19 havoc, but our early adoption of remote working and revised in-house systems allowed us to adapt. Because our clients' worries regarding new workstyles are issues that we ourselves have also dealt with, we are able to suggest ideas that can help them achieve solutions. I believe it is our task to convey to clients the lessons of our experiences, and we are working hard at our sales activities to build and maintain client relations through a variety of methods that do not require in-person contact, such as web conferencing, email, and telephone. Boosting vending machine numbers despite the COVID-19-enforced restrictions on sales and marketing activities is not only a welcome success in difficult times, but is also proof of our improved sales capabilities. I am proud of the way our people refused to use personal contact restrictions as an excuse to give up and sought their own paths to close the deal.

To my mind, the transformation we are seeing cannot be simply ascribed to changes made necessary by COVID-19; the seeds were sown over time. For instance, the gradual internalization by employees of my constant encouragement to seek out new challenges and our gradual testing of telework with a limited pilot group prepared the way for broad acceptance of change. Our staff have experienced first-hand how repeated incremental changes, where we tried some adjustments when change became necessary and were encouraged by the success of those attempts to try further adjustments, enabled us to stay ahead of the curve. In that way, I think our ability to navigate the upheaval caused by COVID-19 has added further momentum to the transformation of our corporate culture.

Group Mission 2030

For DyDo Group to Create Enjoyable, Healthy Lifestyles for People around the World

Although vaccine development and vaccination programs are providing some hope for an end to COVID-19, there is as yet no way to predict exactly how the coronavirus will be brought under control and how the world will change. And yet, despite the magnitude of COVID-19's impact on society, our determination to realize Group Mission 2030 remains unchanged. To that end, in January 2019, we established the DyDo Group Philosophy, a vision of where we want to be a little way in the future: "For DyDo Group to create enjoyable, healthy lifestyles for people around the world."

Group Mission 2030 was born from our keen awareness that simply doing the same thing raises the risk of corporate stagnation and decline. 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, 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 order to achieve sustainable growth even amid these times of unprecedented change, Group Mission 2030 was formulated to articulate our vision of where we want to be a little way in the future and the importance of pursuing great transformation, not simply thinking about our work as an extension of what we have already done.

Mid-term Business Plan 2021: A Roadmap for Transformation

Group Mission 2030 sets out the mission we aim to carry out by 2030, divided into four main categories, as well as a roadmap for achieving it. We will also work to correct the current bias of our portfolio toward the Domestic Beverage Business so that it better balances our three basic policies: innovation in the Domestic Beverage Business, expansion of our business overseas, and development of a second major source of revenue in non-beverage businesses.

To ensure we achieve the goals of Group Mission 2030, 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. 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."

For the Platform-strengthening and Investment Stage, we established Mid-term Business Plan 2021, which stipulates a four-pronged investment strategy. First is to establish a smart operation structure* in the Domestic Beverage Business through IoT investments aimed at streamlining operations in our core vending machine business. The other three—establishment of new production facilities and pouch lines in the Pharmaceutical-related Business, M&A investments in the healthcare sector, and investments in launching the orphan drug business—are aimed at erecting a second major source of revenue in the healthcare sector that blends well with our existing businesses.

*Coined by DyDo; refers to an efficient operational structure

Solid Progress on Transformation in the Domestic Beverage Business

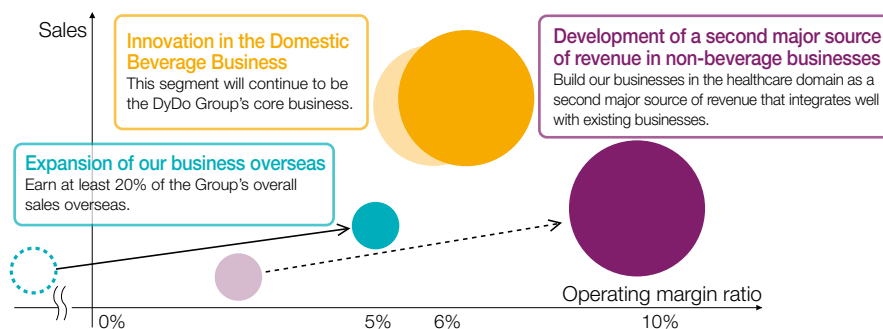
We have been working with particular urgency on the Domestic Beverage Business. Our business model of offering the products customers want in the closest and most convenient location is the core of the DyDo Group's business; it plays to our strengths and serves as the chief source of cash flow. In recent years, however, our earning capacity waned as sales declined due to increased competition from stores such as convenience stores, and vending machine numbers dropped due to labor shortages.

To secure the sustainability of the group's main source of cash, Mid-term Business Plan 2021 made ensuring a competitive advantage in the shrinking vending machine market a top priority. Our quest for transformation has been given a boost by the emerging divergence of beverage companies' vending machine tactics in response to the unexpectedly rapid pace of change in the market environment, intensified by the deterioration of demand caused by changed consumer behavior amid COVID-19.

Our tasks for replenishing the Domestic Beverage Business's cash flow generating capability and establishing a competitive advantage are clear. First, we must strengthen and enhance our vending machine network through better sales activity; second, we must transform our post-installation operations relating to vending machines. In other words, we need groupwide uptake of the smart operation structure. Fiscal 2021, therefore, has been designated our year of action, a vital year for Group Mission 2030 in which we are seeking further progress in our ongoing work toward transformation.

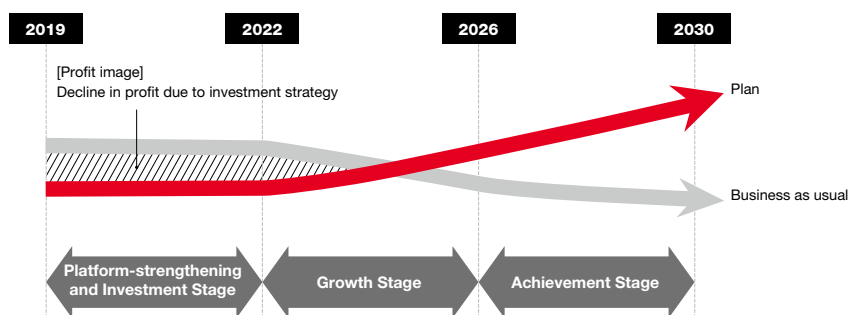
COVID-19 has caused renewed recognition of the value of vending machines as contactless "unstaffed stores." Our challenge is to ensure that they remain a helpful part of a sustainable society by using our sustainable vending machine business model to establish DyDo vending machines as an integral part of the social infrastructure. (For details on Mid-term Business Plan 2021 and our progress toward achieving its targets, see [P53-54](#))

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.

Roadmap



A Human Resources Strategy to Embody the Group Philosophy

In a time of great social transformation, sustainable growth and enhanced corporate value will require us to reaffirm our commitment to our philosophy and ensure our values are shared throughout the DyDo Group. Slowly but surely, we are developing a collective willingness to dare, a relish for challenge. If we can each sustain this mindset and internalize it as our personal default, a corporate culture capable of real innovation will inevitably emerge, and therein lies the true focus of our human resources strategy.

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 people's good and kind natures can inhibit the sense of urgency needed for a company to transform its business in turbulent times like these. Indeed, the reason I have, since becoming president, so often hammered the point that "the DyDo Group will continue to embrace new challenges in a dynamic way" is that, to be candid, I feel our collective willingness to do so is still lacking.

We have undertaken many initiatives to diversify our workforce and change attitudes with a view to encouraging internal transformation. The bulk of our workforce were those who began their careers as vending machine operations staff and are working their way up, but 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. Indeed, it seems the good traits of our workforce, such as honesty, humbleness, and flexibility are already coming to the fore.

Elsewhere, years of concerted effort began to pay off in fiscal 2020 in the form of a stronger, more extensive vending machine network. The sales work of finding new locations and convincing the owners to install our vending machines has long been performed by former operations staff, but this was insufficient in light of the volumes we sought. When we hired experienced salespeople from outside the group, our existing sales teams were skeptical that the newcomers' potential given their inexperience in the realities of vending machine sales. But combining the varied expertise of three kinds of people—long-standing DyDo DRINCO sales reps, former operations staffers with extensive knowledge of vending machines and a keen eye for locations with high sales potential, and mid-career-hire salespeople with no prior knowledge of vending machines but a solid professional record in sales—helped us establish a robust sales structure and resulted in a dramatic increase in the quantity and quality of vending machine location development.

There has also been a shift in the mindset among staff regarding our vending machine network. For instance, sustained or improved new installation numbers over the past few years could not hide a high rate of removals, which is why overall vending machine numbers declined despite those strong new installation figures. In fiscal 2020, though, removals declined and the total number of vending machines began to rise. Previously, a major factor behind removals was labor shortages among Kyoekai members, and there was a tendency toward complacency with excuses such as "Sales were poor from that machine, so no wonder," and "The client has asked for the machine to be removed, and there's nothing we can do about that." No doubt there was a lack of determination to ensure sufficient sales expansion efforts and enable DyDo vending machines to remain among the competitor's vending machines. Each and every vending machine location is a valuable asset, and the hard work of securing locations for new installments can be easily undone because removals are simple. Ideally, our efforts to halt this trend would have begun to pay off before the decline in total machine numbers from the second half of fiscal 2018 through 2019 and the ensuing drop in sales volumes, but I believe the constant extolling of the importance of minimizing removals and the eventual emergence of tangible outcomes has resulted in a major mindset shift among our frontline workers.

We have also worked to make systemic improvements. An example of this is the DyDo Challenge Award, which encourage employees to seek out and overcome challenges. There are two categories: the first is for ideas the applicant wants to pursue. Employees vote on the different proposals, and those that are selected begin the following business year. At first, most entries were focused on procedural improvements rather than challenging projects, but

in recent years, there has been an increase in entries focused on boosting corporate value. I believe that increase in scope and vision is the result of employees taking encouragement from seeing those early modest projects being taken seriously and implemented properly. The second category rewards initiatives taken over the past year that helped to increased corporate value. The 2020 winners all made significant contributions to improved business performance, including a project team that launched canned coffee products in collaboration with the TV anime *Demon Slayer (Kimetsu no Yaiba)*, a facial recognition system for cashless purchasing from vending machines, and vending machines that sell face masks and hygiene products geared for swift response to public needs relating to COVID-19. These projects' success was made possible by the irrepressible dedication of the people behind them.

I am encouraged by the emergence of young employees who display nous to come up with viable plans and guts to get the job done. As more and more of our employees are nurtured under the current corporate philosophy, I hope not only that they will grasp these "challenge" opportunities and use them to improve their skills, but also that they will be self-reliant and able to create such chances for themselves. The new ways of these youngsters and the diverse mindsets brought to our group by mid-career hires serve as a shake-up for our existing workforce, and the injection of different kinds of people will help transform our corporate culture. Indeed, I believe the successes of the past year, including the increase in vending machine numbers and the smash-hit *Demon Slayer (Kimetsu no Yaiba)* can, have set in motion a virtuous cycle. This is perhaps the first time in my presidency that there has been a palpable feeling that our culture is transforming. Cultural and organizational change takes time, and doubts can arise when progress seems slow. But we maintained our determination, and our efforts are now gaining momentum of their own.

Those who know DyDo know that our people are our greatest strength. DyDo Group employees have long been praised for their stance of striving to achieve happiness and prosperity together with stakeholders, and now we hope to add to that by earning, through constant effort, admiration for our willingness to work alongside our stakeholders in the pursuit of improved corporate value.

Pivot to Group Management

With the transformation of our vending machine business on track and a new in-house culture emerging, I felt able to hand over the reins of DyDo DRINCO to my successor in April 2021 so that I might focus my energies on the group's holding company. The need to do so had been playing on my mind ever since the group switched to a holding company structure, but I felt unable to make that move until the Domestic Beverage Business was on a steady path toward recovery. Assigning higher priority to rebuilding the vending machine business and dedicating 80 to 90 percent of my resources to the Domestic Beverage Business allowed groupwide growth strategies to stagnate somewhat. Now, though, I will concentrate on implementing the group's growth strategy, which is geared toward maximizing cash flow in existing businesses and utilizing that capital to develop growth sectors.

As a leader of the holding company, striving for more effective governance of each business including enhancement of awareness toward investment return will be one of my important roles. At times, my job will be to step on the accelerator to chase growth opportunities, and at others it will be to apply the brakes to maintain discipline; in that way, I hope to achieve an appropriate balance in my management of the DyDo Group.

Starting in fiscal 2022, we will launch a new Mid-term Business Plan. Group Mission 2030 is founded on the belief that creating a future in keeping with the Sustainable Development Goals (SDGs) set by the United Nations General Assembly—that is, a society that balances economic, social, and environmental needs—will help us achieve sustained growth. What's more, COVID-19 has resulted in intensified focus on efforts to promote sustainability throughout society. We cannot hope to achieve this simply by carrying on doing the things we have done previously. It is imperative to maintain a clear idea of the roles we can play to usher in a sustainable society. Since early 2021, we have engaged in dialogue with a variety of stakeholders, including vending machine location owners, contracted beverage producers, and other trading partners, regarding their expectations for the DyDo Group and the roles it can play for our stakeholders in general. Meanwhile, in-depth discussions with employees are underway regarding the group's core competencies. By identifying the DyDo Group's priority material issues and incorporating those into the new Mid-term Business Plan, we will continue to create enjoyable, healthy lifestyles for people around the world.

(For selected stakeholder commentary, see "Segment-Specific Initiative" on [P47-66](#).)

Achieving Sustainable Growth

A Philosophy of Striving to Achieve Happiness and Prosperity Together Born of Our History

The DyDo Group's history began with the “use first, pay later” medicine business. Through partnership with a variety of stakeholders, we have developed our businesses and to this day, we continue to refine our business model of offering the products customers want in the closest and most convenient location.

Changes in the items we have sold



Pharmaceuticals for home use



Pharmaceuticals and healthy drinks



Canned coffee

Our unchanging capabilities,
delivering our products to the “stores” closest to our customers nationwide

Changes in the “boxes” we use



Medicine boxes



Showcases

1940s

Foundation in “use first, pay later” medicine

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

With the growth of this business, Takamatsu incorporated the company and in 1956 established DAIDO YAKUHIIN K.K. That company would become today's DAIDO Yakuhiin (Pharmaceutical-related Business).



Founder
Tomio Takamatsu

1970s

Entry into the vending machine business and resulting growth

Anticipating the potential of a canned coffee, we developed an original coffee with partner production plants in 1973, and began selling beverages via vending machines. As we developed our vending machine network with companies local to each region, sales grew steadily, and DyDo K.K. (now DyDo DRINCO, Inc.) was incorporated in 1975 as vending machines quickly gained popularity nationwide, thus establishing the roots of our current business model with the vending machine business at its core.

The journey we have taken with our partners

Packers (Partner Production Plants)

We contract out the manufacturing of our products, and together we have created winning flavors

P51

Location Owners

We utilize vending machine locations, and together we have maximized profits at each site for mutual profit

P49

Kyoeikai (DyDo Vending Partner Association)

The Kyoeikai supports the DyDo vending machine network in less urban areas, which we cannot manage directly

P50



Vending machines

Value our products provide

The fun of choice	We adjust the line-up to suit the location from a range of more than 50 products
Pleasure	We offer collaborative products featuring anime characters or other companies' brands
Health-oriented drinks	We develop special items such as foods with function claims like the "Calorie Limit for the Mature Aged" tea series
Convenient goods	We provide products such as face masks, disinfectant sprays, diapers, stockings, and other "just-in-case" products

Value our vending machines provide

Convenience	We have diversified payment services, such as by accepting e-money and facial authentication
Peace of mind	Unmanned and available 24 hours a day, we have added an anti-bacterial coating to many of our machines
Fun	We have included functions that allow our machines to chat with customers and developed an app service that lets them earn points
Consideration for the environment	We are working tirelessly to reduce the amount of energy we use

2010s

Evolution of our vending machine business and expansion into other business domains

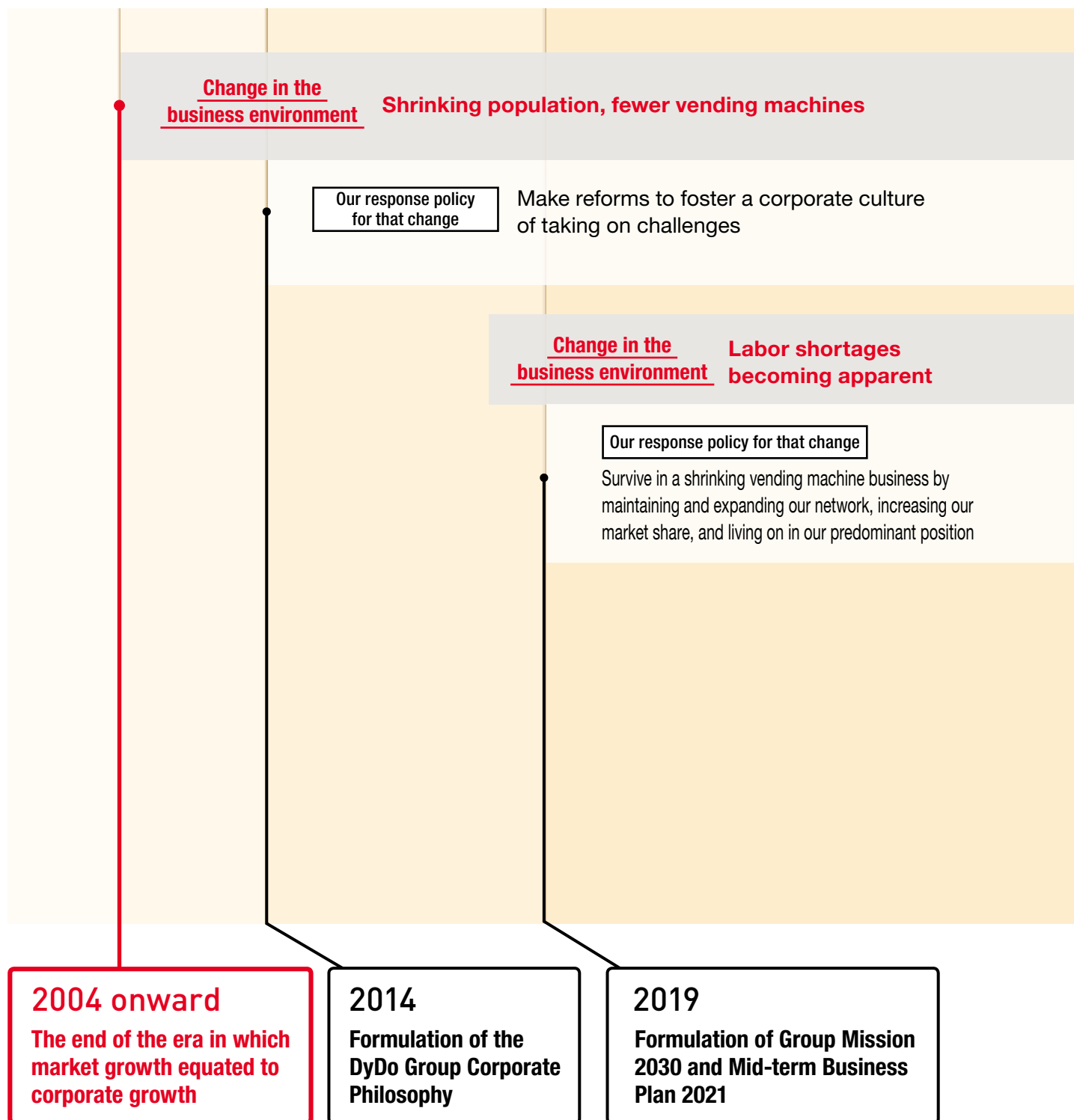
We had expanded our sales in line with growth in the vending machine market, but at the start of the new millennium, the market reached saturation point. To find new growth in such an environment, we started making structural reforms to our vending machine business in the 2010s. In 2012, we acquired Tarami Corporation, which manufactures and sells fruit jellies, through M&A. Next, in 2013, we strengthened our international business with the establishment of a subsidiary in Russia. As our business domains had expanded, we established DyDo Group Holdings, Inc. in January 2017, and moved to a holding company structure.

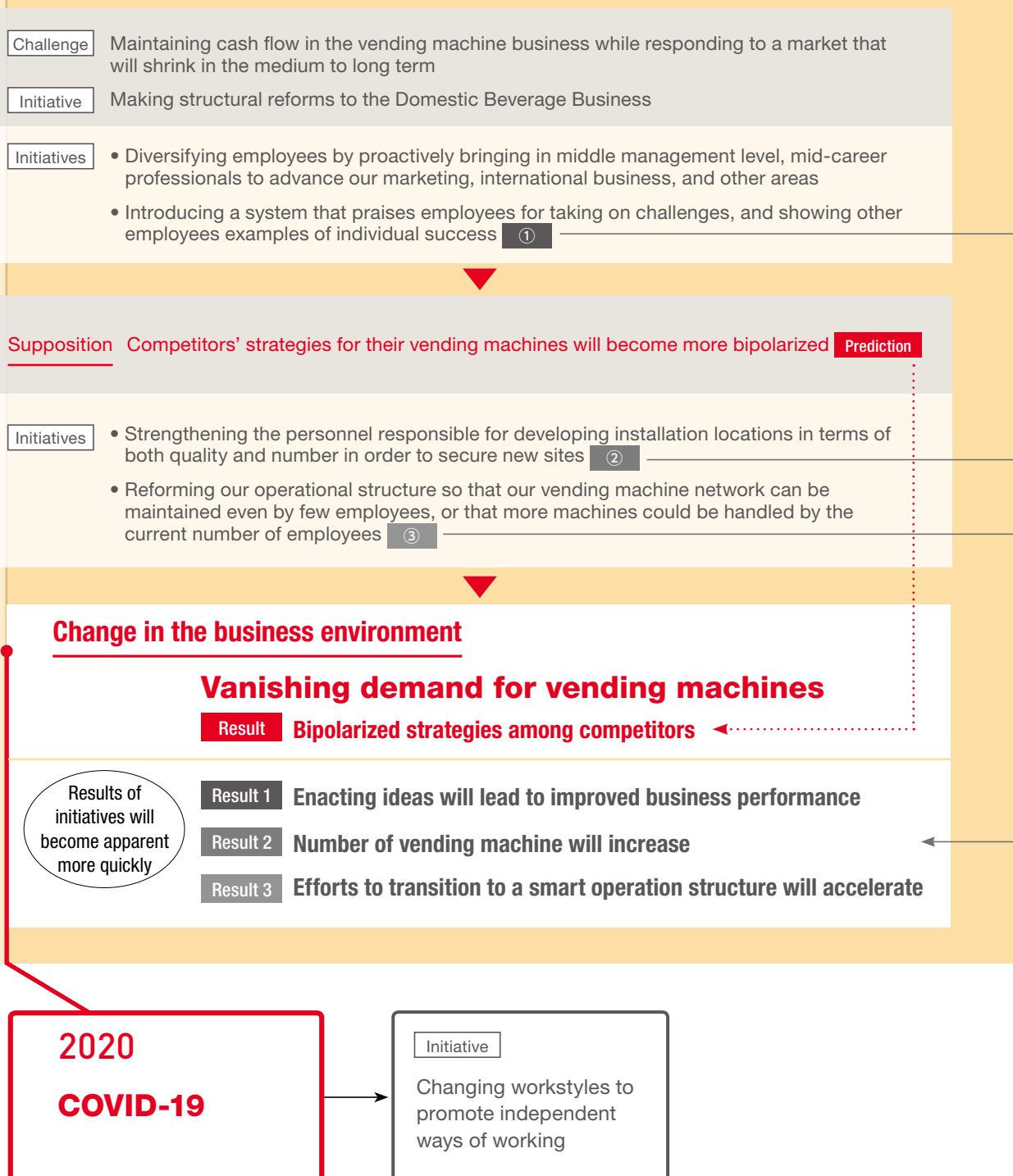
Our business domains continue to expand, but our business model of pursuing businesses that offer the products customers want in the closest and most convenient location remains unchanged. Just as we shifted from the "use now, pay later" medicine business to the vending machine beverage business, there is no guarantee that as we evolve how and what we provide to customers, our future vending machine business will be the same as the one we have today. Looking forward to the future, we will fulfill our role and refine our business models by striving to achieve happiness and prosperity together with all stakeholders and a more sustainable society.

2020s and beyond

Turning Change into Opportunity and Creating Innovation

In the DyDo Group Corporate Philosophy we newly formulated in 2014, we focus not only on our philosophy of striving to achieve happiness and prosperity together, but also on fostering personnel and a corporate culture that have a mindset of flexibly responding to change and taking on challenges. We are turning the epoch-making changes resulting from the pandemic into chances for growth, and are further accelerating our reforms.

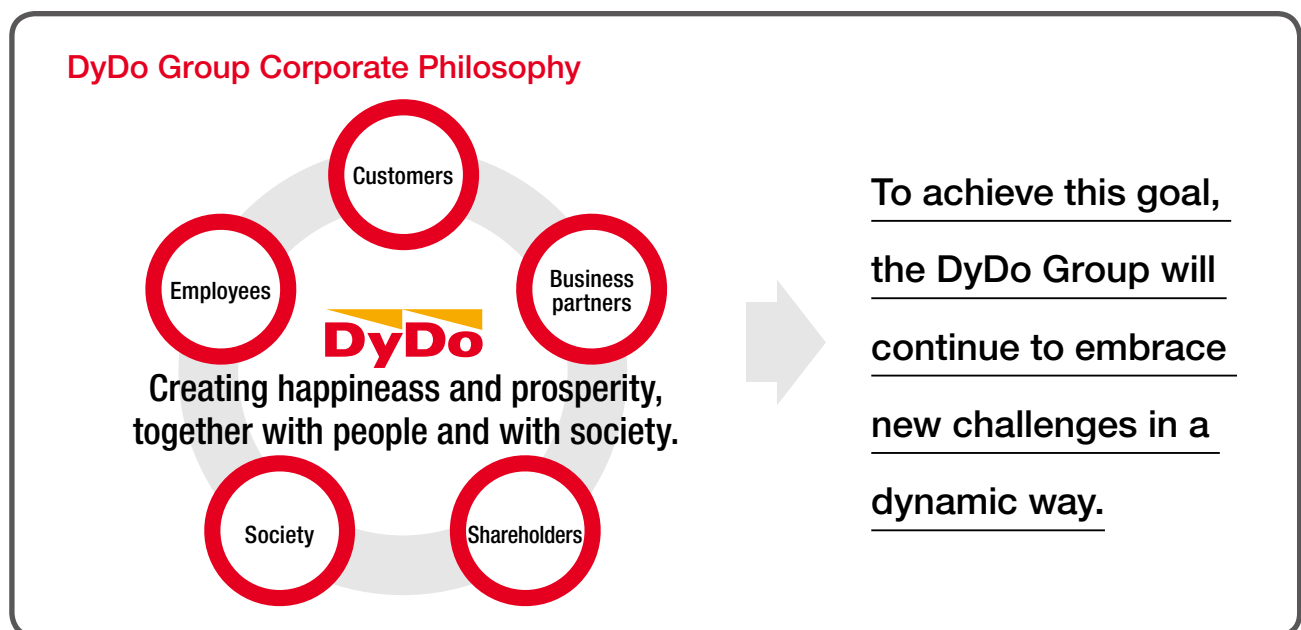




A Return to the Tenets of the Group Philosophy

Group Mission 2030 describes where, and what, the DyDo Group wants to be in the year 2030, and establishes our twin goals of sustainably enhancing corporate value while helping make society itself more sustainable. To achieve these objectives, we will promote our philosophy and continue to utilize our strengths to take on ever greater challenges.

Where we should begin again to achieve Group Mission 2030



Fostering a corporate culture of taking on challenges

For Group Mission 2030

We will reinforce our commitment to mutual happiness and prosperity with employees and other stakeholders, and accelerate our efforts to get us to where, and what, we want to be

Areas we will strengthen

- Partnerships with business partners
- Employee diversity
- Independent employee training

See the Message from the President on P5-P12

Initiatives to accelerate our efforts

We have identified material issues (issues that must be prioritized to achieve sustainable growth) and will integrate them with our management strategy

P41

Where, and what, we want to be in 2030

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.

Enhancing corporate value

Areas where initiatives are underway

- We are implementing personnel strategies that support our response to changes in the business environment

We are putting in place better work environments and systems, and creating a system that will encourage innovation

P19-20

- We are reforming the vending machine business to respond to changes in society

We are bolstering our ability to develop vending machine locations, reforming our post-installation operations, and providing new functions and value

P21-23

- We are working to help make society more sustainable

We have made the DyDo Group SDGs Declaration and are working to spread that philosophy within the group. We are also striving to reduce our environmental impact throughout our supply chain

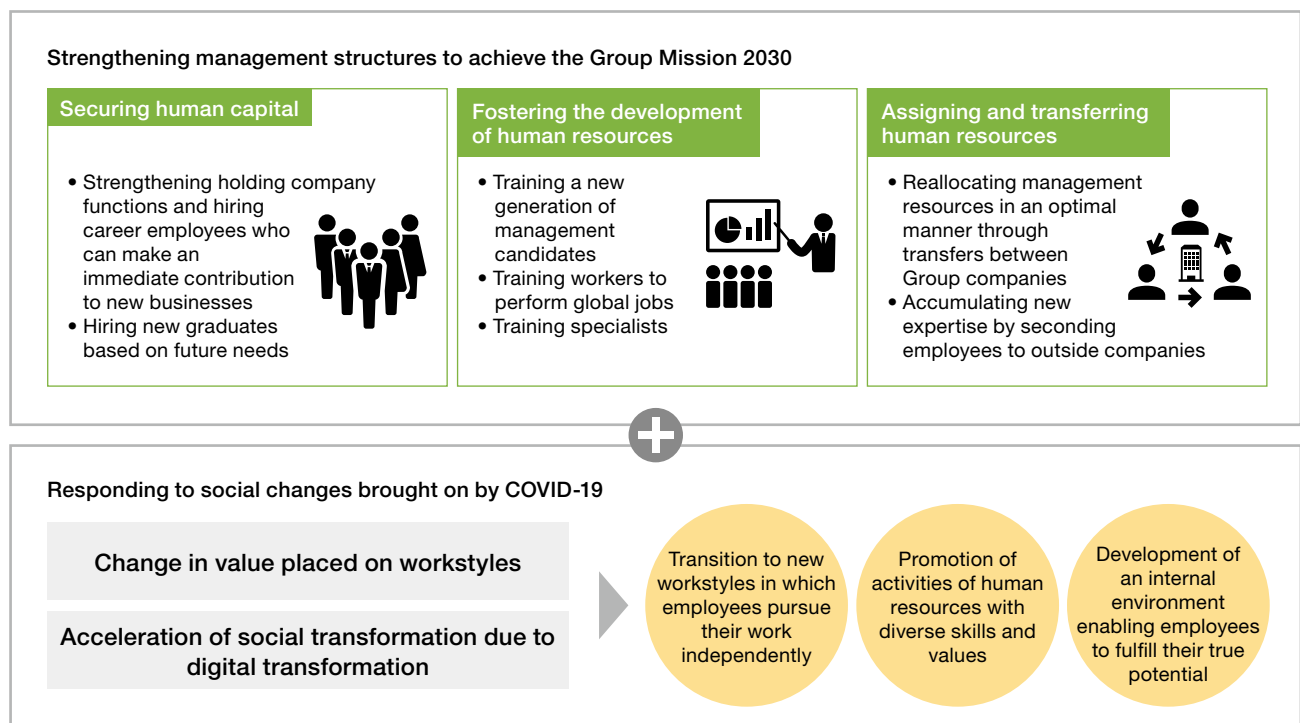
P24-30

Efforts to Achieve Sustainable Growth in Response to Changes in Society

In order to realize the vision we set out in our Group Mission 2030, we aim to achieve sustainable growth while responding flexibly to developments in the business environment caused by changes in society and other factors. In order to achieve this goal, we believe that we need to create innovation that will provide new value while meeting the needs of our customers and society. In this section, we introduce some of the themes that we are focusing on to create innovation in our business, especially the initiatives of DyDo DRINCO, which is responsible for the Domestic Beverage Business. These include our human resources strategy to support responses to changes in the business environment, reforms in the vending machine business in response to changes in society, and the initiatives we have been taking to help achieve a sustainable society.

TOPIC 1 Human Resources Strategy to Support Responses to Changes in the Business Environment

We recognize that, in order to respond flexibly to changes in the business environment and bring growth to our businesses, it is vital for us to secure and foster diverse human resources, and to improve our internal environment.



Main Initiatives under the Human Resources Strategy

Transition to new workstyles based on telework

From June 1, 2020, DyDo DRINCO made a company-wide shift to new workstyles based on telework with the aim of improving productivity and realizing work-life synergy. Based on the experiences and challenges we have faced with telecommuting, which we implemented in response to the emergency declaration issued to combat the COVID-19 pandemic, we have put in place a system designed to revitalize our organization. Under this system, all employees will continue to work remotely while coming to the office for a certain number of days to engage in direct

communication with their colleagues. In the case of sales activities, we have adopted a flexible work system that allows employees to go directly home or make use of flextime. In addition to building good relationships with business partners through conventional face-to-face negotiations, we are promoting negotiations utilizing telephone and web-based meetings as new sales styles, with the aim of dramatically improving productivity through efficient sales activities that integrate real and digital sales.

Introduction of a second job system for employees/system for accepting second job workers

In today's business environment, in which each and every human resource is required to possess an increasingly sophisticated skillset, the acquisition of professional human resources is a major issue. In order to promote recent business strategies such as product branding, overseas expansion, and M&A, we have been actively stepping up recruitment of a diverse range of human resources, including highly specialized career employees, foreign nationals, and recent female graduates. In September, 2020, we

introduced a second job system that allows our employees, mainly at DyDo DRINCO, to engage in work at other companies. At the same time, we began accepting second job workers from outside the company. In addition to responding to the diversification of values regarding workstyles, we are promoting initiatives to secure and foster autonomous professional human resources with diverse knowledge, values, and skills that will lead to the creation of innovation.

The DyDo Challenge Award

Since fiscal 2017, DyDo DRINCO has been holding the DyDo Challenge Award as a scheme for each employee to exemplify the Group's philosophy. There are two categories in this award system: The DyDo Challenge Award recognizes efforts during the preceding year that contributed significantly to corporate value, while the DyDo Challenge Idea Award is presented to ideas submitted by employees that have been selected for implementation during or after the next fiscal year, based on voting by the employees themselves. In fiscal 2020, the Dynamic Challenge Award—the most prestigious of the DyDo Challenge Awards—was given to a project team that launched canned coffee products in collaboration with the TV anime *Demon Slayer*

(*Kimetsu no Yaiba*). This initiative, by encouraging organic cooperation between various related departments, saw a maximization of sales promotion effectiveness and achieved distribution that saw no shortages of supply, resulting in a significant contribution to sales and profits. We believe that this is thanks to our efforts to foster a corporate culture that inspires employees to take on new challenges by encouraging them to bring new ideas to fruition, and by fostering collaboration among multiple departments. We will continue to promote this scheme as a means not only of celebrating the achievements of participating employees, but also to motivate other employees to take up their own challenges.

Development of an internal environment enabling employees to fulfill their potential

In fiscal 2019, DyDo DRINCO established the DyDo Group Health Declaration to strengthen its health management promotion system and develop various initiatives that contribute to health management, including support for smoking cessation, subsidies for various voluntary health checkups, and health literacy education. In March 2020, DyDo DRINCO was granted certification under the Ministry of Economy, Trade and Industry's Health & Productivity Management Outstanding Organizations Recognition Program (large enterprise category). In addition, we have been conducting the Engagement Survey (diagnosis of organizational vitality) since fiscal 2020 in order to create an environment in which

each and every employee can enjoy good health, both physical and mental, and demonstrate their abilities while responding to social changes brought on by COVID-19. We will seek to gain an accurate grasp of the status of each department amid these various changes, and incorporate this information into the creation of measures and systems to provide employees with a better environment, including workstyles and evaluation systems.



Comments from managers and employees on new ways of working

Yuko Mano
Manager
Human Resources Group
Human Resources &
General Affairs Department
DyDo DRINCO, INC.



When we launched a company-wide telework program as an emergency response to the COVID-19 pandemic, we received a positive reaction from many employees, and saw the potential for increased productivity. So, we decided to systematize new workstyles based on telework and mobile work. We will continue to work together with our employees to create better ways of working for all.

Haruna Shuto
Leader
Brand Strategy Group
Marketing Department
DyDo DRINCO, INC.



As a parent of a small child, balancing work and childcare is a major issue for me, but teleworking has helped me to secure time to drop off and pick up my child and do housework while I work. As telework has become more widespread throughout the company, I feel that productivity is gradually improving in terms of work procedures and communication efficiency. I have heard people around me say that they have more time to spend with their families. I would like to continue to lead a fulfilling personal life while also making new achievements in my work.

TOPIC 2

Reforms in the Vending Machine Business in Response to Changes in Society

The domestic beverage market is unlikely to see significant growth in the medium to long term due to Japan's declining birth rate and aging population, which will only get worse. In addition, the vending machine business is facing a shortage of operations staff because of a decrease in the productive population, which is a major challenge for the growth of the market. What is more, social changes triggered by the COVID-19 pandemic have had a major impact on economic activities and consumer behavior, and the vending machine business will be required to respond to new needs.

DyDo DRINCO, which is responsible for the Domestic Beverage Business, is working to respond to these changes in the market environment and promptly provide new value by promoting vending machine development and sales activities adapted to changes in society, creating a more efficient vending machine operation system, and providing added value through new partnerships.

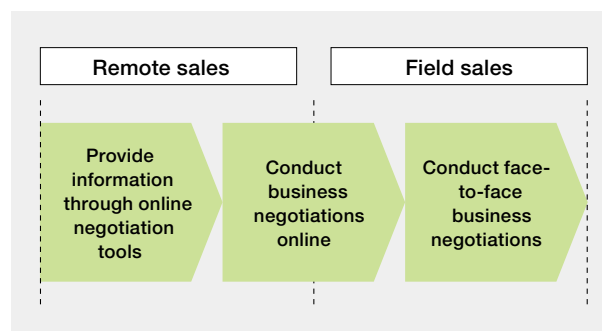
Promotion of Vending Machine Development and Sales Activities in Response to Changes in Society

The vending machine business continues to be saturated. In order to maintain and expand the number of machines installed, we need to respond to changes in the market environment and establish a new style of sales activities that is not bound by

conventional thinking. To achieve this, we are reinforcing our sales system to enable us to properly grasp customer needs and promptly make proposals.

Establishment of an remote sales team

The changes in economic activities resulting from the COVID-19 pandemic have brought about major changes in the development and sales of vending machines. The spread of telework has led to a decrease in opportunities for face-to-face business meetings, and the fact that more meetings are now being held online has created a need for business development based on new ways of working. DyDo DRINCO has strengthened its sales roots by taking steps such as providing more information related to vending machines on its website, and has launched a sales team specializing in remote sales that is based on online business meetings and other means. We aim to maximize the effectiveness of our sales by working closely with our field sales representatives who visit customers.



Promotion of sales of products intended to solve specific issues

In order to bring growth to the vending machine business in an environment of fierce competition, we need to properly identify customer needs arising as a result of changes in society, and promptly respond to them. In the development and sales of vending machines, we are working on sales of products intended to solve specific issues, in which we look into the problems facing location owners who install vending machines, and propose comprehensive solutions including vending machines and beverages. In the case of locations where specific customers use our machines, such as offices and factories, we are able to meet the needs of our business partners by providing vending machines that add value other than the supply of beverages, such as supporting employee health and stimulating communication, thereby achieving long-term installation without merely descending into a price war. For us, the major changes in society brought on by the COVID-19 pandemic are an opportunity to strengthen sales of products intended to solve specific issues.

Manager's comments

Kotaro Kodaka
Senior Manager
Vending Machine Strategy Group
Vending Machine Sales &
Planning Department
DyDo DRINCO, INC.



In order that customers continue to choose DyDo's vending machines, we need to further evolve solution-focused sales that solve the location owners' specific issues. To achieve this, we believe it is important to properly understand the issues and needs of our business partners and propose a variety of solutions tailored to their needs. We are working to build a sales system that enables all sales representatives to make effective proposals by holding regular study sessions to understand social trends and building an internal network to share best practices from across the country, while at the same time working to improve the quality and quantity of our communication through the use of online tools and online business negotiations during the COVID-19 pandemic.

Building a Smart Operation Structure in the Vending Machine Business

In our post-installation work, we are improving efficiency through the establishment of smart operations, aiming to reduce workloads and improve productivity by fundamentally reforming the work structure itself through the use of IoT technology and division of labor. The Domestic Beverage Business is experiencing a severe shortage of labor. In rural areas, we face the prospect of difficulty in securing route staff who are responsible for operations such as refilling vending machines with beverages and replacing seasonal products. Even in such a social environment, we will build a system to maintain the quality of vending machine operations and achieve sustainable growth in the vending machine business.

Expected effects

Significant improvement in operational efficiency

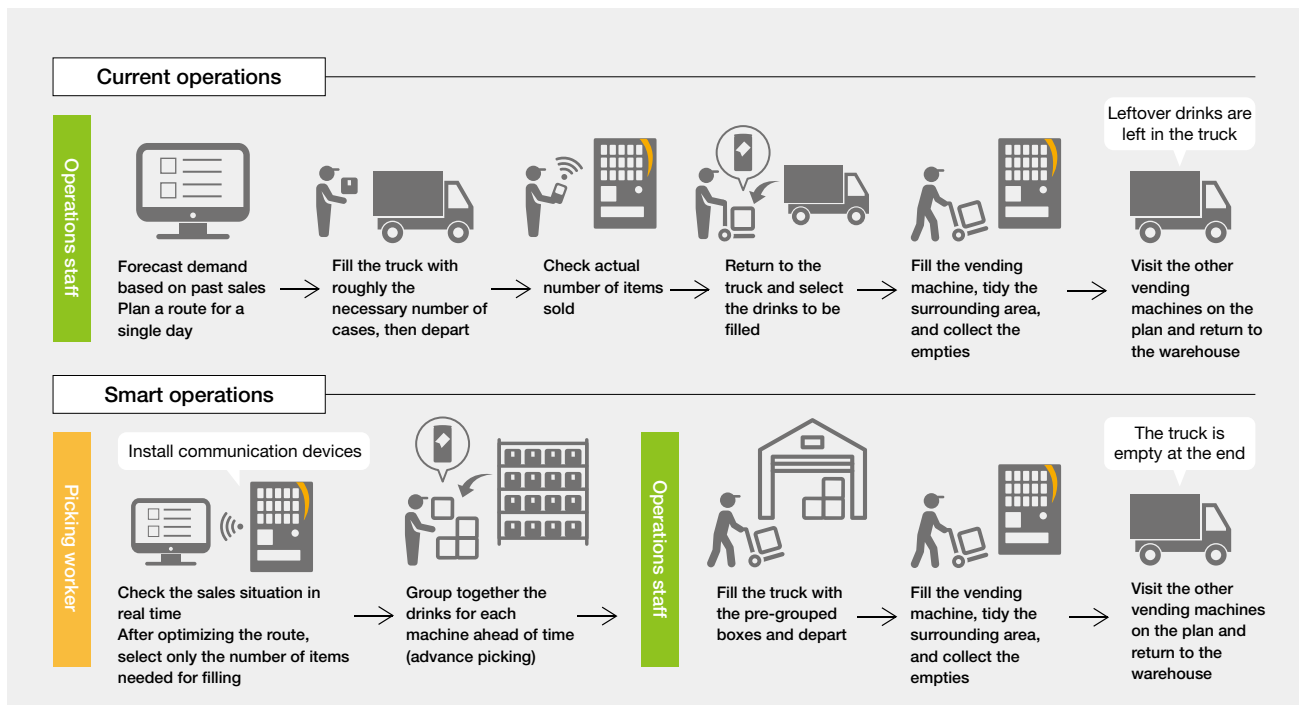
Improved profitability
Lower maintenance costs per unit

Maintenance and expansion of vending machine network without increasing the number of operation staff

Improved EX*
Reduced workload per person

*EX (Employee Experience): The value of all experiences that employees gain through working. This concept encompasses not only employee satisfaction, compensation, and skill development, but also the impact of all factors, including employee health and work style.

Smart operation workflow



Smart operation deployment process

Promoted company-wide deployment in direct sales (DyDo Beverage Service) to establish a competitive advantage.

By FY2020

- ☒ Switched all units to online at the test sales office, and carried out test verification including the movement of people
- ☒ Established a workflow for company-wide deployment through repeated verification

Response to COVID-19

- ☒ Decided to revamp core systems
- ☒ Decided to expand company-wide through direct sales

By FY2022

- ☐ Deployment in all units operated by DyDo Beverage Service

Providing New Value through Partnerships

Society as a whole is undergoing major changes in terms of people's values, behavior, and workstyles. As such, the value provided by vending machines must also evolve with the times.

NEC × DyDo

Introduction of KAO-NE, a facial recognition payment service for vending machines

Utilizing NEC Corporation's facial recognition technology, we have been rolling out KAO-NE, Japan's first payment service that allows customers to make vending machine purchases through facial recognition, since April, 2021. By enabling customers to make purchases without having to take out their wallets or smartphones, we are able to provide a comfortable environment for purchasing products, as well as expand the number of locations where vending machines are installed. In addition, based on the needs of customers during the COVID-19 pandemic, the system enables facial recognition that can still identify people if they are wearing a mask, and is expected to be used in a wide range of locations.

Through partnerships with various companies, DyDo DRINCO is making it possible to create totally new value.



FANCL × DyDo

Gaining recognition as a healthy brand

Calorie Limit for the Mature Aged, a brand of tea jointly developed with FANCL CORPORATION in 2016, suppresses the absorption of sugar and fat in meals. This tea has been driving sales in distribution channels since its launch, meeting the needs of our increasingly health-consciousness society. In 2021, the tea underwent a revamp for the first time since its launch. In addition to going on sale in vending machines, the ingredients and brewing conditions were drastically reviewed to give it a more refreshing flavor that goes well with meals.

Calorie Limit for the Mature Aged tea series product lineup



SECOM Medical System and Daio Paper × DyDo

Installation of a disposable diaper vending machine

In collaboration with SECOM MEDICAL SYSTEM CO., LTD. and Daio Paper Corporation, we have installed vending machines at expressway service areas, roadside stations, commercial facilities and public facilities that allow customers to purchase small packs of disposable baby diapers as well as tea, water and other beverages. By providing a system that allows people to easily purchase disposable diapers on the go, we are helping create an environment in which parents can take their children out with ease, and are actively promoting initiatives to support the child-rearing generation.



Development of vending machines that sell masks and hygiene products

During the COVID-19 pandemic, we have been accelerating the pace of development of vending machines that sell face masks, disinfectant wipes, and other hygiene products needed to help prevent the spread of infection. Currently, we are increasing the number of products we handle to meet the diverse needs of our customers, including sanitizing and deodorizing sprays and mouthwashes.



The Group Mission 2030 was established as a means for the DyDo Group to achieve sustainable growth alongside the SDGs, which envision the realization of an economically, socially, and environmentally balanced future. In order to reemphasize our desire to contribute to the society embodied by the SDGs both internally and externally, we made the DyDo Group SDGs Declaration. In this Declaration, we introduce our initiatives to reduce the environmental load created through the course of our business, as well as initiatives aimed at increasing individual employee understanding of the SDGs themselves in the interest of accelerating our future activities.

SUSTAINABLE DEVELOPMENT GOALS



DyDo Group SDGs Declaration

We believe in “Creating happiness and prosperity, together with people and with society” as the company’s philosophy. This Philosophy expresses the spirit of “striving to achieve happiness and prosperity together” that has been with us since our founding. This spirit is an accurate representation of our culture and applicable to the SDGs principle of “leaving no one behind.”

We have established the Group Mission 2030 to clarify our objectives for the year 2030 in line with our business policy, “For DyDo Group to create enjoyable, healthy lifestyles for people around the world.” Our mission is to contribute to SDGs through our business activities.

We will contribute to SDGs and realize a sustainable society in which people all over the world have their enjoyable and healthy lives for 2030.

Tomiya Takamatsu
President
DyDo Group Holdings, Inc.
January, 2021

Priority Environmental Targets and “Everyone Love the Earth Project”

To reduce its environmental footprint, DyDo DRINCO has set the following three priority environmental targets and basic policies for containers and packaging. In addition, as part of our efforts to create a framework for employees to take concrete action, in fiscal 2021 we launched the Everyone Love the Earth Project, an initiative the Domestic Beverage Business is taking to raise

awareness of the environment. Through the independent actions of each and every employee, as well as through collaboration with suppliers and partners who share our vision, we will work toward the realization of a recycling-oriented society, an essential step for us to achieve a sustainable society.



Priority environmental targets announced in November 2020

Realization of a recycling-oriented society for the effective use of resources

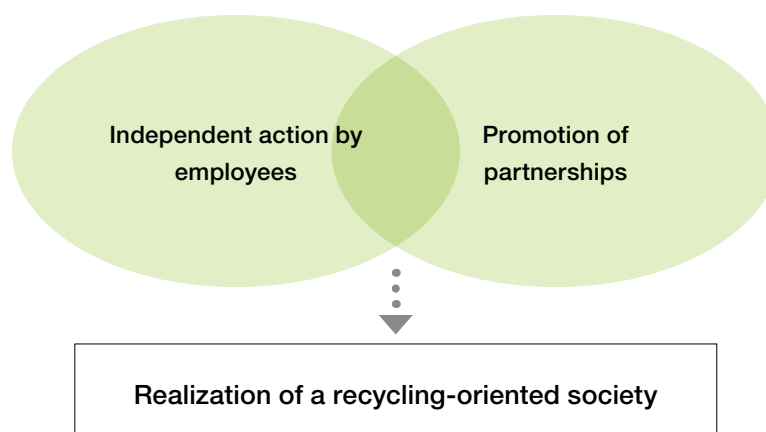
Under the DyDo Group’s corporate philosophy of “Creating happiness and prosperity, together with people and with society,” DyDo DRINCO aims to realize a sustainable society so that we can pass on the beautiful earth to future generations.

For the realization of a sustainable society, it is absolutely necessary to use limited resources effectively. Therefore, we need to strive to achieve a recycling-oriented society. For example, to deal with plastic marine debris, which is a matter of growing concern around the world, it is required to achieve bottle-to-bottle recycling in which raw materials are extracted from used plastic bottles and reused to make new ones. For this purpose, the creation of a system that enables the stable collection of quality plastic bottles is an important task for the beverage industry.

DyDo DRINCO is mainly involved in the vending machine business, and is responsible for not only the sale of products but also for the collection of plastic bottles and other containers. We

believe that our operational ability, which is one of our strengths, also enables us to contribute to society through the collection of containers. Meanwhile, with regard to the service life extension of vending machines, which is a challenge to be addressed in terms of the effective use of steel resources, we boast among the highest level of achievement in the industry through, for example, the deployment of Frontier Vendors (see [P28](#)) in the market.

We aim to achieve a sustainable recycling-oriented society together through independent action by employees and the promotion of partnerships with stakeholders by making good use of resources at each critical point in our supply chain as follows: improving the quality of container collection by increasing the efficiency of our business processes, e.g. Smart Operation, minimizing the waste of steel resources by advancing the service life extension of vending machines, and providing products that contribute to the effective use of resources.



Policy on containers and packaging

We are working to collect empty containers efficiently and expand the usage of sustainable materials to establish a recycling-oriented society.

Recycle

- We will collect the amount of empty containers equivalent to our domestic sales volume (100% collection) by 2030.
- We will make more than 60% of our plastic containers sustainable (by using plant-based or recycling-oriented materials, etc.) by 2030.

Reduce

- We will continuously reduce our use of all containers.
- We will develop plastic containers with minimal labeling.

Partner

- We will educate employees about containers and packaging and promote related activities.
- We will develop the company spirit of “creating happiness and prosperity together” by collaborating with government, municipalities, the beverage industry, and regional society.
- We will help realize a resource recycling-oriented society through our vending machine business by collaborating with customers.

Everyone Love the Earth Project



Content of project and activities

We believe that the most important thing for this project is just for people to start by doing whatever they can. Here are some of the activities that everyone at DyDo DRINCO has been tackling.

Environmentally-friendly vending machine business	Refurbishing and prolonging the life of vending machines	Pre-sorting and recycling of vending machines
Adoption of the lightest cans in Japan	Stepping up the collection of PET bottles, etc.	Environmental beautification activities by employees
Provision of beverages to food banks	Promotion of partnerships	

Examples of initiatives

We have expanded our lineup of beverages in an aluminium can shaped like a bottle to meet the needs of customers who want to reduce plastic waste, which we have launched as the Love the Earth series.

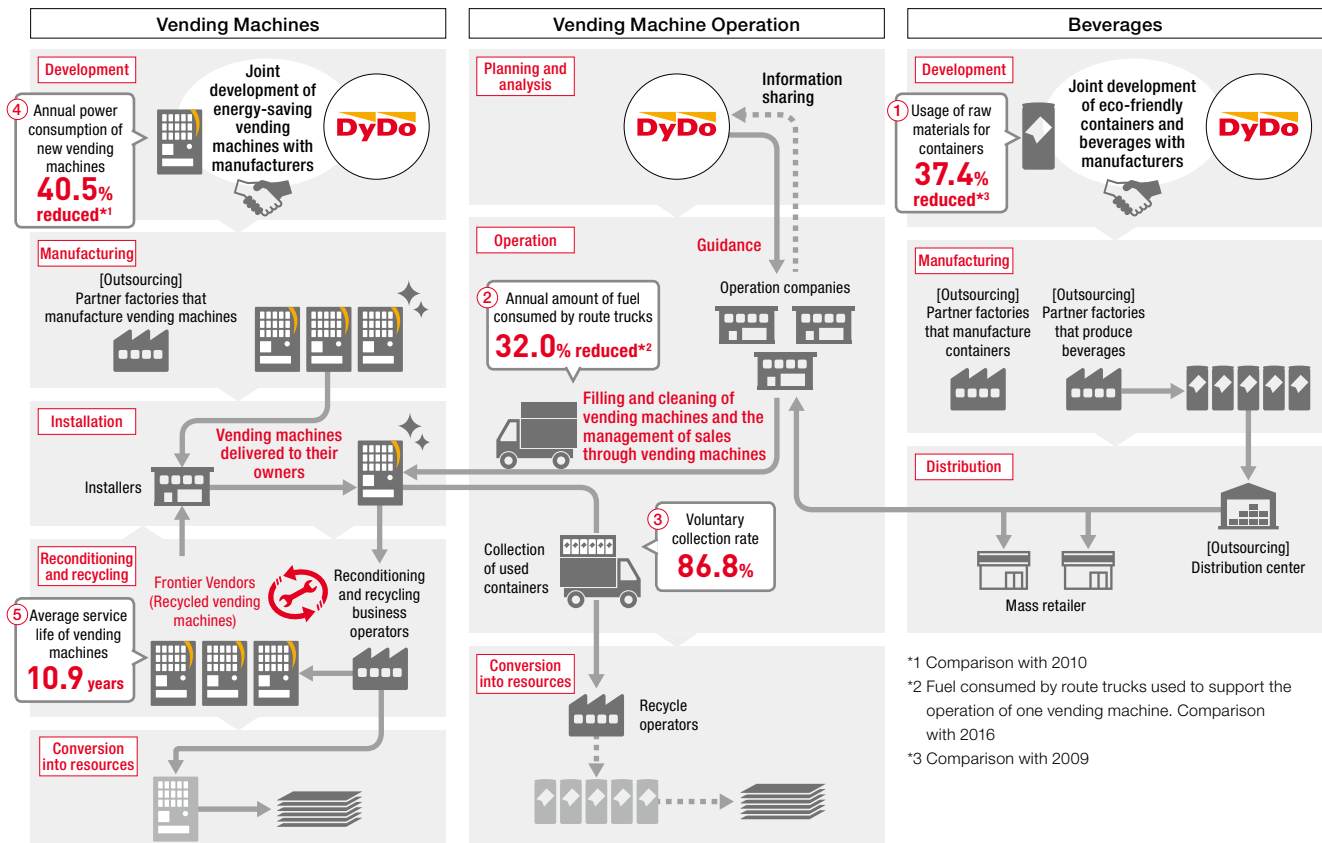


Reducing the Environmental Impact of the Vending Machine Business Supply Chain

Responding to environmental issues such as climate change is a common challenge for the international community, and the domestic beverage market is also required to take proactive measures to curb greenhouse gas emissions and address the issue of marine plastic waste. The vending machine business, which supports the Domestic Beverage Business, uses a large

amount of resources and energy, and we recognize that we need to address environmental issues as part of our company management, which identifies contributing to a resource-recycling society as a priority environmental target. In addition, we are making various efforts to reduce our environmental footprint throughout our supply chain.

Whole Picture of DyDo DRINCO's Vending Machine Business

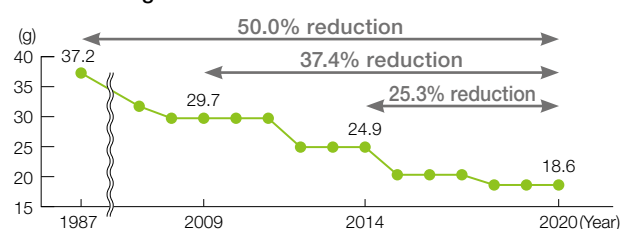


Reducing the Environmental Impact of Our Products

Lighter packaging ①

One of our key initiatives to reduce the environmental impact of the Domestic Beverage Business is the use of lighter packaging. Our main product, canned coffee, uses the lightest steel can available in Japan, the new model TULC can. The steel used in our typical canned coffee 185 g can weighs approximately 37.4% less than the equivalent container of ten years ago.

Trends in weight of steel cans



Lighter labels

For our mainstay plastic bottle tea products in the vending machine channel, we are continuing our efforts to reduce the weight of labels by taking such steps as halving the width of labels used on packages.



Reducing the Environmental Impact of Our Operations

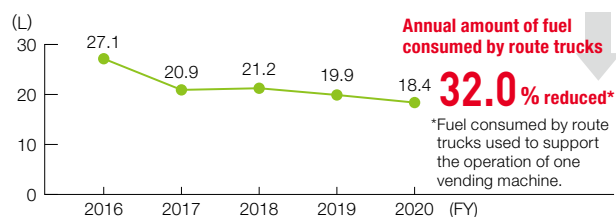
Adoption of eco-friendly sales vehicles and route trucks

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

Optimized routing to cut fuel emissions ②

In order to reduce the environmental impact of vending machine operations, in addition to improving the vehicles themselves, it is also essential to improve the efficiency of our activities, such as by reducing travel distance. Although we have already made improvements to the efficiency of existing routes, we will further cut greenhouse gas emissions by optimizing our routes using data obtained through establishing Smart Operations systems.

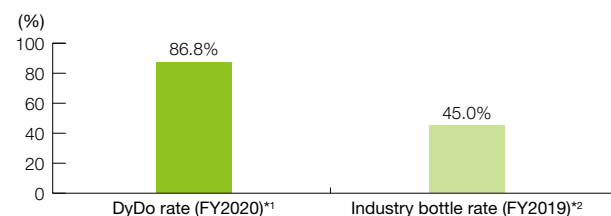
Annual fuel consumption of route trucks per vending machine



Collection of waste packaging ③

To help reduce plastic waste in the oceans and more effectively use our resources, we are working on a system to quickly and reliably collect waste containers and packaging. Our Domestic Beverage Business tends to have a high rate of voluntary recycling of plastic bottles because it makes a large proportion of its sales in the vending machine channel, but we are committed to achieving a 100% recovery rate for used containers, such as by developing trucks with around twice the capacity for empty containers, or by promoting activities through partnerships.

Voluntary empty container recycling rates



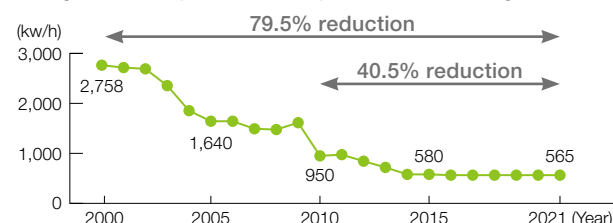
*1 Amount collected from company container recycling boxes divided by domestic shipments of company products

*2 Collection rate trends published by Council for PET Bottle Recycling.

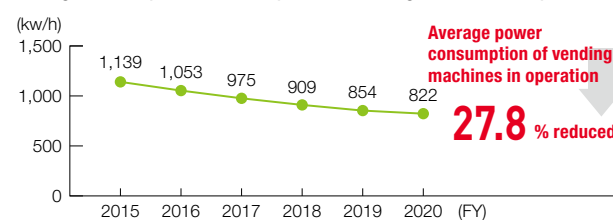
Reducing the environmental impact of vending machines ④

To combat global warming, we are deploying energy-saving vending machines with significantly reduced power consumption through the use of heat pump functions, LED lighting, and high-performance vacuum insulation. As a result, a new machine installed in 2020 consumes about 79.5% less power than one newly installed in 2000. In addition, the average power consumption of all units currently in operation is 822 kw per hour, which is a reduction of approximately 27.8% compared to 2015.

Change in annual power consumption of new vending machines



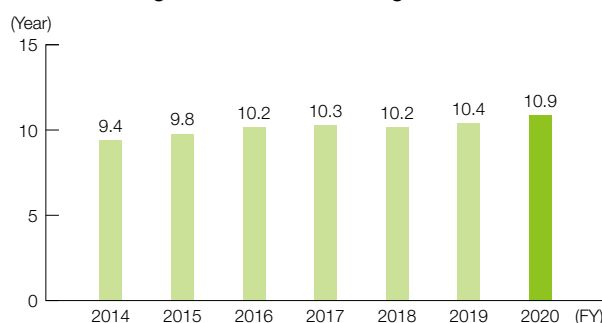
Average annual power consumption of vending machines in operation



Deployment of Frontier Vendors ⑤

Since 2015, to reduce the environmental impact of our vending machines and cut costs, we have been deploying “frontier vendors” that are designed to reutilize and extend the lifespan of our vending machines from around 10 years to 15 years. Initially, these efforts centered on maintenance and replacement of the cooling/heating unit, which greatly influences the vending machine’s energy-saving functions. Subsequently, however, we began replacing conventional lights with LED lighting, switching to digital price displays, and recently, reusing and reconfiguring internal product storage racks to better meet customer needs. We will work to further extend the service life of vending machines to make them even easier for customers to use, yet reduce the impact on the environment and make maximum use of limited resources.

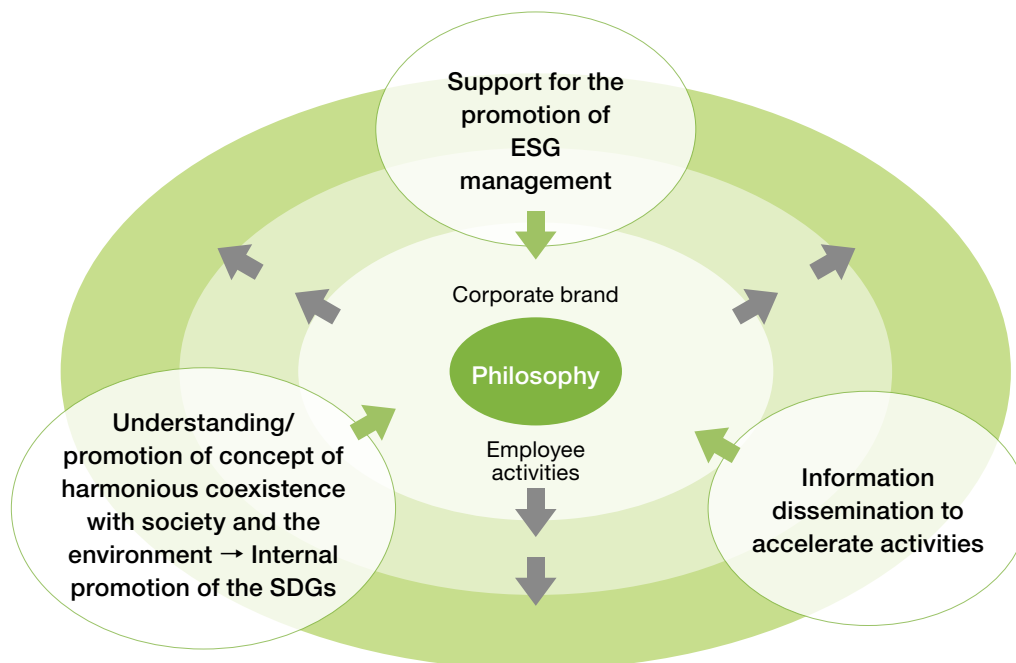
Trend in average service life of vending machines



Activities to Promote the SDGs within the Company

In order to contribute to the SDGs through our business activities, it is essential that each and every employee understands the issues and takes independent action to address them. At DyDo

DRINCO, which is our core business, we are carrying out a range of internal activities to encourage each employee to think about the business activities and individual actions they can take.



Direction of activities

Step 1 Why (understanding)

Understand the SDGs

1) Workshops for executives and managers

The SDGs aim to strike a balance between the economy, environment, and society. To understand why the SDGs are necessary, we used a card game that has been adopted by the government, local municipalities, schools, and other organizations. In this game, participants are first given a card with their own life goals for 2030, such as “I want to create wealth” or “I want to protect the global environment,” and then choose the actions they will take. Each action is then reflected in the world’s economic, social, and environmental situation. At times, a situation arises in which the economy has grown but the environment is being destroyed, giving the players a sense of how cooperation is essential if we are to achieve a sustainable world.

More than 100 managers, including senior executives, played this game, and at the end of the workshop, each of them set a goal and made a commitment to future activities to achieve the SDGs, either individually or as a company.



Commitment by participants to future activities

2) Online seminar by experts

In order to learn about global trends and the ideas of the younger generation, we held an online seminar attended by more than 150 group employees. The seminar was led by Professor Norichika Kanie of the Graduate School of Media and Governance at Keio University, and Ms. Shiina Tsuyuki, an environmental activist.

Step 2
What/How
(empathy, full grasp
of the situation)

Ms. Tsuyuki spoke about her own experiences, including the realization that environmental problems stem from our own actions, which was what motivated her to take action, as well as the current situation in the world in which we face actual environmental problems, and her belief that it would be wrong to hand down the burden of such problems to future generations.

Following this, Professor Kanie talked about the social issues brought into relief by COVID-19, explaining how individual actions such as encouraging people to use face masks and wash their hands caused positive social change by preventing the spread of infection. His talk gave us some hints on how we could better contribute to the SDGs through our business operations, such as the idea that social change leads to business change, and that the SDGs can serve as guideposts.

The latter half of the seminar featured a talk session based on questions from employees, which helped deepen their understanding of the issues.



Professor Norichika Kanie (left), Ms. Shiina Tsuyuki (right)
Talk session in progress

Understand connections with business

Online seminar to share examples of best practice within the organization

Even before we started activities to spread awareness of the SDGs among employees, some sales departments were already conducting sales activities with the SDGs in mind, with the independent efforts of employees. In order to help them understand that the SDGs are not a difficult concept to grasp, but something that can be achieved through the accumulation of ideas and actions by individuals, we held an online seminar in which employees in the sales field gave examples of their efforts and explained the reactions of business partners to these efforts. The employees who made speeches in the seminar explained that, by expressing the issues of our business partners and our company's functions within the framework of the SDGs, they were often able to strike a chord with the business partner. They also mentioned how, by linking our daily activities and familiar events to the SDGs, everyone become better able to understand the connections. And by sharing these with others, we can come up with new ideas. These explanations helped the participants to deepen their understanding of the extent to which the SDGs are already connected with our business operations.



Seminar participants declare how they will contribute to the SDGs through their work.

Step 3
Action
(encouraging people
to take action)

Know about specific kinds of action

Encouraging employee and stakeholder participation

We are working on business initiatives in tandem with the progression of these internal seminars, such as by setting priority environmental targets and expanding our lineup of beverages in cans shaped like a bottle. By proactively disclosing these initiatives outside the company, we intend to raise interest among our stakeholders, including our employees, and use this as a driving force by which to accelerate our efforts.

While priority environmental targets are top-down initiatives set by the company, we launched the Everyone Love the Earth Project as a mechanism to encourage bottom-up actions by employees. Although the project has just started, we have added content on the company intranet introducing individual activities, and by sharing the small actions taken by each employee with an awareness of the SDGs, we aim to make people aware of the importance of SDGs, which in turn will lead to major movements in the company and society as a whole.

Recognizing that our current actions will benefit society in the future, the DyDo Group will work to ensure that it continues to be a corporate group that is needed by society.

| Discussion |

What is the significance of companies tackling the SDGs?

DyDo Group Holding's President and Representative Director, Tomiya Takamatsu, discusses the answers to this and other questions with Keio University's Professor Norichika Kanie, a leading SDGs researcher who sits on expert advisory committees both in Japan and abroad and who is working to raise awareness and spread the SDGs.

(titles omitted below)

The DyDo Group's attitude toward the SDGs

Takamatsu The spirit of "creating happiness and prosperity together," which the DyDo Group espouses as its management philosophy, bears similarities to the SDGs. In addition, the slogan for Group Mission 2030, "For DyDo Group to create enjoyable, healthy lifestyles for people around the world," also has commonalities with the targets of the SDGs. Through its business, the DyDo Group strives to achieve a world in which people, society and the Earth, enjoy vibrant health.

Kanie It is legitimate for a business owner to interpret the principles of the SDGs from the viewpoint of the company's management philosophy. By doing so, the course taken by the company, in step with society, will produce favorable results for the company.

Takamatsu The DyDo Group's business started with sales of medicine on a "use first, pay later" basis, whereby medicine was placed in homes and workplaces and replenished as it was used. From this starting point, we then made energy drinks and sold them from small vending machines at parking facilities*¹ to allow drivers to rid themselves of their drowsiness. Subsequently, these vending machines began to sell canned coffee as well. This change was the result of our consideration of how to most effectively provide the products customers want in surroundings that are familiar to them, and the continuous improvements we have made to our

*¹ Cafeterias or gift shops located alongside roads, where drivers stop to rest

business. For further business growth and to study the feasibility of starting a new project, I want to expand the level of understanding and penetration of our philosophy anew.

Challenges faced by the beverage and food industries

Kanie I think one of the most burning issues for the food and beverage industries is food loss. As well as food itself, it is also important to consider how to deal with containers. Regarding containers, since 2020, plastic shopping bags must be paid for in Japan. Marine plastic pollution is another issue attracting public attention. The spotlight centers on recycling—in other words, where used items go.

Takamatsu I recognize food loss as an issue to be addressed by the relevant industries as a whole. We have been making efforts by reviewing traditional practices, for example by extending food expiration dates. We also intend to be more thorough about not making any more products than we need to.

As you mentioned, dealing with containers is also necessary. We must continue to consider how we carry out the 3Rs (reduce, reuse and recycle) as a company.

Kanie To demonstrate the DyDo Group's uniqueness, the most effective way must be to make a meaningful contribution to society by providing assistance via vending machines in disaster situations. It seems that in cases where large earthquakes have occurred, the volume of emergency food supplies at an evacuation shelter was insufficient for the number of evacuees there. These supplies were not distributed to the evacuees and were eventually thrown away. In such cases, I think vending machines could be better at distributing supplies than humans.

Disaster is a theme often covered by the SDGs. Companies are required to build resilient businesses to attain the strength that enables them, in disaster situations, to recover immediately and continue their business.

Efforts required by companies in terms of health

Takamatsu Group Mission 2030 covers efforts from the following four viewpoints: Health, Environment, Innovation, and People. Of the four, we place prime importance on Health because it has a strong affinity for our business.

Kanie These days, partly because of the COVID-19 crisis, we often hear the term "health" in various places. Health, not only physical health but also mental health, will become an important term.

Takamatsu I agree. Other companies in the same industries are conducting their business with a major focus on health. Japan



Tomiya Takamatsu
President and Representative Director

is faced with the issue of an aging population. Therefore, working out how to extend healthy lifespans is key.

The DyDo Group intends to provide products that are beneficial to people's health: to be more specific, products that help prevent people from getting sick.

Partnerships to achieve the SDGs

Kanie I believe innovation comes from combining things. For example, consider how vending machines which can do more than just sell drinks can lead to something new; I hope we will see results like this. I think young people's ideas can be a particularly useful source of inspiration.

Takamatsu That idea is also in line with how the DyDo Group operates. The DyDo Group runs a project called the DyDo Challenge Award. All employees have a chance to submit their ideas. Awards are given to excellent ideas, which are then implemented. We pride ourselves on our work environment, where completely new ideas can be realized. I desire to develop our corporate culture to allow young people to produce still more ideas and take positive action.

Kanie If you lack something, you need to collaborate with people who have it. If you cannot resolve the issue by yourself, it is important to bring in another perspective from outside and achieve the best mix. I am sure that the DyDo Group's open-minded corporate culture, where ideas are easily produced, leads to collaboration.

Takamatsu The DyDo Group originally expanded its business in collaboration with other companies. On the one hand, in our Domestic Beverage Business, we entrust the manufacturing to other companies. On the other hand, our Pharmaceutical-Related Business is entrusted by other companies. Even when we expanded our international business, the existence of partner companies was indispensable. When it comes to collaboration, the concept of partnership is the extension of our existing course of action, making it comparatively easy.



Norichika Kanie

Professor, Graduate School of Media and Governance, Keio University
Ph. D. in Media and Governance
Director, xSDG Laboratory, Keio Research Institute at SFC

DyDo Group's contribution to the SDGs

Takamatsu By advancing the spirit of "creating happiness and prosperity together," we strive to achieve a world that benefits four parties: the seller, the buyer, society, and the future.

Kanie I can relate to the spirit of "creating happiness and prosperity together." The concept that a company can be sustainable only when it develops together with society is exactly what the SDGs require. The SDGs show that it isn't just about mutual prosperity for people now, it is also about creating happiness and prosperity together with future generations. I would like you to spread this philosophy to your group companies.

Takamatsu I have been thinking that efforts to spread our management philosophy should be strengthened. Upholding the company's goals is not enough. It is essential that these goals sink in until they inspire employees' actions. This is a challenge to be continuously tackled: to make the employees think of the company's goals as their own personal goals and then put their thoughts into action.

Prof. Kanie: An active role for vending machine networks as social infrastructure

It is typical to hear people voice doubts like, "Don't vending machines waste energy?" There is still room for improvement on this front, through measures such as using renewable energy. I'd also like such initiatives to tie in to how they can offer assistance during emergencies. That the DyDo Group's current vending machine network stretches across the whole country, including more rural areas, is one of its major strengths. I have great expectations for an active role for vending machine networks as social infrastructure, such as through machines that can provide people with free drinks during an emergency, or equipping machines charging functionality.

The smart operation initiatives that are currently underway will not only allow more efficient operations, but will help reduce food

loss through an improved balance between supply and demand. In the future, I would like the DyDo Group to clearly demonstrate its societal value by presenting the extent of its success in numerical figures, in a format that anybody can easily understand.

On the product front, I believe that the DyDo Group—as a company with origins in pharmaceuticals—can differentiate itself from its competitors through health promotion-focused products but also as a canned coffee producer that works hard for the human rights of the coffee bean farmers, distributors and others involved in order to produce ethical products.*2

*2 Products for which every stage of the production process, from sourcing raw ingredients or materials to reaching the consumer, is kind to people and the planet



| Dialogue among Outside Directors |

Realizing the Ideal Picture of the DyDo Group by 2030

DyDo's three independent outside directors—Shinji Mori and Masataka Inoue, joined by Michiaki Kurihara, who came on board in April 2021—held a dialogue concerning what is needed to realize the ideal picture of the DyDo Group as envisioned in its Group Mission 2030. Their interchange covered the challenges of the current situation as seen from an outside-director perspective, with three themes: competitive advantage in the vending machine business, governance to establish a second major source of revenue, and fostering the development of a next generation of workers.

Achieving Smart Operations with a Sense of Urgency

Inoue With the vending machine market itself becoming saturated, how the overall industry will utilize limited energy efficiently is important from an SDG standpoint as well. To achieve that will mean promoting change in the vending machine business. One of the DyDo Group's strengths is the quality of its operations. I believe it will be necessary to go a step beyond that and further enhance the quality of our operations, with an eye to changes in the vending machine business that go beyond the existing framework.

Mori As you say, the key to overwhelming competitive advantage is to establish a system that can serve as the basis for vending machine operation. There is a pressing need to enhance the smart operation functions that the DyDo Group is promoting, invest in them intensively, and complete the structure as soon as possible—one that will exceed the competition's.

Inoue I also believe that greater urgency is essential. It is necessary to identify when the smart operation structure must be completed, and make investments in line with that. The approach would not be to "improve" the current situation, but to have a vision of a changed vending machine business, determine first a timeline for implementation, and then based on that, to implement it all at once—in other words, a Vision Driven way of thinking. The first consideration is to adopt this approach to expand cash flow from the Domestic Beverage Business in a big way.

Kurihara I strongly sympathize on the point that time and speed are critical. In the late 1980s, the US did a thorough examination of Toyota, which was displaying conspicuous growth. The result was a report stating that the concept of time occupied an important position in Toyota's management strategy. Reading that report inspired Jeff Bezos to found Amazon. In addition, at the time, Dell Computer was facing a management crisis caused by excess PC inventory, but they studied the report and achieved

success by switching to a business model of manufacturing to order and delivering to the customer within five days. One of the factors behind these successes was that the US learned from Japanese companies that the concept of time occupies an extremely important position in management strategy. I think that today, its importance is increasing.

Inoue It is also important to gather opinions directly from employees regarding the effectiveness of the smart operation structure, and incorporate those opinions into management. I hear employees say that customer intimacy—the idea of building and strengthening close relationships with customers to meet their every need, and achieve strategic advantage from long-term, stable relationships—is one of their strengths, but I would also like to reinforce their awareness of the importance of aiming for operational excellence (that is, excelling in terms of frontline capabilities and establishing a position of competitive superiority through thorough refinement). And by fully employing the smart operation structure, I think DyDo can be a change leader in the vending machine business.

Mori In the post-COVID-19 era, vending machines will surely have a role to play as social infrastructure, by offering functions that are automated, non-contact, and not dependent on retail outlets. The DyDo Group has one of the industry's largest installed bases of vending machines, and is well positioned to leverage smart operation structure functions. It should expand its vision of vending machine business operations to include the post-COVID-19 world, and consider what strategies it should follow.

Investment Standards Should Be More Detailed

Mori To date, investment has been made on the basis of clear standards and the best judgment possible at the time. However, closer analysis is needed with respect to how successful each investment has been, in what form return is being realized, and how each investment is likely to perform in the future. Each investment should be tracked continuously from an efficiency standpoint, and the findings applied to the next investment.

Inoue I also feel there is a need to consider investment significance and return. Standards for the strategic significance of an investment and its expected return are also necessary. After an investment is made, regular reviews are required to verify that the business is proceeding as planned. In addition, when withdrawing from an investment, the company must do so with deliberation, and apply lessons learned to the next investment decision. I believe that formulating investment “stories” that include comprehensive standards, including those relating to withdrawing from the investment, is a challenge that needs to be addressed.

Mori I would agree that there is scope for improving the standards for withdrawing from an investment. It is necessary to have a comprehensive view of the business and establish detailed standards. For example, there should be “triggers” for withdrawal from an investment if certain conditions are not met by certain dates.

Enhancing Corporate Value through the Medical-use Pharmaceuticals Business as a Second Major Source of Revenue

Kurihara What is innovation? For example, in the early 20th century, the Wright brothers achieved the world's first manned, powered flight. At that point, they were inventors. In the years that followed, airports were built and equipped, pilots and flight attendants were trained, and furthermore, the concept of going on journeys via airplanes emerged. In 1933, an airline company carried customers between continents for the first time. This is the point where we finally get to innovation. In other words, the essence of innovation is “creation of new value for the customer”, but sometimes this takes time. An example is the pharmaceuticals business. With new drug development in particular, there's no guarantee that things will go smoothly as planned from official approval to product commercialization. The process involves a wide range of uncertainties, but it is important that each step be carried out meticulously. It goes without saying that in the pharmaceutical business, the effectiveness and safety of products to be used by patients is of paramount importance, but we need to listen sincerely to the doctors who use the products, their treatment philosophy and problems. This is very important. It's therefore especially necessary for us to acquire the process knowhow needed for our business scheme—that is, delivering DyDo Pharma branded products to physicians, and ultimately having patients use them. Fortunately there are many individuals in DyDo Pharma with proven track records in pharmaceutical companies. When the knowhow possessed by each of these individuals is combined, we can look forward to DyDo establishing solid expertise in the orphan drug business. DyDo Pharma must contribute to society through



its business, but since an enterprise is a going concern, it goes without saying that the basic premise of an enterprise is to enhance value. We need to think of the pharmaceuticals business not in isolation, but always as part of the overall group.

Mori From a sustainable management standpoint, the DyDo Group needs a major source of revenue outside its core vending machine business to ensure its continuity beyond 2030. The orphan drug business was chosen as this source of revenue, and I think we can anticipate good results from this decision with eyes on the aging society. Going forward, we will need to accumulate expertise to develop our pharmaceuticals business into a second major revenue source, but the Board of Directors will have to exercise full oversight at each key step of the way. I invite Director Kurihara to share his expertise regarding the path that DyDo Pharma should take going forward. And with the company working in unison, I hope we can develop this into a second major source of revenue.

Inoue DyDo Pharma incurs fixed costs, though they are low, and these must be considered from the standpoint of the group as a whole. While we would like to accurately evaluate its business potential, compared to specialists we have insufficient knowledge of the pharmaceutical market, making such evaluation difficult in some instances. I hope Director Kurihara will fully apply his knowledge of the pharmaceutical industry, and provide appropriate input in areas that to date have been uncertain.

Encouraging the New Generation of Workers to Expand Their Horizons

Mori In September of 2020, the company launched a program to allow our employees to pursue second jobs. DyDo Group employees are very serious and sober. While they work diligently in their respective roles and fulfill their responsibilities reliably, it's my impression that even if they have a desire to try something new, many of them are not fully able to do so in practice. We felt it was important to create a scheme that would enable them to gain new



experience through second jobs, apply the knowledge and skills they acquire to their principal jobs, and contribute to the growth of the DyDo Group.

Inoue Indeed, DyDo Group employees give a strong impression of being diligent, sober, and serious, and of working sincerely to master their jobs. Going forward, I would like to see them look to the future, move toward the ideal picture of the DyDo Group, and create a timeline for realizing it. To that end, each employee should have his or her personal version of the ideal picture, one linked to the company's version. In particular, I believe it will be important for employees to have a first-hand experience of management. In that



sense, it may be that young employees will work effectively if they are allowed to manage a small business at an early stage. I think that when it comes to business management, planning and control are of the essence, and I'd like to see young employees have their own scenario based on analyzing the company's and their own organization's visions, with a timeline and plan for how much needs to be done to realize that goal. If they can link these visions, the result will be something they can feed into their PDCA cycle, which in turn will facilitate their professional growth.

Kurihara I feel that the DyDo Group has an excellent corporate culture of transparency when it comes to disclosure. Solid progress is being made toward increasing women's participation in the workforce, and employee diversity is progressing steadily as well. In addition, while there are various opinions relating to employee development, based on my personal experience, the more challenges and pressure employees take on and experience, the more they grow. The people whom the DyDo Group has developed, amid the corporate culture that has evolved since its founding, have great potential. Because of this, I look forward to significant growth in the future.

Corporate Governance

Basic Approach to Corporate Governance

“Creating happiness and prosperity, together with people and with society. To achieve this goal, the DyDo Group will continue to embrace new challenges in a dynamic way.” Our corporate philosophy inspires us in our ongoing quest to ensure proper, upstanding business practices and rigid compliance with relevant laws and regulations. It motivates us to constantly improve management efficiency and transparency, and to promote the group’s mutual benefits with all of our stakeholders, including our customers, our employees, our business partners, our communities, and our shareholders. It is the very cornerstone of our corporate governance, which is geared toward generating sustainable growth and improving corporate value over the medium to long term.

The core business of the DyDo Group is the Domestic Beverage Business, and considering the fact that 80% or more of our sales for this segment come from vending machines in the local community, it is fair to say that our soft drink products are a familiar part of consumers’ everyday lives. Moreover, our operations are conducted under a “fabless management” system,

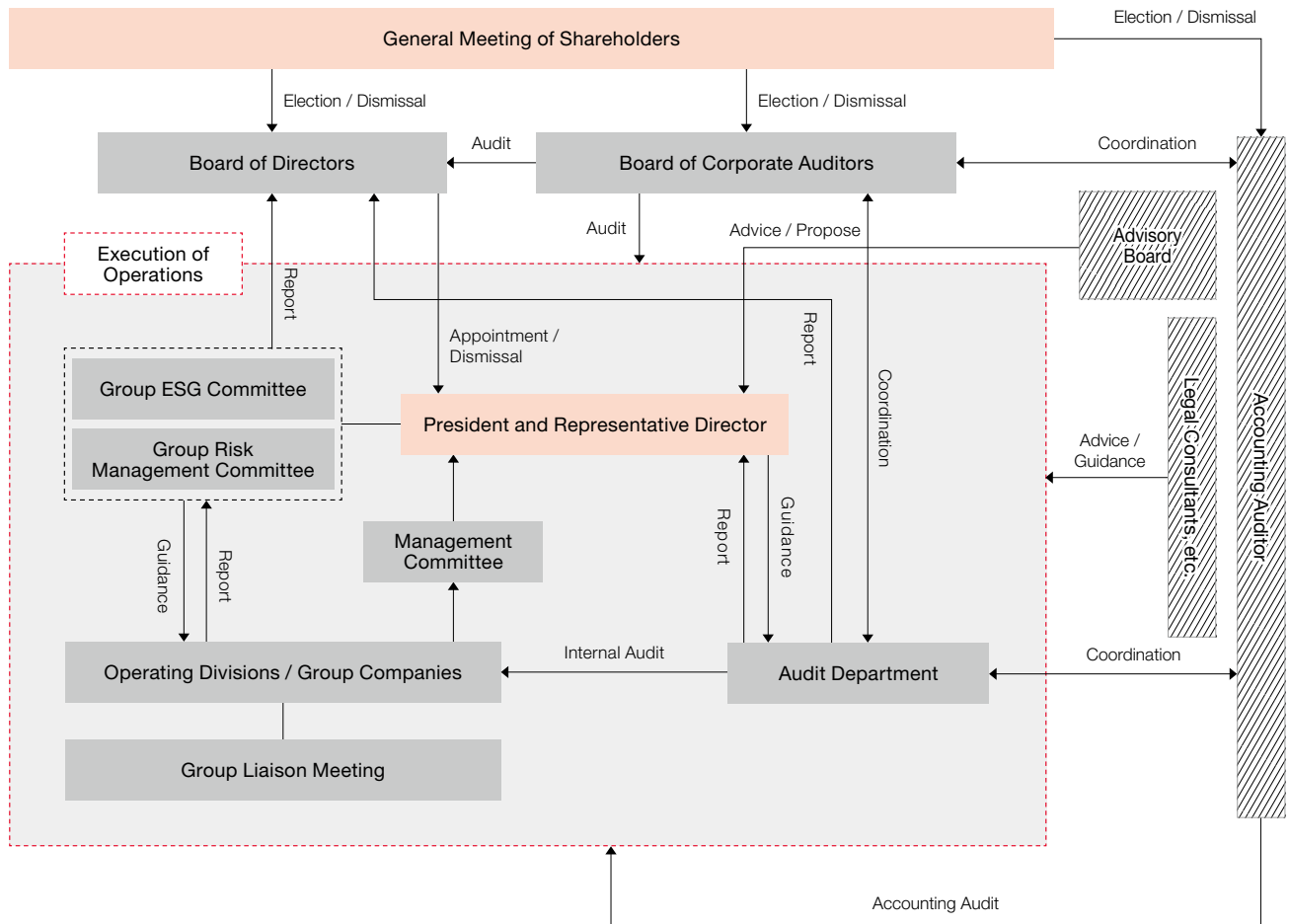
which means we have no plants of our own and instead work in close cooperation with producers and distributors nationwide, to whom we outsource the manufacture and delivery of our products. We concentrate our resources on more specific roles, such as product planning and development, and vending machine operations. We have one of the industry’s most extensive networks of vending machines, which are maintained by DyDo Group employees and the “Kyoekai” (special operators that handle DyDo DRINCO’s vending machines).

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

Ongoing Improvements to Corporate Governance

Business expansion		June, Tarami became a subsidiary									
			December, Started Russian vending machine business								
					December, Entered the Malaysian beverage market						October, Withdrawal from Malaysia
						February, Entered the Turkish beverage market					
								March, Announced entry into the orphan drug business ➡Signed licensing agreement in January, 2021			
Pre-2012	2012	2013	2014	2015	2016	2017	2018	2019	2020		
President				Appointment of Tomiya Takamatsu as President							
Group structure						Transition to holding company structure					
									Established the Group ESG Committee		
Revitalizing the Board of Directors and strengthening its functions	Introduction of an corporate officer system										
					Review of the scope of authority	Transfer of authority to group companies					
	Number of members on the Board of Directors as determined in the Articles of Incorporation: 9 or fewer				Number of members on the Board of Directors as determined in the Articles of Incorporation: 7 or fewer						
								Establishment of the Advisory Board			
Improving the effectiveness of the Board of Directors						Introduction of a performance-based incentive program					
					Evaluation of the effectiveness of the Board of Directors	Disclosure of a summary of the evaluation results					
Outside directors			Appointment of two outside directors								
					Over one-third of all directors are outside directors						
Corporate philosophy	1984: Formulation of DyDo DRINCO Corporate Mind (company philosophy)			Formulation of a new Group Philosophy, Vision, and Slogan							
				Formulation of the Basic Approach to Corporate Governance							
							Formulation of the Group Code of Conduct				

Outline of Our Corporate Governance System



(As of June 15, 2021)

Organizational structure	Company with Board of Corporate Auditors	Corporate officer system	Yes
Number of directors as defined in the Articles of Incorporation	7 or fewer	Number of auditors as defined in the Articles of Incorporation	4 or fewer
Term of directors as defined in the Articles of Incorporation	1 year	Term of auditors as defined in the Articles of Incorporation	4 years
Number of directors	6 (of which 3 are independent outside directors)	Number of auditors	4 (of which 3 are outside auditors)

	Directors	Auditors	Corporate Officers	Presidents of Major Subsidiaries*1	Roles
Board of Directors	●	●	(●*2)		<ul style="list-style-type: none"> Discusses/decides management strategy and other important matters Oversees execution of the duties of directors, and execution of the operations of each group company
Board of Corporate Auditors		●			<ul style="list-style-type: none"> Receives reports, discusses, and makes decisions on important matters relating to auditing Audits execution of the duties of directors
Management Committee	○	○	●		<ul style="list-style-type: none"> Formulates policy and plans for overall execution of management, and carries out tasks including investigations, research, planning, management, communication, and coordination
Group Liaison Meeting	○	○	●	●	<ul style="list-style-type: none"> Shares important matters in the group Carries out tasks such as reporting the management situation from each subsidiary
Group Risk Management Committee	○	○	●	●	<ul style="list-style-type: none"> Identifies and evaluates company-wide risks, and formulates countermeasures Conducts checks and improvement of overall risk management
Group ESG Committee	○	○	●	●	<ul style="list-style-type: none"> Investigates and approves the group's overall ESG management Decides on, and directs improvements to, the group-wide ESG program
Advisory Board					<ul style="list-style-type: none"> Formed the Advisory Board (established as a discretionary measure), which includes outside experts and will advise the president, giving evaluations and suggestions for matters requiring a high level of expertise

*1 DyDo DRINCO, DAIDO Yakuhin, Tarami

*2 Corporate officers who are not also directors participate as observers

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

Evaluation of the Effectiveness of the Board of Directors

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

Analysis/Evaluation Method

In order to analyze and evaluate the effectiveness of the Board of Directors, during the period between December 2020 and February 2021, all directors and auditors carried out a self-evaluation survey, and individual interviews were carried out by the Secretariat of the Board of Directors.

After that, at a meeting of the Board of Directors that was held on March 4, 2021, in addition to analyzing the results of the self-evaluation surveys, and in an attempt to enhance awareness regarding present issues, constructive discussions were held regarding these matters and future efforts to realize a higher level of effectiveness for the Board of Directors.

Evaluation Items

The self-evaluation form used the following headings to facilitate a review of the nature of discussions held by the Board as well as how the body dealt with issues over the last year.

- (1) Agenda and operations of the Board of Directors
- (2) Operations of the Board of Directors over the medium and long term in light of the Group Mission 2030
- (3) Other (issues related to the strengthening of governance structures, etc.)

Overview of Analysis/Evaluation Results

A discussion based on our analysis of the self-evaluation results concluded that the Board of Directors is functioning effectively.

Reference: Evaluation results last fiscal year

Future issues to address in order to boost the effectiveness of the Board of Directors

1. Concerning the composition of the Board over the medium and long term, it will be necessary to continue considering appointing an even more diverse group of directors in response to the development of the company's business strategy and changes in society.
2. Concerning materials provided to the Board, there remains room to improve the resources offered to directors, for example by better clarifying key issues in order to further stimulate discussion.
3. Concerning the operation of the Board, it will be necessary to enhance opportunities for reporting to, and deliberation by, the Board with regard to important management issues as we seek to increase our corporate value over the medium and long term, including in the hiring, retention, and training of human resources, the strengthening of the foundation of our Domestic Beverage Business, and the expansion of our operations in the healthcare domain.
4. Concerning deliberation of important issues, it will be necessary to enhance opportunities for directors, operating officers, and outside officers to communicate about operations apart from regular meetings of the Board, which are necessarily subject to time constraints.
5. We will also study how to strengthen management structures to reflect the growing importance of international businesses for future growth.

Improvements in Board of Directors operations during FY2020

The Board of Directors sought to improve materials provided to directors in a number of ways, for example by including supplemental explanations of progress in important KPIs in our Domestic Beverage Business, which is one of the Group's core businesses, and of points of discussion at the Management Committee and other bodies. It also worked to expand availability of information that contributes to ongoing monitoring of our approach to key management issues, for example by creating regular opportunities for reporting on progress in implementing our human resources strategy, and it held a series of discussions on criteria for exiting certain businesses.

With regard to deliberation of important matters, the Board sought to stimulate discussions, for example by convening meetings to facilitate the exchange of views in advance of Board meetings so that outside directors and auditors can better communicate with the directors who execute the company's operations.

With regard to discussions related to more highly specialized business domains, directors affirmed the need to provide sufficient and thorough explanations in advance of meetings and to appoint outside executives with extensive experience and expertise in specialized domains in the future.

The Board also identified the following issues, which will need to be overcome in order to further strengthen its function and effectiveness going forward:

- (1) The Board needs to create new opportunities for communication and further deepen discussions on the nature of the company's business portfolio and on the direction of its investment strategy as the company prepares to formulate the next mid-term business plan.
- (2) The Board needs to ensure appropriate oversight of the status of initiatives related to the hiring, retention, and training of human resources with the skills necessary to implement the succession plan that will orchestrate the transition to a new generation of executive leadership and the company's international business strategy.
- (3) In addition to working to strengthen management and auditing structures to accommodate the expansion of our international businesses, the Board needs to develop more sophisticated management techniques, for example by establishing KPIs that accommodate growth in our business domains.
- (4) With regard to the composition of the Board of Directors over the medium and long term, we need to continue to study how to appoint even more diverse human resources in response to progress in our management strategy and changes in society.

Future Efforts

In an effort to further strengthen its oversight function, the company proposed a resolution appointing new directors that includes an outside director candidate with extensive experience and expertise in the pharmaceuticals industry to the 46th General Meeting of Shareholders, which was held on April 16, 2021. Going forward, we will work to increase the company's value over the medium and long term by pursuing ongoing improvements in corporate governance structures that facilitate transparent, fair, swift, and bold decision-making.

Policy for Determining Director Compensation

1. Basic policy

To promote realization of sustainable growth and medium- to long-term enhancement of corporate value, director compensation should be competitive, as an incentive for securing superior management talent. To this end, we consider generally prevailing levels of compensation as well as the management environment, management content, and balance relative to employee bonuses, and perform periodic reviews. With respect to compensation determinations for individual directors, the company's basic policy is to set compensation at an appropriate level based on each director's management responsibilities, taking into account such factors as percentage fulfillment of medium- to long-term strategies, degree of importance, and expected value. Executive director compensation consists of base compensation as fixed compensation, performance-based bonus, and stock-based compensation. In view of their job responsibilities, outside directors, who exercise supervisory functions, receive base compensation only.

2. Policy for determining base compensation (monetary compensation) for individual directors (including the policy for determining the timing of compensation payment and terms relating thereto)

Base compensation for directors is fixed monthly compensation, determined based on a comprehensive consideration of factors including title, job responsibility, level of compensation at other companies for an individual with the same years of service, the company's business performance, and the amount of compensation paid to employees.

3. Policy for determining the content and amount, or number of shares, of performance-based and non-monetary compensation, as well as methods for calculation (including the policy for determining the timing of compensation payment and terms relating thereto)

Individual director bonuses are to be paid on a fixed date each year as a percentage of base compensation, calculated according to a coefficient of business performance fulfillment (projected consolidated sales and operating profit at the beginning of each fiscal year, as disclosed in the Consolidated Financial Report). The relevant calculation method will apply to bonuses paid during the fiscal year beginning January 21, 2022.

(1) Actual/target ratio, consolidated sales for the previous fiscal year

Actual/ target ratio	89% or less	90% – 94%	95% – 99%	100% – 104%	105% – 109%	110% or more
Coefficient	0	0.05	0.1	0.15	0.2	0.25

(2) Actual/target ratio, consolidated operating income for the previous fiscal year

Actual/ target ratio	89% or less	90% – 94%	95% – 99%	100% – 104%	105% – 109%	110% or more
Coefficient	0	0.05	0.1	0.15	0.2	0.25

In addition, non-monetary compensation is paid as performance-based stock compensation. Stock is that of the company, with points calculated according to a coefficient determined by basic points attributable to the individual's title as of the relevant fiscal year and the percentage of business performance fulfillment, with the number of shares paid corresponding to the total of points when the individual steps down as director.

4. Policy for determining the allocation of monetary compensation, performance-based compensation, and non-monetary compensation for individual directors

Allocation of executive director compensation by category will be based on consideration of industry standards and the company's business scale, management environment, and management strategy, and determined at a meeting of the Board of Directors that is attended by the independent outside directors.

5. Items relating to determination of individual director compensation content

With respect to the amount of individual compensation, the specific content shall be approved by the president and representative director based on the decision of the Board of Directors, with authority over the amount of individual directors' base compensation and bonus.

The individual director bonus to be paid starting with the fiscal year beginning January 21, 2022, will be determined according to a coefficient calculated from business performance fulfillment (projected consolidated sales and operating profit at the beginning of each fiscal year, as disclosed in the Consolidated Financial Report) and applied to base compensation.

Strengthening the oversight functions of the Board of Directors

The role of outside officers, particularly that of outside directors, is becoming increasingly important. While these individuals are "outside" the company, in today's world they are called upon to consider the company's management deeply with an eye to its future. I believe they should promote the evolution of the Board of Directors into an even more effective body, by creating opportunities to closely review specific measures relating to business management and policies under consideration by the president and their management team, and by carrying out positive discussion.

I believe that our Board of Directors is a forum where members can easily express their opinions, but with respect to new businesses, for example, I think there are matters that should receive more time for careful discussion. As an auditor, I hope to observe the process of discussion and execute my responsibilities firmly.

When entering into business areas outside the Domestic Beverage Business, we must consider inviting director-class individuals from outside the company. I hope they will understand DyDo's history and character, because to realize the three basic policies of our Group Mission 2030 (innovation in the Domestic Beverage Business; expansion of our business overseas; and development of a second major source of revenue in non-beverage businesses), I think the Board of Directors must be capable of appropriately managing, overseeing, and guiding each aspect of the businesses that relate to those policies.

Moreover, I believe the question of how the company should develop senior management candidates will be a major challenge going forward. Securing quality human resources will be critical to the company's development. I hope we will allocate the time necessary for a fully adequate exchange of views.



Sachie Kato
Independent Outside
Corporate Auditor

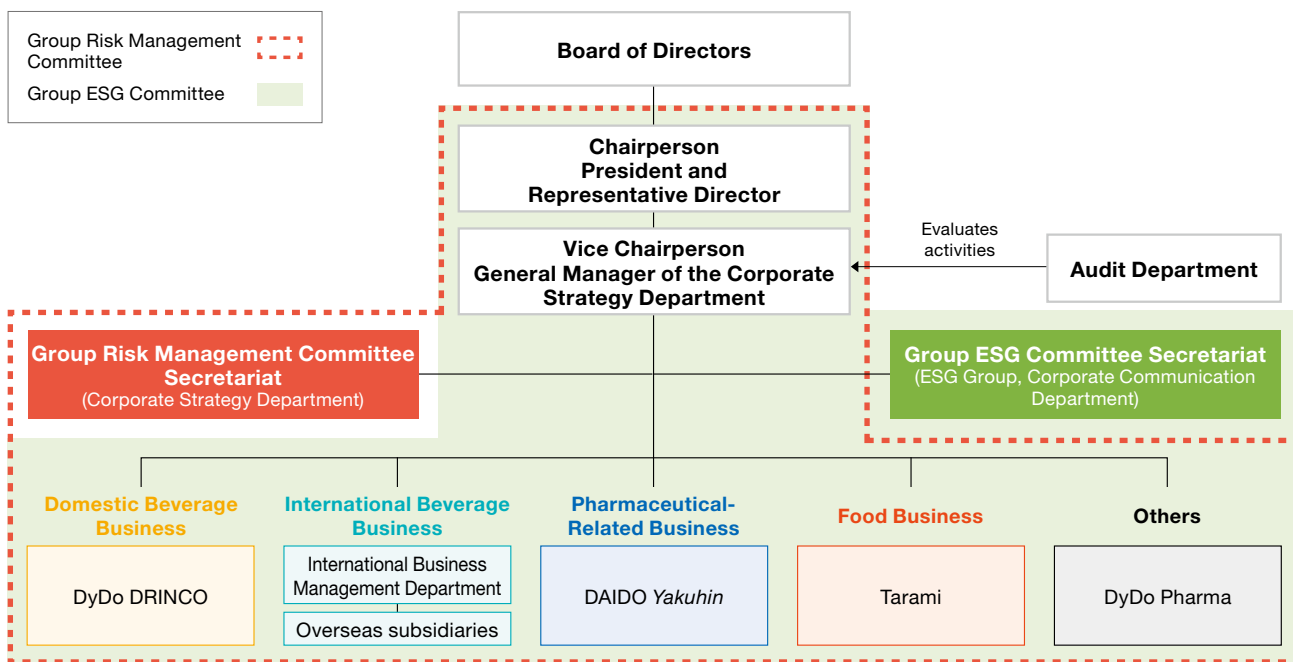
Risk and Opportunity Management

Promoting Risk Management and the ESG Program

To achieve sustainable growth for our businesses, the group needs to appropriately grasp changes in society and the environment, and strive to minimize business risks while maximizing opportunities. As such, in order for the DyDo Group to bring together its risk management and ESG program (which manages the progress of ESG management promotion), we established the Group Risk Management Committee and the

Group ESG Committee, both of which are chaired by the president, and we are linking together various initiatives centered on those two committees as part of our management of the group. We will investigate countermeasures to the changes in our business environment from a medium- to long-term perspective to reduce risk as we strengthen our efforts toward sustainable growth.

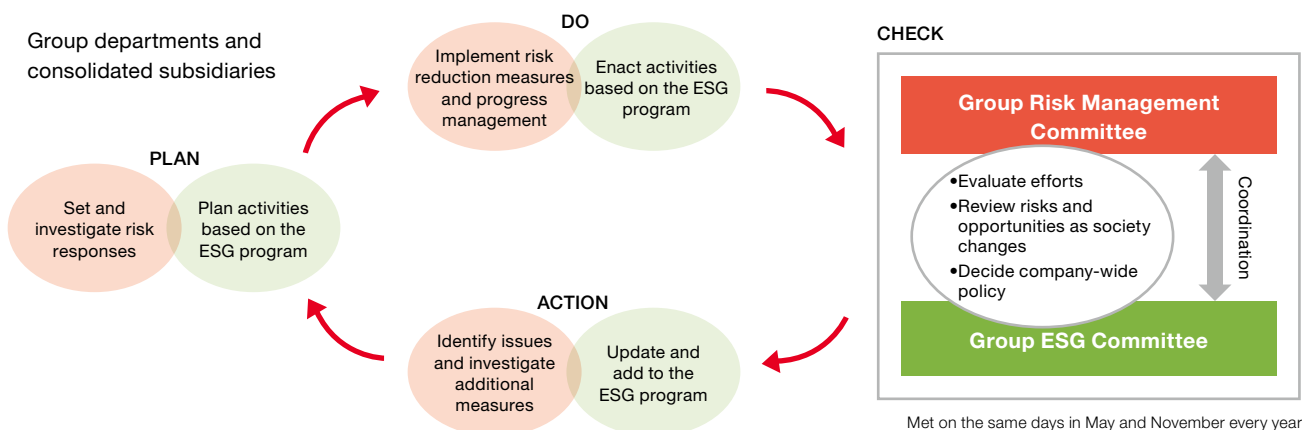
Structure of the Group Risk Management Committee and Group ESG Committee



Management Process

For the purpose of risk management and the ESG program, we have put in place a PDCA cycle-based system that revolves around our Group Risk Management Committee and Group ESG Committee. Risk management involves identifying risks that may have a serious impact on the group and assessing the adequacy of the countermeasures in place for those. It also requires that the form our efforts take are updated. The ESG program lays out the

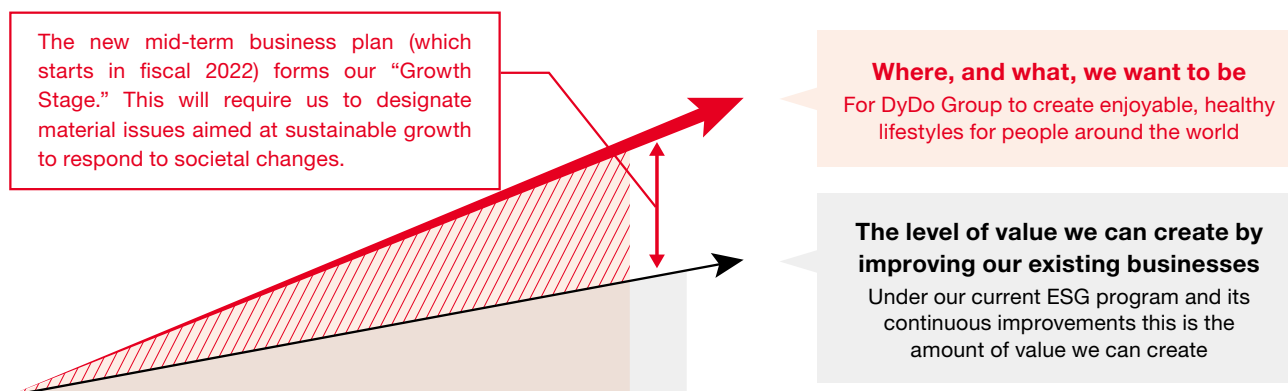
activities we will take to respond to the societal issues we must tackle to achieve the goals of Group Mission 2030, and which are carried out by group departments and consolidated subsidiaries. We report on our progress at the committee meetings, which are held biannually, and we are reviewing our activities and key performance indicators (KPI) to meet changes in society.



Improving ESG Program Implementation by Designating Material Issues

To advance our ESG management, it is important to identify and designate priority (material) issues that impact on the group's sustainable growth. We are currently sorting through various activities that we have previously implemented, and are confirming their progress and reviewing their targets. It is by designating

effective material issues that are integrated into management strategies as part of the new mid-term business plan, though, that we will make a real contribution to sustainable business growth and a sustainable society.



In order to effectively designate material issues, we must first ask ourselves the following questions: What are the group's strengths that support its business growth, and what kind of value should we provide society in the future using those strengths? It is vital that we clarify the answers to those questions through dialogue with employees and other stakeholders. The results can be tied

into the formulation process for the next mid-term business plan, which will allow us to appropriately grasp employee expectations and demands from society so we can become the company we should be in the future.

In fiscal 2021, we will identify and designate material issues by following the steps below.

Material issue selection process



- ☒ All employees are asked about the SDGs they feel the DyDo Group should contribute toward and the themes we should tackle
- ☒ Individual interviews are carried out with business partners and experts regarding the SDGs they expect the DyDo Group to strive toward and the themes we should tackle
- ☒ Feedback from the employee questionnaire and interviews with external stakeholders is used to inform individual interviews with executive management about the SDGs the DyDo Group should focus on and the themes we should tackle
- ☐ Based on the results of our analysis, issues will be assigned a priority level

*Interviews are conducted primarily with vending machine location owners, the local DyDo vending partner association (“Kyoeikai”), beverage partner production plants (packers), distribution companies, food wholesalers, retail companies, pharmaceutical manufacturers, cosmetics manufacturers, institutional investors, local governments, non-profit organizations, experts, etc.

We believe that future ESG programs will require us to set KPIs and prioritize initiatives based on the material issues we designate. Rather than stick to the targets and improvements we have previously achieved, we will use the backcasting planning method

to identify the issues from where we want to be and by tackling those issues, we will aim to both achieve sustainable business growth and contribute to making society more sustainable, as well as enhancing our corporate value in the medium to long term.

Response to COVID-19

With population demographics and the state of society changing, and technology evolving, the transformation of our external environment continues ever faster. Amid those trends, though, the spread of COVID-19 has had an unprecedented impact on society and the economy. The DyDo Group has always tried to strengthen its risk management system and running of the group

in response to business expansion. Even in a post-pandemic era, what some call the “new normal,” we should continue to aim for the sustainable growth of our businesses and promoting more effective risk management. At the same time, we are working to grasp the opportunities offered up by societal changes resulting from the pandemic in order to create new value.

Risk Management during the Pandemic

With no end in sight to COVID-19, we have taken providing safe products and services that offer peace of mind and safeguarding our employees—aspects of the mission demanded of us by

society that we should fulfill—as themes as we promote activities to minimize the risks that threaten our business continuity.

<Major initiatives>

Providing products that are safe and offer peace of mind

We carry out thorough cleaning and disinfecting of our vending machines, and have developed vending machines with anti-viral capabilities



Taking measures to prevent infection at production facilities*

At the entrance to our facilities, we are conducting temperature checks and ensuring employees and visitors wear masks and wash their hands. Once inside, we make sure to disinfect and avoid the 3Cs (closed spaces, crowds, and close contact).



*Manufacturing plants belonging to DAIDO Yakuhin and Tarami

Promoting remote working

Regardless of the pandemic situation, we are actively implementing remote working, and promoting both greater work productivity and infection prevention.



Other activities to safeguard employees

- We are installing plastic curtains to prevent droplet infections at sales sites, etc.
- Ensuring space between diners at employee cafeterias and installing plastic sheeting to prevent droplet infections
- Thoroughly enforcing masks, temperature checks, hand washing, and disinfecting with alcohol when employees come to work
- Moving major meetings, such as management meetings, online
- Proactively applying staggered working hours

Initiatives That Take Opportunities Presented by Societal Change to Create Value

The spread of COVID-19 has had a pronounced effect on consumer behavior and economic activities. We believe that understanding and rapidly responding to the chances offered by

dramatic changes in society presents new business opportunities. Now, by throwing off the shackles of conventional thinking, we are coming together to create new value.

<Major initiatives>

Strengthening remote sales

We established a remote sales team that specializes in online business negotiations, and are strengthening our ability to hold efficient sales activities even without meeting face to face. (For more details, see [P21](#))



Reforming vending machine operations

We are making progress with the creation of a system that will allow our vending machine operations to flexibly and efficiently meet changes in the business environment. (For more details, see [P22](#))



Selling health and sanitary supplies

We have started selling health and sanitary products like face masks, which help prevent infections, at our vending machines. (For more details, see [P23](#))



Risks Facing Our Growth Strategies, and Our Countermeasures

The DyDo Group periodically evaluates the level of impact and risk of occurrence of a number of factors that have the potential to exert a large, adverse effect on the group's results and financial position. Furthermore, we review the countermeasures we have in place to mitigate those risks as and when needed.

Here, we take a deeper look at the risks and countermeasures

relating to two growth strategies—the expansion of our business overseas and entry into the orphan drug business—which we have formulated as a step toward creating a new management structure that will allow us to achieve Group Mission 2030. The newly added risk item “Entry into the orphan drug business” will be subject to evaluation from fiscal 2021 onward.

Risks affecting international business expansion

Business development

The Turkish beverage business makes up a large proportion of our International Beverage Business. Its leading brand, “Saka” mineral water, continues to grow steadily as consumers become more concerned with their health, and we expect further growth in the medium to long term.

Major business risks and impacts

The greatest risk to the Turkish beverage business is that the cost of importing raw materials could skyrocket due to depreciation of the Turkish lira. In Turkey, the materials used to make plastic bottles must be procured from abroad, which means that the effect of a depreciating lira can have a major impact on the cost of sales. Since 2020, the spread of COVID-19 has caused urban areas to lockdown; these and other factors have had a pronounced effect on consumer behavior and economic activities. We will need to keep a close eye on future changes to society.

Risk countermeasures and future issues

As a strategy to mitigate the risk posed by the depreciation of the lira, we will strengthen our exports to the UK and other European countries. An advantage of products exported from Turkey is their low manufacturing costs, and as such we are expanding the business. Should, hypothetically, the depreciation of the lira continue, this advantage could become an even greater boon. We are aiming for a business portfolio for which we can expect stable profits under such conditions, and that is why we will increase the proportion of our business that is made up of exports. We will also further bolster our HOD (Home/Office Delivery) business, which

should help us minimize the effects of lockdowns within Turkey.

Risk and countermeasures for the entire international business, including China and Russia

There are many risks associated with international business development, including national variations—in law or regulations, systems, politics, economies, states of society, cultures, religions, or business practices—and changes in exchange rates. The DyDo Group's policy is to work to expand its business overseas and so, to minimize those risks, it develops its business under a system where the holding company's International Business Management Department manages and supervises overseas subsidiaries. Based on third-party evaluation feedback on the holding company's Audit Department, we will establish an order of priority for countermeasures and strengthen our auditing system as we make progress reformulating our international business strategies and work toward making the entire international business segment profitable.



Mineral water
“Saka” exported
to the UK

Entry into the orphan drug business

Business development

We have designated the healthcare-related market as our next growth area, including life science fields, which have high growth potential. Of those, we have focused on medications for challenging diseases that have fewer than 50,000 sufferers in the whole of Japan, so-called “orphan drugs.” In January 2019, we established DyDo Pharma, Inc. to handle our orphan drug business, which represents the business segment “Other.”

Major business risks and impacts

During the period of investment needed to construct our business foundation, negative cash flows will continue and this may have an effect on the group's business performance, etc. Other risks are that the development of medical-use pharmaceuticals during domestic clinical development could be halted due to unforeseen circumstances, or there could be a sizable drop in standard prices for medicines in the Japanese medical insurance system

that goes beyond our predictions. In either case, it would become difficult to recoup our investment costs, and this could have a significant impact on the DyDo Group's management results, etc.











Risk countermeasures and future issues

A high degree of expertise is required to conduct business in the medical-use pharmaceuticals industry. Recognizing the need to strengthen the Board of Directors' oversight functions, at the General Meeting of Shareholders in April 2021, independent outside directors in possession of a wealth of knowledge and experience in the pharmaceuticals industry were appointed. (For details on independent outside directors, see **P 46**). Looking ahead, in addition to assembling expert personnel with prolonged experience in the pharmaceutical industry, we will take on board the assistance and support of outside experts, institutions and corporations, in order to boost internal understanding of pharmaceuticals as we move forward managing the business.

Evaluating risks that may impact our business

The DyDo Group's Group Risk Management Committee periodically evaluates the level of impact and risk of occurrence of each of the risks that may impact our business. We also add new risks to our list as and when required by changes to our business

portfolio, or similar. By appropriately grasping the current risk situation as it pertains to changes in the external environment, and by regularly reviewing effective countermeasures, we aim to achieve sustainable business growth.










	Impact of revealed risks on business performance, etc.	
	Management strategy issues	Impact
 Securing and developing personnel	<ul style="list-style-type: none"> Securing personnel to operate vending machines and production plants for each business Securing personnel with specialist expertise and experience in growth areas 	<ul style="list-style-type: none"> If continuous employment is hindered, sales and growth strategies for existing businesses will be negatively impacted
 Management and control of overseas subsidiaries	<ul style="list-style-type: none"> Prompt response to problems and phenomena that cannot not be anticipated, including changes in laws, systems, and business environments in international territories we have entered and to which we are exporting, differences in commercial culture, and the risk of foreign exchange rate fluctuations 	<ul style="list-style-type: none"> Losses arising from impairment or business withdrawal Medium- to long-term impact on international business strategies
 Corporate takeovers and business/capital alliances	<ul style="list-style-type: none"> Development of a second major source of revenue in non-beverage businesses through investment strategies including corporate takeovers and business/capital alliances Specific risks associated with new business areas and markets 	<ul style="list-style-type: none"> Inability to identify investment opportunities, inability to realize initial expectations of investment performance After investment, impairment loss realized when plan does not progress as expected
 Focus and reliance on the vending machine channel	<ul style="list-style-type: none"> Sales ratio of the vending machine channel for the Domestic Beverage Business is significantly higher than the industry average and fixed management costs are high Declining number of vending machines, etc. due to shortages of operations personnel and other factors 	<ul style="list-style-type: none"> Reduced income from Domestic Beverage Business, which accounts for a large proportion of sales, can easily affect overall group operating profit
 Market competition	<ul style="list-style-type: none"> Apparently limited medium- to long-term growth prospects for the Domestic Beverage Business market Increasing number of players: spread of e-commerce, accelerating increase in drug store outlets 	<ul style="list-style-type: none"> Drop in prevailing market prices, increase in sales promotion costs
 Procurement of ingredients and materials	<ul style="list-style-type: none"> Coffee beans, a major production input, are impacted by market changes and foreign exchange rate fluctuations Unstable exchange rate and high risk of changes in procurement costs in Turkey, a major international business territory 	<ul style="list-style-type: none"> Market environment may not allow recovery of costs through sales prices
 Production and distribution system	<ul style="list-style-type: none"> Flexible response in production and distribution made possible by diversified production among partner production plants nationwide and diversified distribution and other factors 	<ul style="list-style-type: none"> Number of production lines may fall subject to partner facilities investment plan Pressure on distribution due to personnel shortage, risk of steep distribution cost increase
 Quality control system	<ul style="list-style-type: none"> Product responsibility for beverages and food that customers consume 	<ul style="list-style-type: none"> A major distribution or other type of accident, including product contamination with foreign objects or substances, quality problems, or labeling problems, could cause an extremely serious problem, however unlikely
 Environmental compliance	<ul style="list-style-type: none"> Investigation of containers and packaging that address the global problem posed by plastic waste in the ocean Rationalization of energy use and strengthening of laws and regulations to combat global warming, etc. 	<ul style="list-style-type: none"> Increase in costs to cope with tightened regulations or tightened container and packaging standards Loss of water resources caused by climate changes, impact on coffee beans and other ingredients and materials Emergence of heightened physical risk, including damage to production plants by large-scale natural disasters
 Entry into the orphan drug business*	<ul style="list-style-type: none"> Stop to development of medical-use pharmaceuticals during domestic clinical development due to unforeseen circumstances Sizable drop in standard prices for medicines in the medical insurance system that goes beyond our predictions 	<ul style="list-style-type: none"> Commercialization could be halted, or drawn out over a longer period than predicted, which could make it difficult to recoup investment costs
Other risks	<ul style="list-style-type: none"> Changes in economic conditions, changes in external factors including laws and regulations Issues relating to management of customer data and to compliance 	-

*New risks that could affect businesses, etc.

The risks detailed above are organized by two indices—level of impact and risk of occurrence—by the Group Risk Management Committee. We periodically evaluate these risks, taking into account societal changes or changes in our business environment.

The results of our risk evaluation for fiscal 2020 are detailed below. The newly added risk “Entry into the orphan drug business” will be subject to evaluation from fiscal 2021 onward.

Impact

Impact	1 Extremely rare	2 Unlikely	3 Moderate	4 Frequent	5 Daily
5 Extreme impact				 Quality control system  Management and control of overseas subsidiaries  Procurement of ingredients and materials  Focus and reliance on the vending machine channel  Securing and developing personnel  Production and distribution systems  Market competition	
4 Significant impact				 Environmental compliance  Corporate takeovers and business/capital alliances	
3 Moderate impact					
2 Minor impact					
1 Non-material impact					
	1	2	3	4	5
	Likelihood				

Management

Board of Directors



President and Representative Director

Tomiya Takamatsu

Born 26 June, 1976

Profile

Apr. 2004 Joined the Company
Apr. 2008 Director, the Company
Apr. 2009 Managing Director, the Company
Mar. 2010 Executive Director, the Company
Apr. 2012 Vice President and Director, the Company
Apr. 2014 President and Representative Director, the Company (incumbent)



Director and Corporate Officer

Naoki Tonokatsu

Born 4 November, 1963

Profile

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



Director and Corporate Officer

Naoyuki Nishiyama

Born 30 July, 1965

Profile

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



Independent Outside Director

Shinji Mori

Born 22 May, 1946

Profile

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

Significant Concurrent Posts

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

Reason for Appointment and expected roles

Mr. Mori has extensive experience and an advanced level of specialized knowledge as an attorney, and he has served the Company for 13 years as an Outside Corporate Auditor and for seven years as an Outside Director. Based on that experience, he is appropriately carrying out his role in strengthening the oversight function of the Board of Directors by commenting on the Company-wide approach to risk management, and otherwise offering advice and suggestions as to the Company's management from an independent perspective. Based on this proven track record, he is considered to be qualified for service on the Board of Directors as an Outside Director.

Although Mr. Mori has not been involved in corporate management in a manner other than that of being an outside director/corporate auditor of the Company and other companies in the past, the Company has judged that he will be able to appropriately carry out his duties as Outside Director for the above reasons.



Independent Outside Director

Masataka Inoue

Born 12 October, 1954

Profile

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

Reason for Appointment and expected roles

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



Independent Outside Director

Michiaki Kurihara

Born 1 October, 1953

Profile

Apr. 1982 Joined Fujisawa Pharmaceutical Co., Ltd. (currently Astellas Pharma Inc.)
Oct. 2004 Deputy Division Director of Sales Division, Fujisawa Pharmaceutical Co., Ltd.
Apr. 2006 General Manager, Asia Business Planning, Corporate Strategy Division, Astellas Pharma Inc. (concurrently served as President and CEO of Astellas Pharma Hong Kong Co., Ltd., Director of Astellas Pharma China, Inc., Director of Astellas Pharma Korea, Inc. and Director of Astellas Pharma (Thailand) Co., Ltd.)
Apr. 2009 General Manager of Sales Promotion Department, Asia Business Division, Santen Pharmaceutical Co., Ltd.
Jun. 2010 Director and Vice President, Santen Pharmaceutical Korea Co., Ltd.
Nov. 2013 General Manager of Planning External Affairs Department, IMS Japan K.K. (currently IQVIA Solutions Japan K.K.) (incumbent)
Apr. 2021 Director, the Company (incumbent)

Reason for Appointment and expected roles

Mr. Kurihara has a wealth of knowledge and experience in the pharmaceutical industry. Based on his experience in the pharmaceutical industry in Japan and management experience at overseas subsidiaries, the Company has judged that he will be able to further strengthen the oversight function of the Board of Directors by offering advice and suggestions from an independent perspective on the Company's management issues, such as overseas business development and the establishment of a second pillar in the healthcare field.

Corporate Auditors



Standing Corporate Auditor
Kazuyoshi Hasegawa

Born 30 November, 1959

Profile

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



Independent Outside Corporate Auditor
Sachie Kato

Born 11 November, 1946

Profile

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

Significant Concurrent Posts

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



Independent Outside Corporate Auditor
Shigeyuki Moriuchi

Born 26 February, 1957

Profile

Oct. 1982 Joined Price Waterhouse Certified Public Accountants Office
Jul. 1998 Senior Partner at Aoyama Audit Corporation
Oct. 2005 Director and Senior Partner at ChuoAoyama Audit Corporation
May 2007 Senior Partner at Kasumigaseki Audit Corporation (currently Grant Thornton Taiyo LLC)
Jan. 2010 Managing Partner at Kasumigaseki Audit Corporation
Oct. 2013 Partner, Grant Thornton Taiyo LLC (incumbent)
Apr. 2019 Corporate Auditor, the Company (incumbent)

Significant Concurrent Posts

Outside Director (member of Audit and Supervisory Committee) at Koshidaka Holdings Co., Ltd.
Outside Corporate Auditor at KATO SANGYO CO., LTD.



Independent Outside Corporate Auditor
Kiyoshi Watanabe

Born 14 November, 1967

Profile

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

Corporate Officers

Corporate Officer and General Manager of the Corporate Communication Department

Naokazu Hasegawa

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

Akikazu Hamanaka

Corporate Officer and General Manager of the International Business Management Department

Mamoru Mitamura

(As of 15 June, 2021)

Our Directors' knowledge, experience and expertise

	Tomiya Takamatsu	Naoki Tonokatsu	Naoyuki Nishiyama	Independent/Outside Shinji Mori	Independent/Outside Masataka Inoue	Independent/Outside Michiaki Kurihara
Experience as President	○					○ (Overseas subsidiary)
Beverage industry/ vending machines	○	○	○			
Food products industry					○	
Pharmaceutical industry						○
International business			○		○	○
Finance and accounting		○				
Law				○		
Digitalization			○			
M&A			○		○	
Internal regulation and auditing				○	○	

Segment-Specific Initiative

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

Domestic Beverage Business

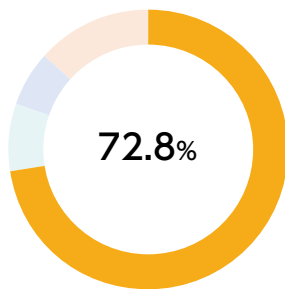
The Domestic Beverage Business comprises DyDo DRINCO and other group companies under its umbrella. We are focused on vending machines as our principal sales channel, while outsourcing the production of drinks and logistics as we concentrate our resources on product development and vending machine operations—areas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

Related Companies

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

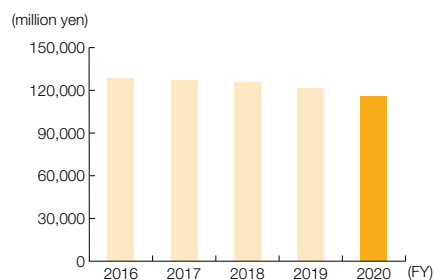


Breakdown of Net Sales

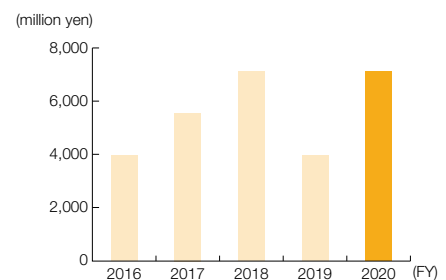


(Breakdown of sales to external customers)

Net Sales



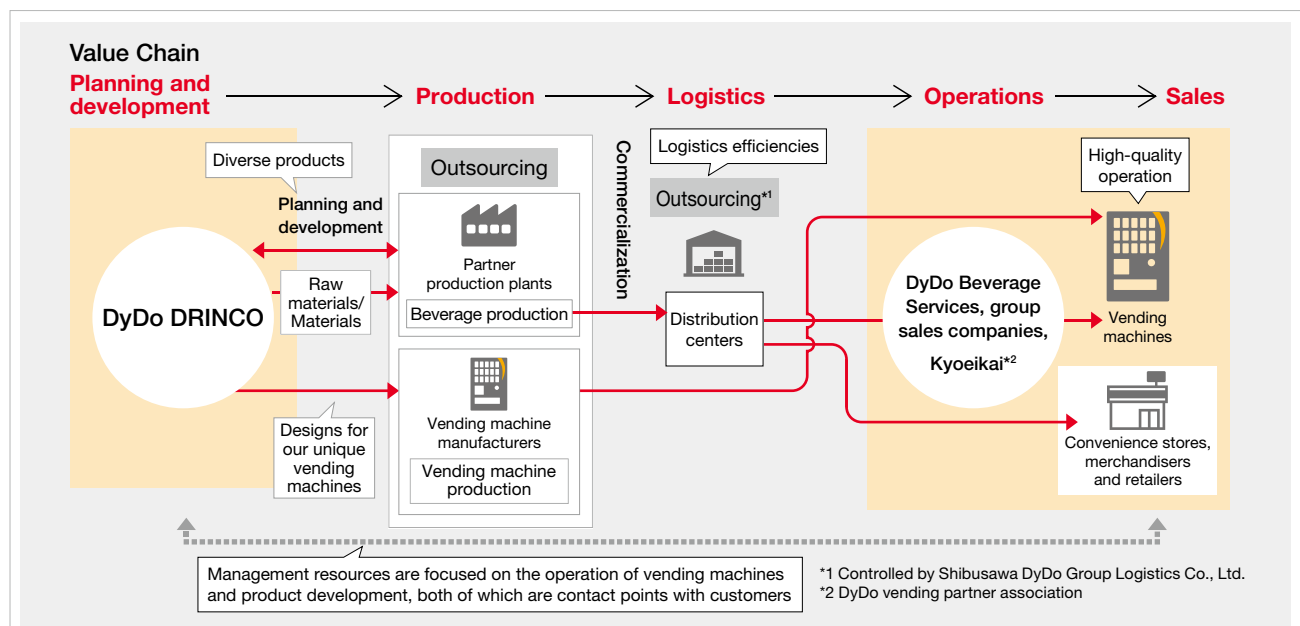
Segment Profit



Fiscal year	2014	2015	2016	2017	2018	2019	2020
Net sales	124,597	124,192	128,278	126,712	124,879	121,203	115,536
Segment profit	3,839	3,745	3,958	5,542	7,106	3,948	7,110
Segment profit margin (%)	3.1%	3.0%	3.1%	4.4%	5.7%	3.3%	6.2%
Segment assets	130,485	145,737	110,241	52,219	50,117	50,148	51,152
Capital expenditure	11,500	9,788	7,017	6,505	6,712	6,853	5,949
Depreciation	11,287	10,657	10,643	9,246	8,062	7,148	3,548
ROA (%)	3.0%	2.7%	3.1%	10.3%	13.9%	7.9%	14.0%

(Millions of yen)

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



Strength and Characteristics 1

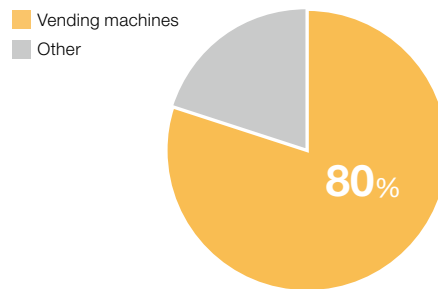
New Value Creation Based on Retail Business Ideas

Although the Domestic Beverage Business develops its own brands in-house, its business model is similar to that of a retailer. For typical drinks manufacturers, whose business model is to make their profit through mass production and sales of proprietary brands, vending machines are just another sales channel, along with convenience stores, supermarkets, and drug stores. We, however, first install our retail outlets—vending machines—and optimize the product line-up to the individual location. This way, we generate revenue growth by improving sales per unit.

At the heart of this business model is the concept of “being there”—selling products that customers want in surroundings that are familiar to them. This concept has been passed down since the time of the company’s founding when we first established the “use first, pay later” medicine business. This approach is something that we are fully committed to preserving amid the

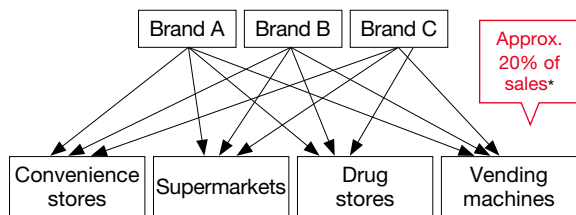
backdrop of significant flux in the business environment. It is a strength that enables us to continue to create new value even if the lines of business we operate in change.

Proportion of sales via the vending machine channel (in FY2020)



How typical drinks manufacturers operate

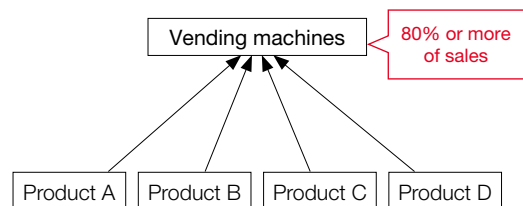
Develop a brand, promote sales



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

How we operate

Create sales channels and fill vending machines with products optimized to the location



Strength and Characteristics 2

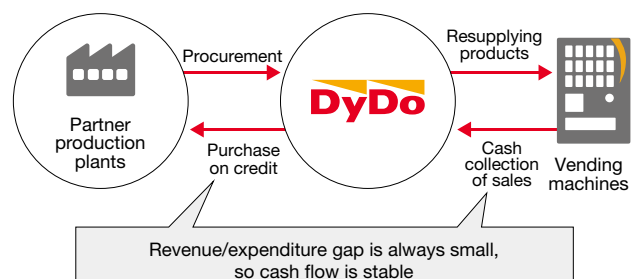
Fabless Management Generates Strong Cash Flows

In order to expand sales in the Domestic Beverage Business, our vending machines need to be attractive to customers, and one of the key criteria for that is a generous range of products. But our machines typically hold upward of 30 different product types, and making all of them in-house would require gargantuan capital investments. To avoid those investment risks, we outsource production to partner production plants across the country. In recent years, our product line-ups have met the needs of individual locations with non-beverage items, selling goods such as face masks and diapers; this highlights the flexibility inherent in the fabless business model.

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

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

Cash-in first business model

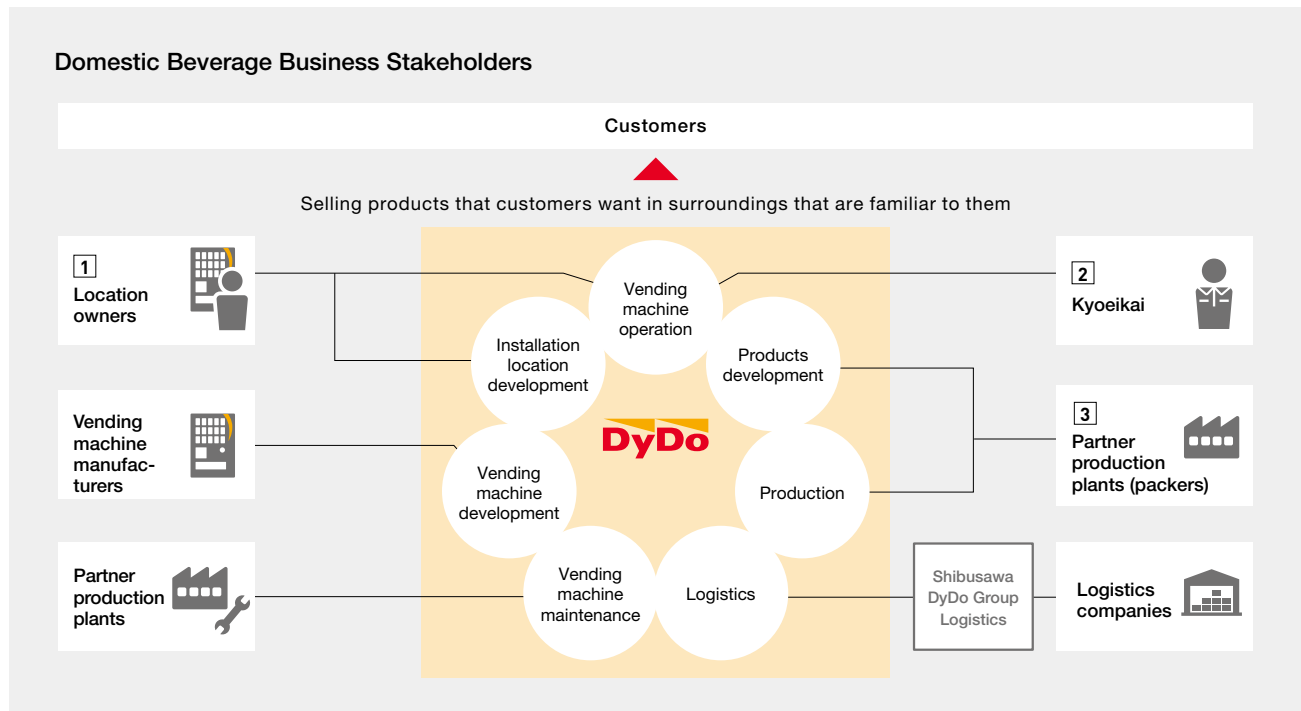


Strength and Characteristics 3

Working in Close Partnership with Stakeholders

In the Domestic Beverage Business, our resources are concentrated on areas of direct involvement with customers (products or locations), specifically the planning and development of products, the development of vending machine locations, and post-installation

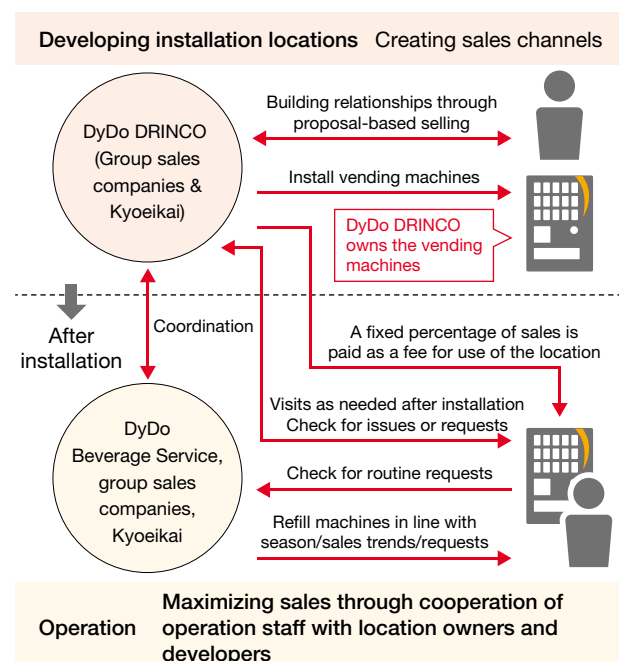
vending machine operations. Production and distribution are outsourced to cooperating suppliers, as are some non-direct sales. Thus, the group's business is built on happiness and prosperity together with a variety of stakeholders.



Close Partnership with Stakeholders 1 Aiming for Optimized Product Line-ups with Vending Machine Location Owners

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

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



Close Partnership with Stakeholders 2

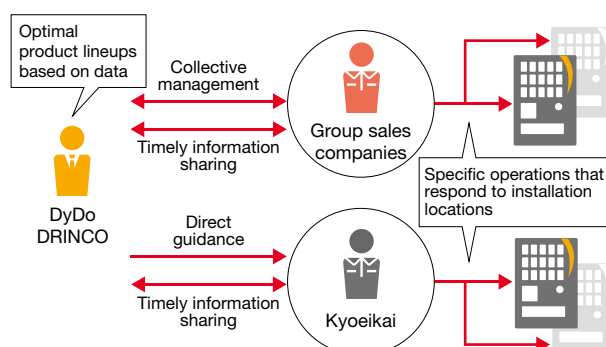
Robust Sales System through Working with the Kyoeikai

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

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

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

Measures to maintain high-quality operations



In order to achieve sustainability-focused management for the DyDo Group, we are once again investigating what the group's material issues are. To improve the effectiveness of that investigation, we held dialogues with business partners and other stakeholders between February and April 2021 on the topics of what they can expect from the DyDo Group in the future, and what role the DyDo Group must play. We will introduce the points they identified in these Stakeholders' Voices columns.

Stakeholders' Voices

Working together to create vending machines that revitalize local communities

Konishi Vending handles vending machine operations for DyDo in the main, but also for some other manufacturers, and we have been one of DyDo DRINCO's business partners for many years. A DyDo DRINCO representative often comes to visit and supports us by providing information and through other means. That said, I am slightly worried that the increased emphasis on advancing efficiency at operations sites will negatively affect one of DyDo's strengths—its closeness with Kyoeikai members like ourselves. While DyDo has been increasing the amount of information it provides recently, through the media or its websites, I would like to see it go even further than before in sharing information with us directly. As we are involved with developing new vending machine functions and products, as well as SDGs-related initiatives, among other things, I believe there is a lot that we can do to help. What makes DyDo so special is its roots in local communities; I would like to communicate more with one another to together get to the heart of that special quality.

The issue that DyDo should be working to address through its business is, I think, the problem of plastic waste. Due to their convenience, customer demand for plastic bottles is—as it has always been—high. That is why DyDo must work to raise awareness of the primary reason for the recycle boxes that sit alongside its vending machines, and to further expand its recycling efforts. These boxes are not intended for waste; they are for recycling. I also feel that the company can respond to the

Atsushi Konishi
President
Konishi Vending Co., Ltd.



needs of some customers for resealable bottles, where they do not want to drink the contents in one go, by increasing the number of bottle cans used. Another example that comes to mind is food loss reduction. Working to extend sell-by dates can both reduce food loss and make managing sell-by dates for vending machines easier. This would then lead to greater operational efficiency, so it's an initiative I would definitely like to see DyDo implement. Likewise, to extend the useful life span of the vending machines themselves, I'd like to see DyDo look into doing maintenance on-site, rather than transporting them to one of their sites to do so.

I think DyDo's recent efforts to add more non-beverage products to its vending machine line-ups and the new challenges it is taking on are very positive. I think Japanese people are currently feeling a bit down in the dumps. I'd like to see DyDo use its vending machines, which are close to the communities, to give them a bit of a boost. Through our vending machines, I'd like us to spread a little happiness. Let's work together to create the sort of DyDo vending machines that put smiles on the faces of those who visit them.

Close Partnership with Stakeholders

3

Working in Tandem with Packers to Achieve the Best Blends

The Domestic Beverage Business could never have grown to become the group's core business without quality coffees well suited to the vending machine format. What is more, we have always insisted since the very first days of DyDo DRINCO that DyDo Blend—our flagship product—and our other coffee products must be free of additives so that customers can always enjoy the true flavor of the coffee. In recent years, increased coffee consumption has seen a diversification in customer's preferences. Our mission is to meet those needs with a line-up of coffees suited to today's diverse coffee-drinking scenarios without compromising our devotion to quality, additive-free coffee. Thus, our traditional canned products have been joined by those in bottle cans and plastic bottles. There are endless varieties of coffee beans, from many different locations around the world, and all taste different depending on the roast. Amid all these many variables, the authentic flavors of our coffees are achieved by carefully blending at least five bean varieties to best represent each product's distinctive concept.

But while these products are developed in-house, from initial concept to deciding on the final recipe, production is outsourced to packers. To ensure the final flavor profile is just right, it is vital to work in tandem with packers. They are involved from the development stage prototyping, testing and fine-tuning the production lines, and going through repeated trial-and-error to make sure the finished product is perfect.



Making additive-free products that bring out the authentic, original taste of coffee beans

Stakeholders' Voices

Solving societal issues together through products

My company, NIHON CANPACK, works together with DyDo DRINCO to develop some of DyDo's products, which we also handle manufacturing for. Ways in which we can cooperate to create a more sustainable society include giving greater consideration to the environment and working to tackle food loss.

So far, we have made serious efforts to this end, such as minimizing the amount of resources we use in our cans and reducing the amount of water used in their manufacturing process and we've done the same for plastic bottles and bottle caps. While the entire industry is searching for technologies to better allow us to recycle plastic bottles, I think this is something we should be putting more effort into and as such, we will do our best to help with initiatives aimed at using those recycled containers. As we move from introducing recycled containers to growth in their use, I feel that we have to further advance the evolution of technology that's going on in the field. These initiatives would also have a knock-on effect on the recent trend for environmental measures, such as reducing CO₂ emissions and waste or saving resources. Therefore, this is an area where we would like to collaborate with DyDo, involved as we both are in the beverage industry.

It is also vital that we try to tackle food loss, one of our duties as drinks manufacturers. During production tests, some of the

Hiroshi Yamasaki
Section Manager
Sales Department 1
Sales Division
NIHON CANPACK CO.,LTD.



coffee or juice we make for the tests will go to waste. I think that we would be able to look into how to utilize this, such as using it for sales samples or similar. Another consideration should be flexibility vis-à-vis standards. Of course, ensuring product safety and quality is of absolute importance, and this may prove tricky, but if we can reduce the total amount that is rejected, that could minimize food loss and lead to lower costs. This is another area I would like us to work on together.

That 80% of DyDo's sales come via vending machines is one of its characteristics, but also one of its strengths. By taking advantage of properties that are unique to the sales channel, which convenience stores and other in-store environments somewhat lack, we can reduce our environmental load by cutting down and simplifying labels. I also expect DyDo to make efforts in other areas, such as creating systems that allow customers to easily find allergy information at vending machines.

In the last few years, the number of health-conscious products that DyDo creates, such as the "Calorie Limit for the Mature Aged" tea series and in its supplement business, is increasing. Going forward, as a drinks manufacturer, we will endeavor to collaborate with DyDo and create products that benefit society.

Distribution channel

DyDo's approach of remaining close to its customers is a welcome constant and sets it apart

In recent years, the distribution channel has seen go-to products solidify their position. In particular, convenience stores have narrowed down the variety of stock keeping units to national brands. We are still in a challenging situation where in each category only the top brand will see business, even if other manufacturers have major brands. The increased competition in and outside the industry also applies to supermarkets and drug stores. How we can also convey our individual strengths to the different store chains is a pressing challenge. In this kind of business environment, as a maker that is relatively new to the distribution channel, we cannot get our products chosen purely on manufacturer or brand value.

Our vision, therefore, is to contribute to solving our retailers' issues as a "second opinion manufacturer," as we call it. This involves not just proposing products, but suggesting products or sales methods adapted to the issues they face and promoting issue solution-focused sales. To give retailers this second opinion requires certain ways of thinking that overlap a lot with our individual location-focused vending machine business, namely approaching customers as distinct individuals, ensuring original perspectives, and giving ideas physical form. By working with retailers to solve their issues, we wish to cement our position as a company more and more retailers can turn to for opinions when they face difficulties.

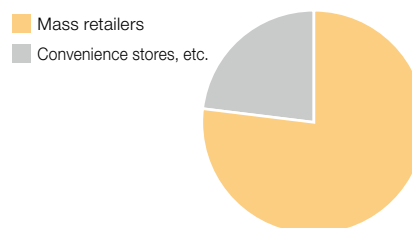
In fiscal 2020, we produced a product in collaboration with the popular anime *Demon Slayer (Kimetsu no Yaiba)*. This project

Yoshihiro Kobayashi
Corporate Officer
Division Director, Retail Sales Division
DyDo DRINCO, Inc.



increased the breadth and depth of the range of retailers we work with. Also, through our collaborative product with FANCL Corporation, the "Calorie Limit for the Mature Aged" tea series, and other items, we are creating brands with recognition value. Using those experiences as a base, we will aim to achieve a position as a company that uses our unique strengths to contribute to retailers' sales, profits, and customer retention.

Breakdown of sales in the distribution channel



Home shopping channel

Supporting healthy customer lifestyles with a home shopping channel for supplements

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

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

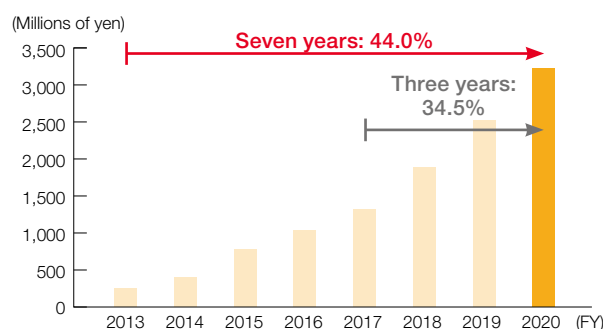
Due to extensive growth in the supplements home shopping market in fiscal 2020, competition has intensified; despite this, we are still producing results.

Going forward, we will continue to provide new products and services to support healthy lifestyles, aimed at fans of "Locomo Pro."

Akito Nakai
Corporate Officer
Deputy Division Director, Marketing Division
General Manager, Marketing Department
General Manager, Healthcare Business Department
DyDo DRINCO, Inc.



Trends in sales and CAGR in the home shopping channel



Mid-term Business Plan 2021 Progress

FY2020 Achievements and Next Steps

Achievements	Articulation of a path toward improved cash flows
Next steps	Strengthening development of vending machines in order to establish solid advantages in the vending machine market Executing our company-wide rollout of smart operations (DyDo Beverage Service)



Takanori Nakashima
President and Representative Director
DyDo DRINCO, Inc.

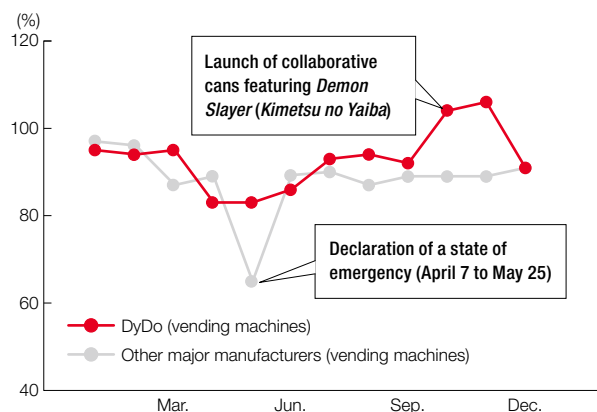
FY2020 in summary

With the spread of COVID-19, the domestic beverage market as a whole shrank 7% in fiscal 2020 compared to the previous year. This was due to a major reduction in sales from vending machines and convenience stores as people worked from home or avoided going out unnecessarily. While there were aspects of our market environment that were challenging, even during the pandemic we were able to make steady progress with implementing activities to maintain and expand the vending machine network, which has a proven record of success, and runs tests aimed at establishing smart operations. This has resulted in clear change. Sales of canned coffee produced as a limited-edition item in collaboration with the popular anime *Demon Slayer (Kimetsu no Yaiba)* were positive and ensured the second half of the fiscal year saw increased revenue and increased profits.

On the profit front, changing the useful life span of our vending machines from five years to ten meant greater profit in our accounting, and an increase in profit overall. Vending machines form most of the Domestic Beverage Business' capital investment, and so this increase is largely due to a change to depreciation expenses as a result of changing their useful life span from the statutory five years to the actual length of time they are used—ten years.

Over the next five years, we forecast that depreciation expenses will return to their prior levels.

Monthly sales trends in the beverage industry (vending machine channel, FY2020)



Source: Food Products Marketing Research

Strengthen vending machine deployment to establish a solid advantage in the vending machine market

With population growth in Japan unlikely, the entire industry believes market growth will be difficult. To survive in such an environment, increasing the number of vending machines we control to a certain amount, and maintaining market share, is paramount. That is not to say that merely increasing the number of machines is enough, though. As well as working to remove less profitable machines, we will install more machines in new sites that show promise for greater sales. We will scrap and build, to maintain, and expand, our vending machine network.

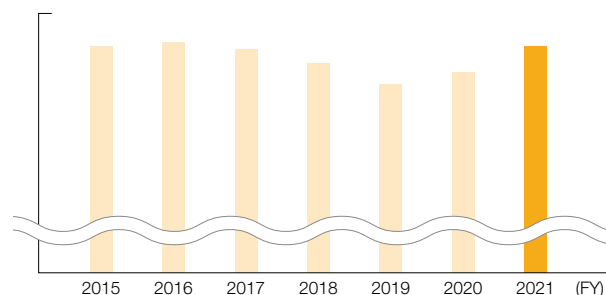
Since fiscal 2019, we have increased the number of sales personnel, in order to bolster our efforts to open up new installation locations. Furthermore, to improve the skills of the individuals responsible for sales, we have been striving for the past several years to improve our system for sharing sales expertise. Our efforts, both quantitative and qualitative, have gradually shown results, and even under the restrictions imposed on sales activities by COVID-19, the number of installed vending machines at the end of fiscal 2020 was higher than at the end of the previous fiscal year. The sales reps have responded to these circumstances, conducting online business negotiations without the need to go anywhere, and in September 2020, we set up a team geared toward remote sales. In these ways, we are working hard to increase efficiency of the sales teams when securing installation locations.

One of the reasons for the increase in vending machine numbers is

the success of measures to curb the number of machines being removed. Of course that doesn't mean we're letting unprofitable machines just sit there. Rather, we aren't too quick to remove vending machines that can maintain a certain level of profit, or vending machines that have the potential to improve; instead, we protect them for their locations as an important intangible asset.

In the future, too, we will continue to resist the removal of vending machines from sites where sales are being made. At the same time, though, we will bolster our efforts to open up new, profitable locations and expand the vending machine network that is the foundation of our cash flows.

Trends in vending machine numbers



Implementation of company-wide deployment of smart operations

One of the main factors behind the decline in vending machine numbers in the industry in recent years is the shortage of people to fill post-installation operational positions. Arresting this decline means boosting the number of staff responsible for operations, but in an era of medium- to long-term decrease in the working-age population overall, this alone will not solve the underlying issues. We are making progress with the reforms needed for a smart operation* structure, in which the IT technologies that are driving the evolution of technology are harnessed to enable each staff member to handle a larger number of machines, thus ensuring that we can maintain the same or larger vending machine numbers with fewer people.

Specifically, this means installing communication devices on vending machines and hooking them up to the Internet of Things (IoT). This will provide real-time stock levels and other information that would normally remain unknown until a staff member visited each machine. As a result, we can prepare the appropriate varieties and volumes of products for restocking and optimize the frequency of visits to machines. Moreover, receiving data from machines in this way allows for effective division of labor; whereas each operations staff member has traditionally been responsible for both product preparation and restocking, this can now be split for more efficient operations. This system was subjected to tests in fiscal 2019 across three sales bases in locations and areas with different characteristics to assess its effectiveness.

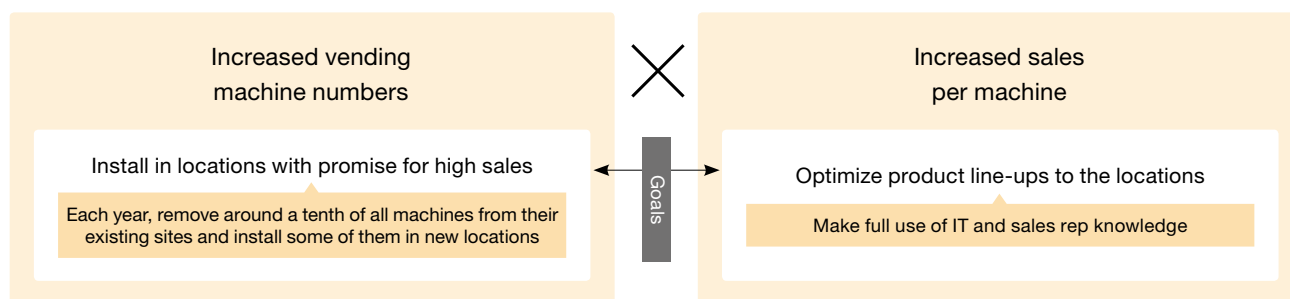
By trialing the system at actual sales sites, a variety of issues came to light. We carefully investigated each of these, and made repeated improvements. Rather than head office forcing their flow concept on operations sites, our efforts have focused on maximizing productivity by combining the actions of actual employees on the ground with digital technologies. In fiscal 2020, we added additional sales bases to the trial, and we smoothly transferred the new operational system to those sales bases. We are making preparations that will allow us to expand it company-wide, something we will do in one fell swoop in the first quarter of fiscal 2022.

Since progress is being gradually made to reallocate personnel, quantitative results will not be forthcoming until fiscal 2024. By rolling out smart operations fully, the present vending machine network could be handled even with 30% fewer staff. We would be able to increase the number of vending machines we have through strengthening our development of installation locations, and the current staffing levels would still be able to manage them—the maintenance costs per machine would drop. This, in turn, would reduce the burden of each employee for labor-intensive operations, making jobs easier and raising employee work conditions to some of the best in the industry.

(For details about our smart operating structures, see **P22**)

*Coined by DyDo; refers to an efficient operational structure

Source of Domestic Beverage Business sales



Enhancing our strengths to be chosen for our distinctiveness

Since DyDo DRINCO was established in 1975, members of the founding family have always taken on the role of president. In April 2021, though, the founder's baton was passed to me. While the person at the top of the company may change, what needs to be done does not. DyDo DRINCO's mission is to dramatically advance the company's business model of offering the products customers want at the closest and most convenient location.

We are not the top organization in the beverage industry. That is precisely why I would like us to be a company that may not be the biggest but one that can create value in the vending machine and distribution channels as well as the healthcare business and that customers choose over other companies.

By taking our unique stance, we have developed certain strengths over the years. For instance, our vending machine network stretches to every corner of the country; that network,

and the areas in which we have a dominant market share, are a valuable asset. Two aspects that have also improved greatly are our ability to create value—by developing new products by incorporating other companies' expertise or planning and developing new functions for vending machines—and our sales ability across the entire company. Other examples of our strengths include the Kyoeikai network, with whom we have a strong relationship of trust built on the spirit of mutual happiness and prosperity, and an unrivaled operational ability for direct sales via vending machines throughout Japan.

We must take those current strengths and bolster and enhance them to match the changing times. The result we should be aiming for is to be a unique company that customers continue to choose, and for our business to become stronger than ever.

International Beverage Business

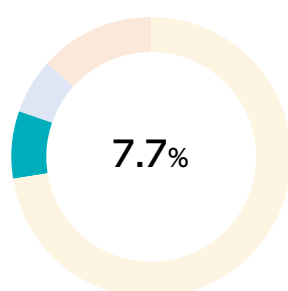
Since fiscal 2013, the DyDo Group has advanced its international expansion in earnest, so that we are now developing operations in Turkey, and in Russia and the UK under the umbrella of the Turkish business, as well as in China, in accordance with the market characteristics of each region. The Turkish beverage business, which was launched through acquiring a local company in 2016, manufactures and sells local brands and plays a central role in the group's International Beverage Business.

Related Companies

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

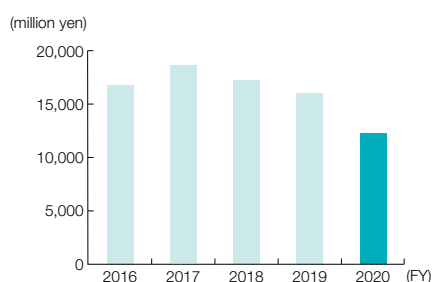


Breakdown of Net Sales

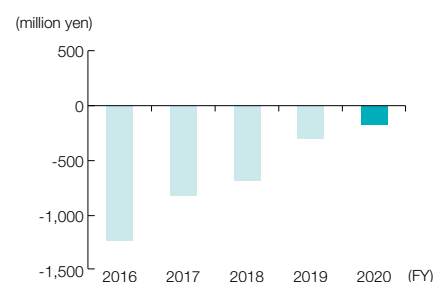


(Breakdown of sales to external customers)

Net Sales



Segment Loss



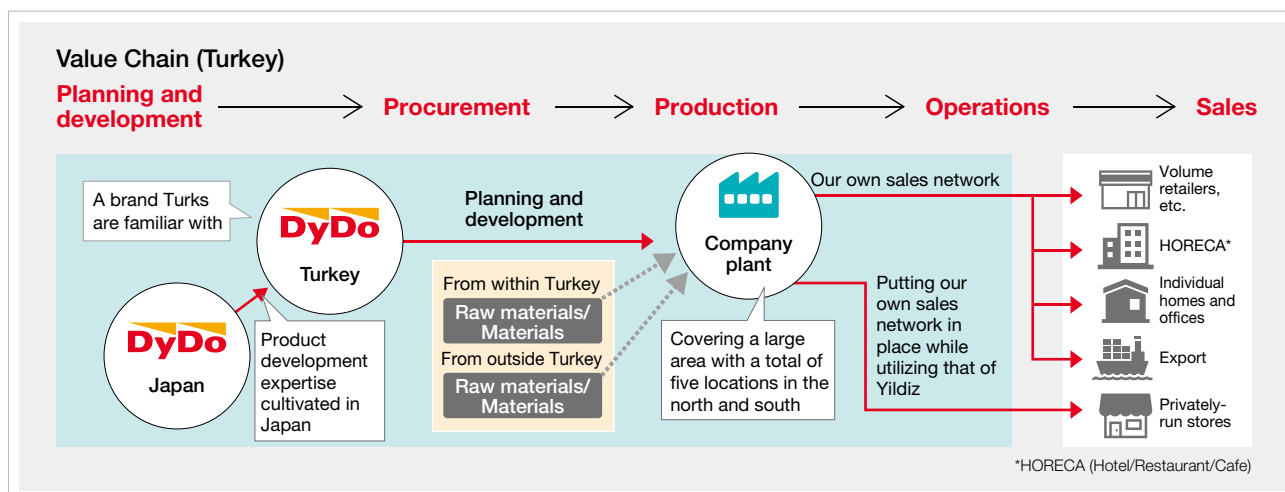
Fiscal year	2014	2015	2016	2017	2018	2019	2020
Net sales	–	–	16,735	18,547	17,154	16,004	12,191
Segment profit	–	–	(1,266)	(838)	(704)	(306)	(175)
Segment profit margin (%)	–	–	(7.6%)	(4.5%)	(4.1%)	(1.9%)	(1.4%)
Segment assets	–	–	21,744	20,717	15,186	14,266	10,532
Capital expenditure	–	–	1,882	842	539	434	1,009
Depreciation	–	–	907	918	675	628	517
Goodwill amortization costs	–	–	359	356	255	210	165
ROA (%)	–	–	–	(4.0%)	(3.9%)	(2.1%)	(1.4%)

(Millions of yen)

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

Overview of International Beverage Business

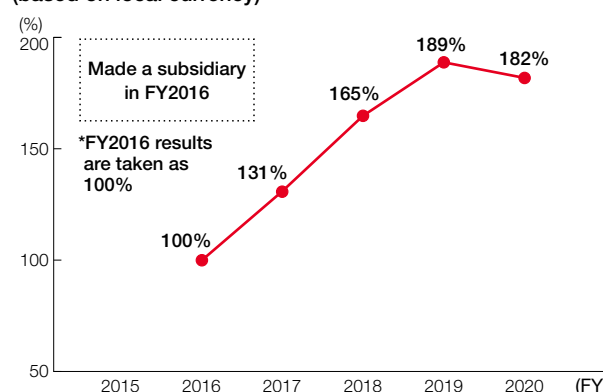
	Established or market entered	Format	Summary
Turkey	February 2016	M&A	Acquired through M&A companies that have their own brands and plants. This makes up most of our international business segment sales and secures profit, even after goodwill amortization.
	Russia	Own company	Originally entered with the aim of expanding our vending machines business, some of which still remains, but now active as an export base for our Turkish products.
	UK	Own company	Established as an export base because of an export record for Turkish products of over 15 years, in order to further expand their distribution.
China	December 2008	Own company	Originally entered with the aim of expanding our vending machines business, in 2016 we sold that business to a local company. Now, they import Japanese products and distribute them via the distribution channel.
Malaysia	December 2015	M&A	All shares were sold off in November 2020



Our Turkish Business: Background

When expanding overseas, our targeting of the Muslim community was deliberate as this global population is predicted to grow. Of the various Muslim countries, we chose Turkey because it has a large younger demographic, its beverage market is forecast to grow, buoyed by an expanding population, and for its excellent access to the countries of Europe. Currently most of the International Beverage Business' sales come from our Turkish beverage business. Although more recently they have been affected by the COVID-19 pandemic, our Turkish operations have achieved strong sales and operating income in local currency, and growth in excess of the market itself, following reforms in sales and production after the M&A. In the future, we will incorporate this growth within Turkey to bolster our exports to Europe and the Middle East.

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



Strength and Characteristics 1

Known and Loved Locally as “a Turkish Brand”

Our Turkish beverage business inherited brands from Yıldız Holdings A.S. when we acquired a stake in that company. Sales of one of our best-selling products, “Saka” mineral water, delivered in large-bottle format to offices and other business places, are robust and have contributed to overall sales growth. In addition, we are developing new core brands such as “Çamlica,” a carbonated beverage that is very popular among the Turkish people, and more recently, “Maltana,” a carbonated malt-flavored drink made with hops. Like other emerging nations, the major global drink companies have the lion's share of the Turkish market. The brands held by our Turkish beverage business have long been known and loved by the local people, and by concentrating our resources on those core brands since the M&A, we have worked to steadily increase brand recognition and grow their market share.

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



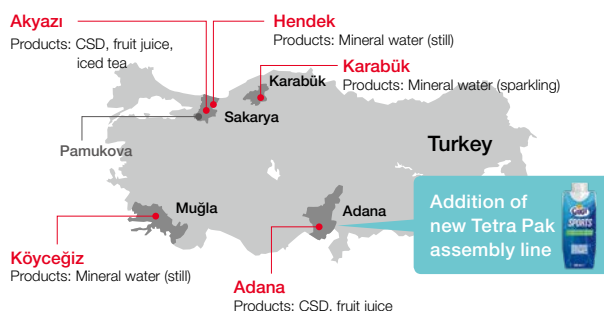
The 19-liter bottle for delivery to homes and offices has been selling well

Strength and Characteristics 2

Five Plants to Cover a Vast Country

Unlike the Domestic Beverage Business, where vending machines are the main sales channel and we operate on a fables basis, our Turkish beverage business has a more conventional model, in which drinks are produced at our own plants for distribution via supermarkets and other such chains. We carried out some integrations and new builds after the M&A, and so we currently have plants in five locations throughout Turkey that are able to cover the wide territory. In the meantime, we are adding a new Tetra Pak assembly line to our plant in Adana, in the south of the country, and are looking into securing new water sources capable of handling voracious new demand for “Saka” mineral water and other products.

Manufacturing sites and products



Strength and Characteristics 3

Potential for Growth in the Export Business to Europe

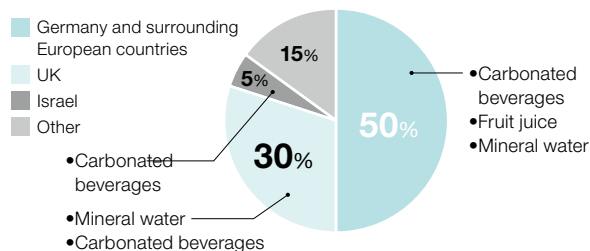
The quality of our water resources and plants in Turkey show great potential not only for national growth, but also for catering to demand on a global scale.

The export business has a track record that stretches back more than fifteen years, to before our initial investments. That has led to the “Saka” mineral water being known as a healthy, delicious drink due to its abundant mineral content and comparatively high pH level, rather than specifically as a Turkish product, in the UK market, where we set up a local subsidiary in fiscal 2019 to strengthen our export business. We have also acquired halal certification, which reassures Muslim customers that they can drink our products with peace of mind, and so we can meet the needs of the market presented by Muslims who have emigrated to the UK, or elsewhere in Europe, from Turkey, the Middle East, or Africa. Products exported from Turkey have advantageously low manufacturing costs; between this and the depreciation of the Turkish lira in recent years, the business has

the potential to grow even further.

Through the expansion of our exports, we are cultivating brands that originate in Turkey into global brands, and at the same time acquiring stable currencies, such as euros and sterling—we will tie these in to stable growth of our Turkish beverage business.

Export destinations from Turkey (approx.) and main product lines



Stakeholders' Voices

Making the world a better place along with consumers and supply chains

In the Domestic Beverage Business, specific numbers have been assigned to three environmental targets, and management, all the way up to the president, have spoken of the importance of the SDGs. In these and other ways, I've felt that DyDo is taking the idea of our mutually beneficial relationship seriously. In developed countries, particularly in Europe, the number of consumers and business partners who are becoming concerned about issues like the environmental impact of plastic bottles is increasing, and so I think that DyDo's development of products that focus on environmental targets is an important issue for its international expansion.

Because the DyDo Group began life in the “use first, pay later” medicine business, I imagine that its members are very aware of their own health and that of those around them. Surely DyDo should incorporate that history and corporate culture into its products and services even more, and should be proclaiming that. Awareness of health in Southeast Asia and other areas is not yet at the same level as in more developed countries—there's

Takeshi Watanabe
Corporate/Quality Staff
Konoike Transport Co., Ltd.



room for greater education. If DyDo can expand its business in that space to raise awareness of its unique approach to better health, it can demonstrate the strengths of its brand value in terms of quality and health. I think this is a way in which it can contribute to society through its business.

We at Konoike Transport handle logistics for DyDo's Japanese export business, which the DyDo Group is expanding through the Chinese beverage business and other activities. In order to meet the partnership conditions that apply to all suppliers like us, we are required to join the White Logistics Movement and acquire G Mark certification. We would like all suppliers to help pull each other forward, to use this partnership to improve the entire supply chain.

Mid-term Business Plan 2021 Progress

FY2020 Achievements and Next Steps

Achievements	International Beverage Business segment is on track for overall profitability
Next steps	Turnaround of the beverage business in China Rebuilding our international business strategy to facilitate the next phase of growth



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

Effect of COVID-19 on the Turkish beverage business

Similarly to Japan, COVID-19 infections in Turkey have repeatedly waxed and waned, and although there are more cases there than in Japan, in a straight comparison, the situation is little different. That said, in terms of business, we must keep an eye on the slowing of the economy resulting from COVID-19, or for spiking raw materials prices brought about by rapid changes in the exchange rate for Turkish lira.

Compared to the Japanese yen, the depreciation of the lira has caused its value to drop considerably. While sales in the local currency were affected by COVID-19 and we saw reduced

revenue, increased sales of “Saka”—which has a high profit margin—in the HOD* channel led to an increase in profit overall.

Since the Turkish lira is still an unstable currency, we are creating policies and systems to stabilize revenue by increasing our dealings in exports since fiscal 2020, while aiming for steady growth in the Turkish market. While more time is required to implement the planned export dealings with the UK and Russia due to the spread of COVID-19, we are making steady progress creating business systems in those countries.

*Home/Office Delivery

Withdrawal from Malaysia and future international business strategies

In October 2020, in line with the policy of selection and concentration for our international business set forth in our Mid-term Business Plan 2021, we transferred all shares and withdrew from the Malaysian beverage business. In 2015, we had entered the Malaysian market by merging with a local company; in 2019, we dissolved that merger relationship. Following that, we had planned on reconstructing the business by reclassifying our product portfolio into our own brands and through other means, but the global scale of the COVID-19 pandemic meant that we could not forecast future sales, and we abandoned plans to continue the business within the Group.

Comparing those markets with the booming Turkish beverage business, which we started at the same time, you can see the difference in the brand power, sales power in the countries we have entered, and investment ratio for the companies we acquired through the progress of our post-merger integrations. We learned

a lot about international beverage sales from the Malaysian beverage business: about brand power; how to develop unique products that cater to consumer preferences in different countries; how to sell those products; attitudes toward profit margins based on sales channel characteristics and commercial practices; and about acquiring expertise around halal certification, one of our first plans. We will apply these learnings to our future international strategies, and they are already being used to improve our management of our Turkish and Chinese beverage businesses.

By withdrawing from the unprofitable Malaysian business, and through strong sales trends in Turkey, we have set ourselves the goal of returning the entire international business segment to profitability. The next step is to review our international business strategy as we look to formulate our next Mid-term Business Plan, which begins in fiscal 2022.

Future strategy for the Chinese beverage business

The next issue we must tackle in the International Beverage Business is the turnaround of the beverage business in China.

While in 2008 the DyDo Group entered China with the establishment of a wholly owned local subsidiary, and at first expanded its business as a vending machine operator, in 2012 it sold off that business. Now, we are working to construct a business model that involves importing Japanese products, or some products produced in Japan for the Chinese market, and to distribute them through retail stores. We have also heightened brand recognition for our strengths in uniquely Japanese quality, and increased sales volumes. To raise profitability, though, we

believe local production to be essential and this is something we have been investigating. We have conducted repeated tests at local manufacturing companies established by Japanese businesses, and have put in place a system to guarantee taste and quality meet the necessary standards. This allowed us to begin local production of Chinese top-selling barley tea in February 2021. That was the first step, but as we go forward, we plan to make progress with the same strategy for other products, and in that way determine how sustainable the Chinese beverage business is.

Pharmaceutical-Related Business

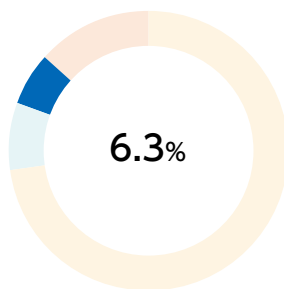
The core of our Pharmaceutical-related Business is DAIDO Yakuhin, which specializes in OEM manufacturing of nutritional drinks, which are classified as pharmaceuticals or quasi-drugs, and beauty tonics. DAIDO Yakuhin's industry-beating production capacity and uncompromising quality standards has earned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

Related Companies

DAIDO Yakuhin K.K.

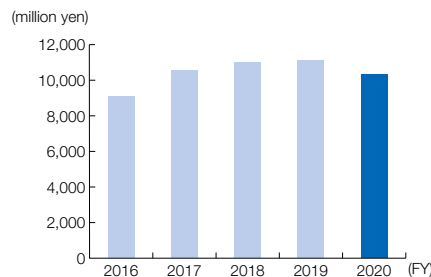


Breakdown of Net Sales

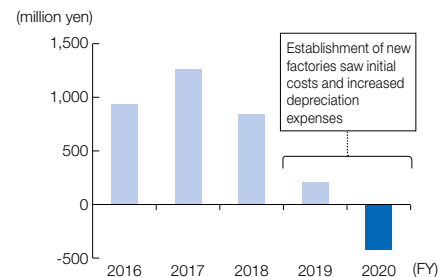


(Breakdown of sales to external customers)

Net Sales

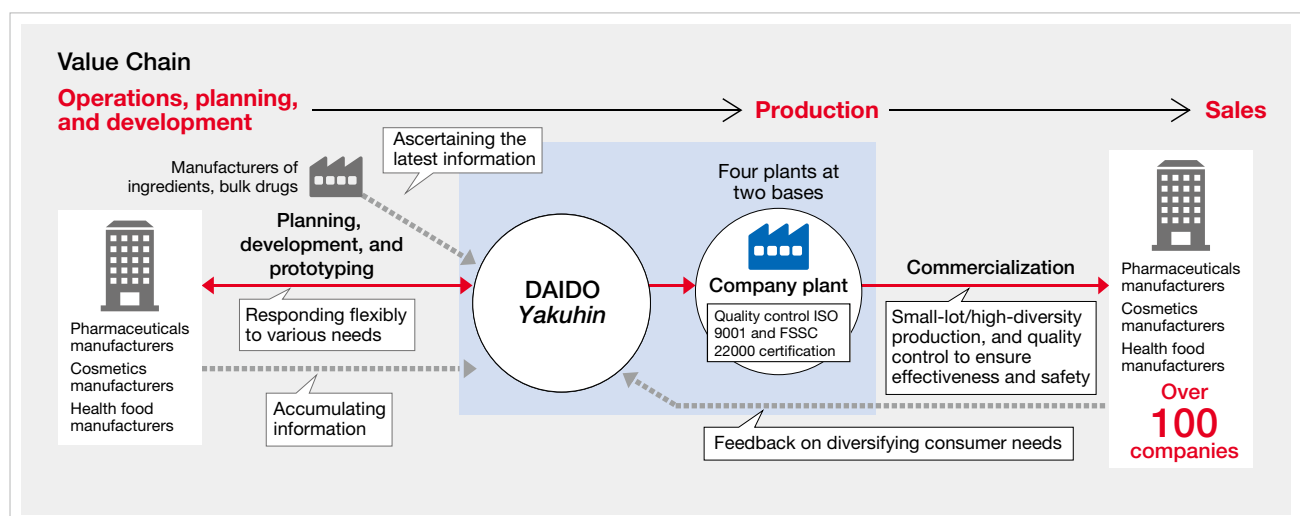


Segment Profit



Fiscal year	2014	2015	2016	2017	2018	2019	2020
Net sales	10,220	9,126	9,068	10,536	10,964	11,097	10,324
Segment profit	1,135	979	944	1,271	847	210	(425)
Segment profit margin (%)	11.1%	10.7%	10.4%	12.1%	7.7%	1.9%	(4.1%)
Segment assets	13,684	13,568	14,962	17,001	17,803	22,587	20,124
Capital expenditure	291	298	423	1,248	3,953	7,466	439
Depreciation	483	459	430	517	624	696	1,122
ROA (%)	8.3%	7.2%	6.6%	8.0%	4.9%	1.0%	(2.0%)

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



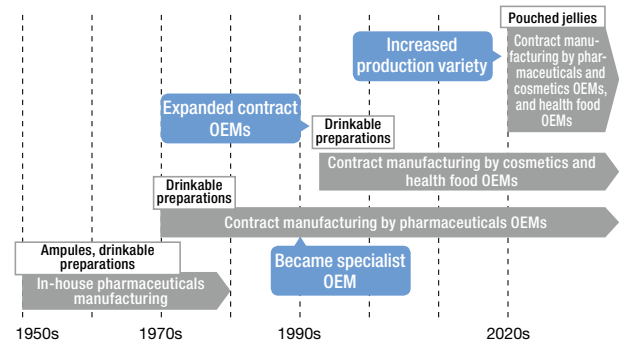
Strength and Characteristics 1

Building a Solid Client Base for Specialist OEM Solutions

Today's Pharmaceutical-related Business is the modern iteration of the group's founding activity. From our "use first, pay later" medicine business grew DAIDO *Yakuhin*'s drinkable preparations business. Initially the company made products in-house, but gradually switched to providing OEM solutions for other companies as this afforded more efficient use of production lines. With the relocation in 1991 of plant facilities to group headquarters in the city of Katsuragi, Nara, DAIDO *Yakuhin* discontinued in-house production and became a specialist OEM company, thus establishing a business model that continues to this day. At first, products were made in accordance with pharmaceutical manufacturers' specifications, but as drinkable preparations came to be sold by health food and cosmetic companies, that expansion gradually led to more opportunities for DAIDO *Yakuhin* to design its own solutions to suit each client's concepts. Over that time, our efforts to make products in accordance with clients' demands helped improve our product development abilities and drove the expansion of our equipment to include lines dedicated to production of small-lot-high-variety orders, lines designed to handle large lots with maximum efficiency, and assembly lines for drink-from-the-pouch

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

The History of DAIDO *Yakuhin*



Strength and Characteristics 2

Officially Permitted to Operate in Segments with High Barriers to Entry

The size of the Japanese drinkable preparations market is estimated at around two billion units manufactured per year and, within, the DyDo Group's ability to produce more than 300 million units of OEM products puts it in roughly the same class as major pharmaceutical companies who manufacture in-house. Perhaps our largest point of difference here is DAIDO *Yakuhin*'s official permits to manufacture pharmaceuticals and quasi-drugs. Barriers to entry into this segment are high, and include the need for official permits and the niche nature of the OEM industry itself. Moreover, the time taken to bring a product in this segment to market, from development to beginning of product sales, is considerable because of all the testing and government permits required. If our

OEM clients were to switch to another producer it would involve a huge burden of cost and effort, so there is little risk of that. Still, we endeavor to maintain their trust in us by constantly improving our product planning capabilities, production quality, and quality assurance structures.

DAIDO *Yakuhin* is licensed for:

- (1) Pharmaceutical manufacturing
- (2) Second-class pharmaceutical manufacturing and sales
- (3) Quasi-drug manufacturing
- (4) Quasi-drug manufacturing and sales
- (5) Beverage manufacturing

Strength and Characteristics 3

Expanded Production Capabilities through Four Plants at Two Bases to Meet Business Partners' Needs

DAIDO *Yakuhin* possesses drinkable preparation lines and a pouch packaging line at its head office site in Katsuragi, Nara, and a drinkable preparation line at its Kanto Plant in Tatebayashi, Gunma.

With the start of full-scale operations at the Kanto Plant in 2020, the plant not only boosts our production capacity, but will also reduce distribution costs. Moreover, greater automation of the production process has improved our cost-competitiveness. In addition, having a plant in another part of the country disperses risks to production and contributes to our own BCP and that of our clients.

Also in 2020, while the drink-from-the-pouch products created

at our newly built line at the Nara Plant saw a slight decrease in production volume due to the pandemic, the market is displaying growth, particularly for various food-standard products such as konjac-based jellies and fruit jellies. Believing that consumers are supportive of this handy, easy-to-consume format, interest in drink-from-the-pouch products among pharmaceutical and cosmetics manufacturers is growing. As one of only a very few companies in Japan with facilities to manufacture drink-from-the-pouch products to pharmaceutical and quasi-drug specifications, we have received a lot of inquiries and hope this advantage will translate into increased sales and profits.

DAIDO Yakuhin's Plants

	Nara			Kanto
Location	Katsuragi, Nara Prefecture			Tatebayashi, Gunma Prefecture
Site area	Approx. 32,000 m ²			Approx. 27,000 m ²
Yearly production capacity	Approx. 350 million units		30 million units	Approx. 150 million units
	Plant 1	Plant 2	Plant 3	–
Construction completed	1991	1999	2019	2019
Fully operational	–	–	February 2020	July 2020
Product format capabilities	Bottles	Bottles	Pouches	Bottles
Number of assembly lines	3	1	1	1
Product size capabilities	20 ml/30 ml/50 ml/ 75 ml/100 ml/120 ml	80 ml/100 ml/150 ml	100-200 g	50 ml/100 ml
Capital investment	–	–	Approx. 2 billion yen	Approx. 6 billion yen

*All plants are able of producing pharmaceutical and quasi-drug products

*DAIDO Yakuhin is licensed for: Pharmaceutical manufacturing, Second-class pharmaceutical manufacturing and sales, Quasi-drug manufacturing, Quasi-drug manufacturing and sales, Beverage manufacturing

Stakeholders' Voices

Aiming to go further than the SDGs together

The SDGs were established as a series of targets that primarily focus on solving environmental issues (such as climate change and biodiversity) and societal issues (including poverty in developing nations and other problems where life or human rights are at stake). In developed nations like Japan, though, we are also required to make a contribution to help people live better, richer lives. The DyDo Group develop products that allow such lives and bring joy to people's everyday existence. For example, consumers not only turn to DyDo products as necessary nutritional supplements or because they are good for health, rather they buy them because the products taste delicious and make them happy. Continuing to create value like this is paramount, and I think that DyDo needs to consider the importance of going beyond the limited goals of the SDGs to help provide better lives for everyone.

When it comes to the environment, I think that for DyDo DRINCO, which is involved in the vending machine business, the problems of climate change and plastics are of primary

Kenji Ohashi
Senior Specialist
Sustainable Environmental Department
Social Value Creation Division
Shiseido Company, Limited



concern. DAIDO Yakuhin comes across as a company that is conscientiously working to combat environmental issues—its efforts on lightweight glass bottles, which are easy to recycle, and on removable labels are good examples of this. With each passing day the importance of tackling climate change or promoting a circular economy is rising; these kinds of initiatives, as well as actions like reducing resource consumption or improving transport efficiency to reduce environmental footprints, are refreshing for consumers. Making proposals to BtoB customers is difficult. However, in addition to striking a balance between mutual profit and added-value for stakeholders (including quality and environmental considerations) and carving out a role for itself as a contract manufacturer, if it can actively promote its efforts toward solving environmental issues, I expect DAIDO Yakuhin to make a valuable contribution to solving such issues in conjunction with those of us that contract production with them.

Mid-term Business Plan 2021 Progress

FY2020 Achievements and Next Steps

Achievements	Starting operation of the Daido <i>Yakuhi</i> n pouch packaging line and the Kanto Plant
Next steps	Creating an efficient system for our four plants at two bases Expanding orders for our pouch packaging line



Makoto Miyachi
President and Representative Director
DAIDO *Yakuhi*n

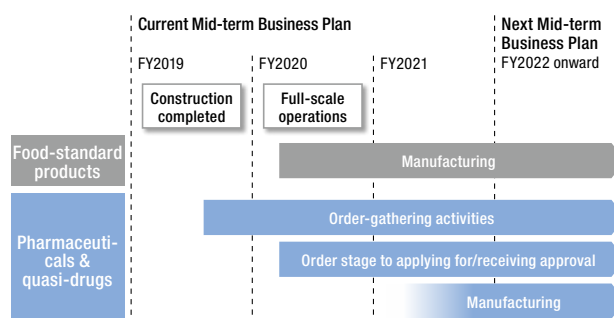
Completed investment for the next stage of growth

Under Mid-term Business Plan 2021, which positioned this period as a platform-strengthening and investment stage, we have invested in a new Kanto Plant and in a new pouch packaging line at Nara Plant. In 2020, these began full-scale operations. We expected the new Kanto Plant to alleviate issues at the Nara Plant, which despite working at full capacity wasn't able to handle all orders. Unfortunately though, the spread of COVID-19 caused the number of orders to decrease considerably. Between fewer orders for beauty drinks for the Chinese market and business partners' continued stock adjustments seeing orders for products aimed at the domestic market drop off, the effects of COVID-19 are likely to be more prolonged for us than any other DyDo Group business. With our investment in equipment, fixed costs such as depreciation expenses increased, and segment profit was reduced, but we are moving forward with our internal system that will achieve efficient production through the use of four plants at two bases.

Expectations for the pouch packaging line from pharmaceutical and cosmetics manufacturers are high, and business negotiations are going well. For pharmaceuticals and quasi-drugs, a great deal

of time is required to apply for and receive permits, conduct tests, and other aspects of the process from receiving an order to development, manufacturing, and lastly sales. As a result, most of our current manufacturing is focused on products that meet food standards. The number of products able to meet pharmaceutical or quasi-drug standards that are in the development or manufacturing stages is increasing, however, and from fiscal 2022 onward, we plan to start contributing fully to profits.

Operations at Plant 3 (pouch packaging line)



Medium- to long-term forecasts

Until fiscal 2019, DAIDO *Yakuhi*n saw bullish sales and maintained a high profit margin, yet as a result of COVID-19, recent performance has been poor.

As a specialized contract manufacturer, it is difficult for us to bring about a dramatic recovery in sales by ourselves. The increase in annual production capacity we forecast with the start of full-scale operations at the Kanto Plant is, unfortunately, still a little while off. However, the need for our plants to work at full capacity for the last few years has lessened, which has given us an opportunity to improve our processes, review our quality management system, and take another hard look at how we set out our internal structure.

An issue that must be considered before making investments is changes in the drinkable preparations market, which is shrinking as the average age of its core users increases. Contract manufacturers like ourselves still believe that this presents an opportunity, and in fact that this change will accelerate. Even for large manufacturers, the value placed on updating existing equipment or investing in new equipment will lessen, yet as companies maintain their brand line-ups, a certain level of demand for drinkable preparations will remain. Furthermore, a revision to the Act on Securing Quality, Effi-

cacy and Safety of Products Including Pharmaceuticals and Medical Devices removed the rule that made it necessary for companies that sell pharmaceuticals to own their own manufacturing plants. As a result, pharmaceutical manufacturers are moving forward with contracting manufacturing to outside organizations, which means that the contract manufacturing market has real growth potential.

Awareness of health and beauty is growing, with forecasts for medium- to long-term growth for the healthcare market. We have plans for new drinkable preparations in bottles and drink-from-the-pouch products. Also, while the barriers to entry on the product sales side are not particularly high, it is in manufacturing, which requires investment in equipment, that companies like ours can demonstrate their worth. We have excellent product development capabilities from working with our business partners, our flexible manufacturing ability means we can produce small-lot-high-variety items, and we have a finely honed quality management system from manufacturing many products—these have enabled us to build a formidable customer base. I believe that we can turn this into a strength to steadily increase our share for drinkable preparations in the contract manufacturing market.

Food Business

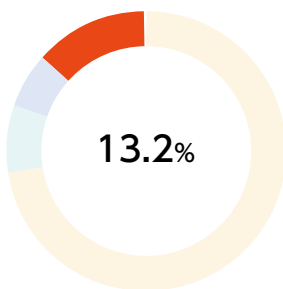
The core company in our Food Business is Tarami, which has the top share of the dry jelly market. Since being consolidated into the DyDo Group in 2012, Tarami, which boasts a wealth of expertise in making delicious jellies, has made a significant contribution to the group's performance.

Related Companies

Tarami Corporation
Shunnotoki Inc.

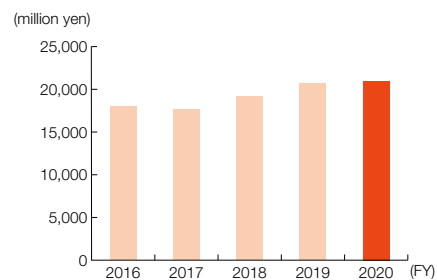


Breakdown of Net Sales

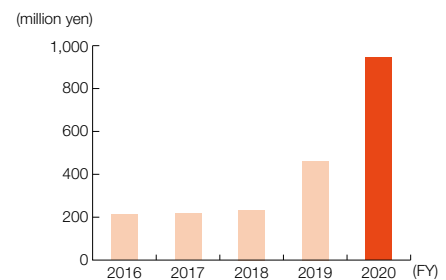


(Breakdown of sales to external customers)

Net Sales



Segment Profit

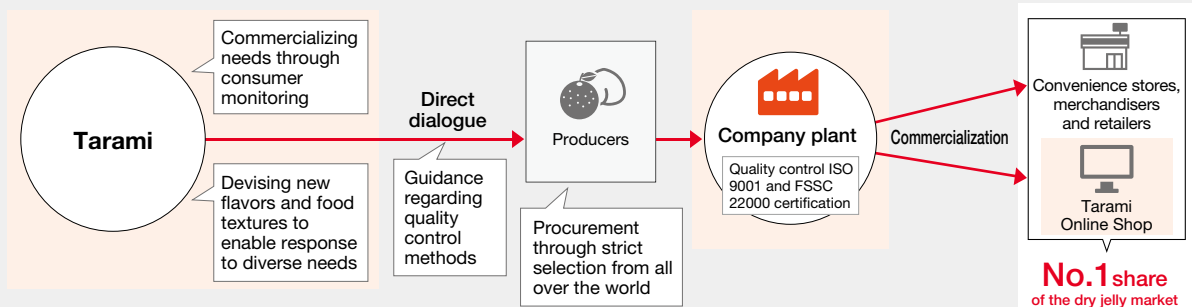


Fiscal year	2014	2015	2016	2017	2018	2019	2020
Net sales	15,360	17,155	18,013	17,560	19,114	20,643	20,900
Segment profit	198	259	212	219	235	464	946
Segment profit margin (%)	1.3%	1.5%	1.2%	1.2%	1.2%	2.3%	4.5%
Segment assets	17,166	17,537	17,395	17,791	17,459	18,595	19,404
Capital expenditure	470	595	742	465	941	1,252	864
Depreciation	572	587	632	656	683	765	810
Goodwill amortization costs	306	306	352	352	352	352	352
ROA (%)	1.2%	1.5%	1.2%	1.2%	1.3%	2.6%	5.0%

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

Value Chain

Planning and development → Procurement → Production → Operations → Sales



Strength and Characteristics 1

Development Capabilities to Create Jelly with Delicious Taste and Texture for Each Demographic

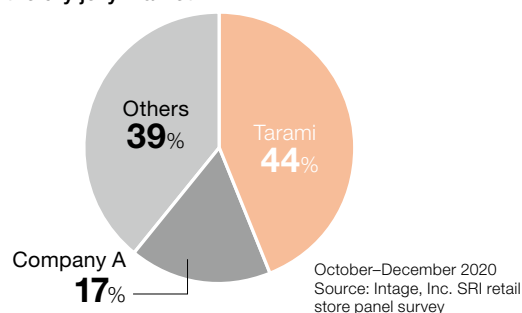
Tarami began as a greengrocer in 1969, and is named for its home town in Nagasaki. In 1988, it began producing and selling jelly as a convenient way for people to enjoy natural fruit wherever and whenever they wanted. Aiming to deliver consumers value beyond mere fruit, Tarami identifies target demographics and establishes concepts for each of the product brands it develops.

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

In recent years, Tarami has sought to expand its customer base

by developing and launching jellies for people who enjoy more of a dessert taste and jellies for health-conscious people in addition to their regular fruit jelly lines. It is impossible to put a numeric value on the pleasure derived from delicious jellies that appeal to all five senses, but the fact that sales growth is high at a time when market growth is stagnant is a clear indication of the level of support we have earned from our customers.

Share of the dry jelly market



Strength and Characteristics 2

Tarami's Delicious Taste Comes from the World's Farms

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

Some of the farms that we work with are "partnership farms."

These are farms with whom we have signed agreements, and where we are moving forward with measures to ensure they produce a stable supply of high-quality ingredients. For example, at a Chinese partnership farm that produces satsumas, we have introduced advanced Japanese cultivation techniques, and are aiming to improve quality, raise yields, and enhance productivity. We also have designated, trustworthy inspection organizations carrying out checks—orchard soil tests, water quality tests, and pesticide residue tests, among others—to ensure that the fruit we produce is fruit you can trust.

Strength and Characteristics 3

One of the World's Largest Jelly Production Plants with a Heritage of Technological Secrets for Delicious Jelly

Tarami not only strives to produce good taste, it also looks at how it can provide that with added-value and at an affordable price. Our production facility in Nagasaki is one of the world's largest dry jelly plants, and we have acquired FSSC 22000 and international ISO 9001 certification for our food safety management systems and quality control systems respectively. The plant is equipped with production lines and systems able to make a diverse range of safe, secure products efficiently, all under the watchful eye of our strict quality control system.

For food manufacturers, the adjustments needed to take a prototype that their development office has created to the point where it can be made en masse on assembly lines can be challenging. Tarami faces a tall hurdle in that its main raw material

is fruit, which as agricultural produce varies by production region or harvest season. Our expertise in how to produce consistently delicious jelly is something we have accumulated not only through scientific data and analysis at our plant, but is also based on a wealth of experience formed over many years and the technological capabilities to easily make minute adjustments to produce textures customers want. This expertise is something we are committed to passing down.

We are making sure that our mission—to uphold our responsibility as the company with the industry's top share to create new value—is spread not only among the development departments, but the production departments too, and we are also working to improve the technologies we use to create delicious jelly.

Mid-term Business Plan 2021 Progress

FY2020 Achievements and Next Steps

Achievements	Improved earning ability
Next steps	Create demand in slack periods, further strengthen earning ability



Yutaka Wada
Representative Director
Tarami Corporation

Awareness of the importance of productivity bears fruit among individual employees

Like other food and beverage manufacturers, our performance in the Food Business during the pandemic has been lower than usual at convenience stores, yet, because we firmly grasped the shift by consumers to mass retailers, we have been able to get some good results despite COVID-19 and a slowdown in the dry jelly market.

For many years, we have had the industry's top market share, yet our investors repeatedly pointed out our low profit margin as a food manufacturer. Since fiscal 2019, though, we have been

steadily improving. This is proof that for several years our employees have all been working hard, and are well aware of activities made by each department toward issue resolution, and that this effort has led to results and a buildup of real ability. In order to further improve our profitability, we will continue to strive for greater value for the Tarami brand, and will push forward with improvements to development, procurement, production, distribution, and to work processes at head office.

Challenging ourselves to stimulate new demand as a top-class brand

It is forecast that the drop in the number of customers visiting convenience stores due to COVID-19, and the changes in consumer lifestyles, are set to continue. As such, there continues to be a high risk that the range of products convenience stores carry, including top brands, could be reduced. Even at mass retailers, which drove our performance in 2020, competition has intensified. On the cost front, there are multiple issues presented by spiraling materials and distribution costs that must be addressed. These factors mean that we predict the current challenging market environment will continue.

Now, as part of the plans we established to raise profitability, our next task is to expand sales at mass retailers all year round. While the peak for sales of jelly is in summer, we must stimulate year-round demand for jelly, regardless of the season. We believe this is our mission as a top brand. In addition to using our strengths—excellent product development capabilities and advanced manufacturing technologies—to drive further growth in existing businesses, we must proactively challenge ourselves to create new business models that go beyond traditional boundaries of country, business line, or category.

Stakeholders' Voices

Working together to take on the challenges thrown up by societal change

I know that Tarami's technological capabilities and quality are superlative, and it stands apart from other companies when it comes to safety and reliability too. Its manufacturing ability is also evident in the extremely low rate of defective products that make it to shops. Day by day, they are striving to create with better sell-by dates, and I think in that way they are helping the problem we have with food loss.

In the future, I think Tarami will need to take even greater responsibility for such things as ensuring there is no wastage in the procurement of resources, and protecting human rights throughout the supply chain, including checking working conditions at the farms where Tarami procure their ingredients. Tarami also has a duty as a leading company in the industry to

Yuko Koyama
General Manager
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Committee Department
Ito-Yokado Co., Ltd.



take the lead in reducing the environmental impact of plastic containers in the future. Another issue is the aging of society. Elderly people face daily problems like struggling to swallow certain foods. I believe that jelly products, which can provide supplemental nutrition, can help with this. We would like to join with Tarami in tackling these issues that have resulted from changes in society.

Other (orphan drug business)

To enter the orphan drug business, the DyDo Group established DyDo Pharma, Inc., which commenced activity in August 2019. Since so-called orphan diseases have few suitable treatment protocols, the field represents a challenge for society. Drug distribution was our founding business, and it is our firm desire to return to that business once more to help patients and customers.

Orphan drugs and DyDo's target

There are approximately 7,000 orphan diseases worldwide. Only around 5% of drugs approved for use on a global basis are suitable to treat these diseases, many of which are serious. Several are progressive and life-threatening. Pharmaceutical companies and others around the world are working to create candidate drugs, including an increasing number of pharmaceutical companies in Japan. However, given the typically

This will be a new challenge, but outsourcing is now advanced in every facet of the drug field, including development and manufacturing. We will therefore build relationships with outsourced providers at each stage of the process, and work to solve the social challenges these diseases present.

limited number of patients for these drugs, development efforts have so far been insufficient. DyDo Pharma's goal is to identify new candidate drugs under development by biotechnology companies globally, continue their development in Japan, and obtain regulatory approval so they can reach patients as soon as possible.

Managing the business through external contractors

We are first of all aiming to invest in candidate drugs produced by pharmaceutical companies around the world, especially where we can obtain exclusive rights to develop, manufacture and market them in Japan. We will then develop them and obtain regulatory approval. Delivering a pharmaceutical to the market requires a wide range of expertise. We will utilize external organizations, such as Contract Research Organizations (CRO) for clinical development and Contract Manufacturing Organizations (CMO) for pharmaceutical manufacturing. We will

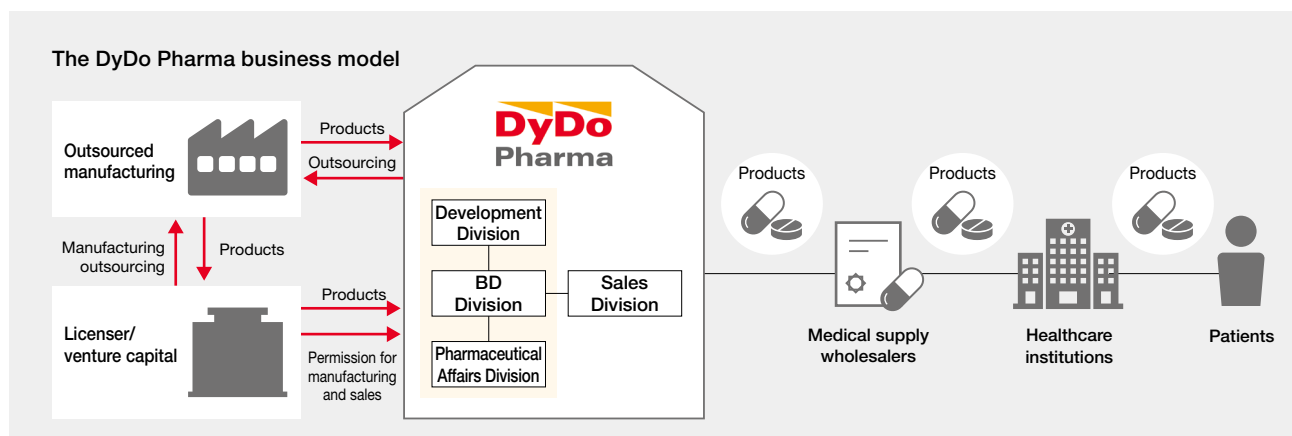
structure our own sales organization, but in conformance with patient situations. We will also explore other arrangements, including joint sales structures with pharmaceutical manufacturing partners as well as sales outsourcing. Also, as required, we will consider collaborating with external experts, entities, and companies. This approach is aimed at facilitating possible lean management that does not require DyDo Pharma itself to bear considerable fixed expenses.

In January 2021, we signed our first licensing agreement








While the DyDo Group's business activities are closely related to pharmaceuticals, we are not specialists in the field. After announcing our intention to enter the field in March 2018, we took on external specialists and began a range of business activities in August 2019. We are currently securing personnel with extensive experience in every medical industry field, including business development, new drug development, pharmaceutical affairs, and reliability assurance. In January 2021, we signed our first

licensing agreement. This is the first fully fledged step into entering the business, and in order to strengthen the Board of Directors' oversight functions, in April 2021 we welcomed a new board member: an outside director with a wealth of experience and knowledge regarding the pharmaceutical industry.

This is a business that will require time and expense up front to create a stable business foundation, but we will steadily work toward this aim, with an eye on the future.



Consolidated Summary





		Appointment of Tomiya Takamatsu as vice president			
DyDo Group Policies	Domestic Beverage Business restructuring	Promotion of new business development			
	Achievements	Profit margin improvement through shift from focus on number of machines to sales per machine and slimmed-down workforce system			
	Next steps	Secured future growth potential amid underlying downward sales trend			
External Environment	2009	2010	2011	2012	2013
	Further deflation, declining personal consumption	Rapid yen appreciation, stock price slump	Great East Japan Earthquake	Issue of insufficient power supply, persistent strong yen	Signs of economic recovery due to economic policies
			Impact on supply chain		Convenience stores begin selling freshly brewed coffee from in-store machines
Domestic Beverage Business environment					
Peak season (summer) situation	Unseasonable weather	Extremely high temperatures			
Management Strategy	Cost reduction through total review of operations → Business structure reform cost of 2.374 billion yen recorded as extraordinary loss				Launch of reformulated DyDo Blend
	Organizational reform of Domestic Beverage Business → Transition to function-specific organization, with separate development and operation functions				Coffee-centric marketing deployed Sustaining of vending machine business, strengthening/expansion of retail channel
	Transition to channel-specific (vending machines, distribution) marketing division structure Secured operating profit through cost control Extraordinary loss of 758 million yen from disaster				
Other businesses	 Domestic Beverage Business  International Beverage Business  Pharmaceutical-Related Business  Food Business				 Launch of home shopping supplement business P52  Tarami becomes consolidated subsidiary  Establishment and beginning of operation of Russian local subsidiary

Consolidated Financial Summary^{*1}

Sales ^{*2}	151,048	151,369	147,404	148,902	154,828
Domestic Beverage	—	—	137,897	131,671	130,400
International Beverage	—	—	—	—	—
Pharmaceutical-Related	—	—	10,838	11,416	10,857
Food	—	—	— ^{*3}	6,648	14,299
Operating profit	6,060	6,539	7,295	7,934	6,004
Ordinary profit	5,518	5,809	6,687	7,725	5,962
Profit attributable to owners of parent	705	2,691	2,351	4,410	3,712
Number of employees	3,281	3,149	2,936	2,916	2,770
Domestic Beverage	3,102	2,972	2,762	2,548	2,424
International Beverage	—	—	—	—	—
Pharmaceutical-Related	179	177	174	207	172
Food	—	—	—	161	174
Other	—	—	—	—	—
Whole Company	—	—	—	—	—
ROE (%)	1.0	3.8	3.2	5.9	4.7
Profit margin (%)	0.5	1.8	1.6	3.0	2.4
Total asset turnover (times)	1.2	1.2	1.1	1.1	1.1
Financial leverage (multiplier)	1.8	1.8	1.8	1.8	1.8
FCF	18,192	13,011	15,257	6,838	3,734
Operating cash flow	19,650	14,911	17,540	16,491	14,764
Expenditures related to tangible and intangible fixed asset acquisition	(1,458)	(1,900)	(2,283)	(9,653)	(11,030)
Capital expenditure	1,184	^{*4} 1,481	6,839	16,833	^{*5} 14,376
Depreciation	12,487	12,747	12,350	11,202	12,080

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

Appointment of Tomiya Takamatsu as president

Group Philosophy and Group Vision established Our Mid-term Business Plan "Challenge the Next Stage"				Group Mission 2030 Mid-term Business Plan 2021		
Restructuring fixed costs in the vending machine channel, full-scale international business deployment						
Improved profitability through continuous sales growth, expansion of business in the healthcare sector to establish a new business base						
2014	2015	2016	2017	2018	2019	2020 onward
Impact of consumption tax hike on personal consumption, accelerating downward price trend Improved employment environment against background of economic policies Economic slowdown in developing nations, heightened geopolitical risk Continued favorable employment environment Rising sense of labor market shortage				Successive natural disasters: earthquakes, typhoons, heavy rains, etc. Further workstyle diversification		Global spread of the COVID-19 virus
Spread of freshly brewed coffee at convenience stores, expansion of private brands in retail channel Number of vending machines in overall market begins to decline						Vending machine and convenience store sales slump due to changes in consumer behavior
				Unseasonable weather	Extremely high temperatures	Unseasonable weather
						Transition to new workstyles P19
Revision of vending machine prices upon consumption tax increase → Sales volume decreased					Beginning of smart operation system structuring P22	
Launch of bottle-can coffee from the "Supervised by the World's Top Barista" series, expanded lineup Review of vending machine procurement method Deployment of "frontier vendors" to lessen vending machine burden on the environment and reduce costs P28 Deployment of Smile STAND Launch of "Calorie Limit for the Mature Aged" tea series P23						Collaboration with the TV anime <i>Demon Slayer (Kimetsu no Yaiba)</i> , commemorating 45 years of DyDo Blend, is a hit
				Transition to holding company system	Home shopping supplement business becomes profitable	
 Acquisition of shares for Malaysia business				Other	Decision to enter orphan drug business P66	
 Acquisition of shares for Turkey business					 Withdrawal from Malaysia	
					 DAIDO Yakuhin completes Kanto Plant	

(Millions of yen)

149,526	149,856	*6 →	171,401	172,684	171,553	168,256	158,227 *6
124,597	124,192	*7 →	128,278	*8 → 126,712	124,879	121,203	115,536
—	—	→	16,735	18,547	17,154	16,004	12,191
10,220	9,126		9,068	10,536	10,964	11,097	10,324
15,360	17,155		18,013	17,560	19,114	20,643	20,900
5,174	4,988		3,857	4,891	6,071	2,893	5,602
4,470	4,262		3,741	5,382	5,998	2,857	5,727
2,322	2,347		3,269	2,504	3,856	1,778	3,204
2,767	2,887		3,602	3,771	3,912	4,160	3,922
2,418	2,511		3,221	2,575	2,597	2,658	2,702
—	—		—	729	827	951	684
179	183		190	198	245	299	293
170	193		191	249	217	225	217
—	—		—	—	—	6	7
—	—		—	20	26	21	19
2.8	2.8		3.9	2.9	4.2	2.0	3.8
1.6	1.6		1.9	1.5	2.2	1.1	2.0
1.0	0.9		1.0	1.0	1.0	1.0	1.0
1.8	2.0		1.9	1.9	1.9	1.9	1.9
3,535	4,805		6,862	5,395	(1,295)	(3,022)	4,410
13,959	14,603		15,309	14,308	10,851	11,495	12,540
(10,424)	(9,797)		(8,447)	(8,913)	(12,147)	(14,517)	(8,130)
12,261	10,681		10,037	9,454 →	12,635	16,543	8,520
12,343	11,704		12,611	11,860	10,396	9,647	6,464

*6 Acquisition of Malaysian beverage business was completed in December 2015 and included in consolidated accounts starting FY2016, and for nine months of FY2020 in accordance with the transfer of shares. Acquisition of Turkish beverage business was completed in February 2016 and included in consolidated accounts for eleven months of FY2016. Acquisition of Turkish beverage business was completed in February 2016 and included in consolidated accounts for eleven months of FY2016. *7 From FY2017, changes made to reporting segments; Beverage Sales Division split between Domestic Beverage Business and International Beverage Business. Results for FY2016 adjusted to fit new reporting segments. Results for Domestic Beverage Business to FY2015 include Russia and China
*8 A change took place in assets and costs in conjunction with the transition to a holding company structure

Mid-term Business Plan 2021 and Progress as of FY2020

The Mid-term Business Plan 2021, which covers the three years from fiscal 2019, is positioned as the “Platform-strengthening and Investment Stage” of Group Mission 2030. It is intended to make our existing businesses more robust and engage in investments that will lead to the next “Growth Stage.” The following both outlines the progress made by the Mid-term Business Plan 2021 in each of the three basic policies of Group Mission 2030 and also reports on the business results for fiscal 2021.

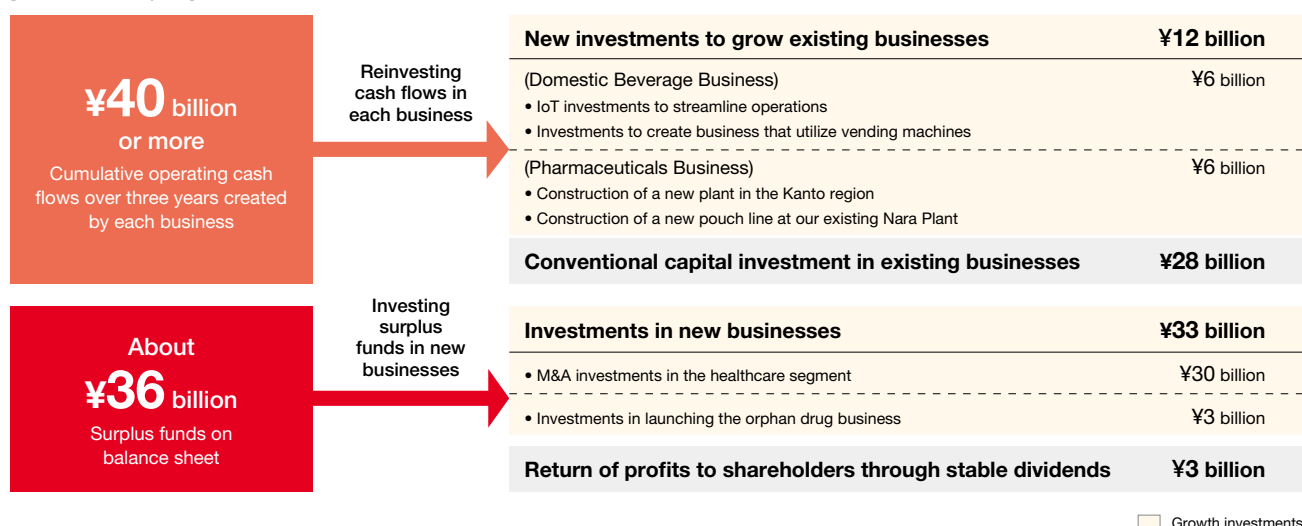
Basic Policies of Group Mission 2030

Innovation in the Domestic Beverage Business	By identifying changes in the times and diversifying customer needs, our Domestic Beverage Business is evolving into a business that is more accessible and of greater use to the daily lives of our customers. This segment will continue to be the DyDo Group's core business.
Expansion of Our Business Overseas	By delivering to the world food that is delicious for the body and mind, our business overseas will be grown so that it earns at least 20% of the group's sales.
Development of a Second Major Source of Revenue in Non-Beverage Businesses	Defining the healthcare market as a growth area, we will develop new markets that transcend the boundaries between healthcare and food products to build businesses in the healthcare domain as a second major source of revenue that integrates well with existing businesses.

(See **P10** for a roadmap of how we will realize Group Mission 2030 and a graphic of our business portfolio.)

Investment strategy of Mid-term Business Plan 2021 “Platform-strengthening and Investment Stage”

[Investment capital]



Mid-term Business Plan 2021 Progress

1. Innovation in the Domestic Beverage Business

The Domestic Beverage Business, which is the core business of the DyDo Group and embodies our strengths, is based on the business model of offering the products customers want in the closest and most convenient location. We will continue refine this business model, which involves not merely offering beverages through vending machines but delivering convenience to our customers. That is the role we should aspire to and the way we can evolve our business. Our Domestic Beverage Business has one of the largest networks of vending machines, and, along with the operation of the vending machine channel of our group companies in tandem with Kyoeikai (our vending partner association), this is a major asset of the DyDo Group. At the same time, the business environment in which the Group operates is becoming increasingly demanding, as demand sags due to the decline in the population in Japan and the supply side faces issues due to the emergence of a labor shortage for the maintaining of operations. In order for the Domestic Beverage Business to remain the group's core business, we believe it is important to shift the vending machine business to a more sustainable model. This is why the Mid-term Business Plan 2021 has as its main theme key questions about how to maintain our vending machine network amid a labor shortage and, working on the proviso that our competitors' strategies will change in response to that shortage, how we can establish our superiority in the vending machine market. Though these had been considered changes we had expected over the medium term, the change in consumer behavior caused by the COVID-19 pandemic has led to a certain loss in demand in the vending machine market, which has in turn completely changed the competitive environment and prompted companies in the industry to change their approach toward the vending machine channel as well. The changes that we thought were likely to occur over the medium to long term are now rapidly emerging.

The initiatives pursued as we work toward establishing a position of superiority in the vending machine market are the strengthening and expansion of our vending machine network and the implementation of fundamental changes to our operational structure to maintain that network. We believe that we are on the right track, as we were able to respond to the current changes ahead of time precisely because of the changes that had been initiated as part of the Mid-term Business Plan 2021. By staying the course, we will further accelerate our initiatives to improve efficiency and productivity by reforming our sales framework to maintain and expand our vending machine numbers in a shrinking market, thereby increasing our market share and establishing a position close behind the two major companies in the industry. We will respond to the pressing problem of the labor shortage by reforming our operations to create a system that will allow us to maintain and expand our vending machine network while also keeping the current number of personnel.

Through these initiatives, we will continuously increase the cash flow generated from the Domestic Beverage Business, which will allow us to allocate funds for investments to build our second major source of revenue.

2. Expansion of Our Business Overseas

Based on the Mid-term Business Plan 2021 policy of the selection and consolidation of strategic facilities overseas, we are reviewing our overseas business in each country, without expanding or even considering new business expansion. In the Turkish beverage business, which accounts for a large portion of our International Beverage Business, there are risks posed by the decline in economic activity due to the pandemic and the weakening of the lira, among other factors. Nevertheless, since entering the market in 2016 through an M&A with a local company, DyDo has made steady progress in PMI and has seen robust performance in the local currency. This is due to the fact that we have been able to focus our management resources on specific Turkish brands that existed prior to the M&A, which has increased the loyalty of our employees to their individual brands. The result has been an increase in selling power and, most notably, a contribution from the steadily increasing sales of our main brand, "Saka" mineral water. As for the export business, an area in which we plan to take further steps, we established a new local subsidiary in the UK and are making use of Russia, where we initially planned to develop our vending machine business, as an export base for Turkey. In these and other ways, we are strengthening strategies that tap into our easy access to Europe and the Middle East, as well as the advantage of having manufacturing bases.

In contrast, in Malaysia, where we entered the market at about the same time, after transitioning our presence there to a wholly owned subsidiary in 2019, we focused on reorienting our product portfolio toward self-developed brands. However, as we were unable to foresee a recovery in sales in the wake of the pandemic, we sold all of our shares.

Since we are now on track to see the overall International Beverage Business reach profitability by furthering our efforts toward selection and consolidation, we will once again examine our international business strategy as we move toward the next mid-term business plan.

3. 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 production line for pouch-packaged products 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.

While the impact of the pandemic has been significant and we are in a difficult situation in the short term, we believe that we can expect to see steady benefits from our investments over the medium to long term. As the demand related to health concerns increases, there is little doubt that the number of companies entering the healthcare market will increase in the future. However, 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 also required to obtain official licenses to become pharmaceutical manufacturers, and this presents a sizable barrier to entry into the market, we believe that DAIDO *Yakuhin*, which already has the required licenses, will be able to maintain an appropriate profit margin.

Based on this thinking, one of the investment policies set forth in our mid-term business plan is to diversify the types of products that can be licensed through M&A in companies possessing plants that manufacture capsules and tablets, for example. Although we have considered several projects to date, we do not have any results to report at this time, but we will continue to explore various possibilities while assessing the return on investment.

Another area of investment for us is the orphan drug business, which we announced our entry into in 2018. In January 2019, we established DyDo Pharma, Inc. and signed our first licensing agreement in Dec. 2020.

When we first announced our intention to enter this field 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 business model of providing convenience to customers is at the heart of what we do.

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. To compensate for the lack of expertise in highly specialized fields, we established an Advisory Board and, in April 2021, invited to the board a new member who could offer profound insights into the pharmaceutical industry. Cost will continue to be the dominant concern for the foreseeable future, but we will apply the cash accumulated in the vending machine business, our "cash cow," to further engage in this business of such high social significance.

(For details of the orphan drug business, see **P66**)

Basic Policies of the Mid-term Business Plan 2021: Achievements and Next Steps

	Achievements	Next steps
Focusing on improving profits and implementing robust management	<ul style="list-style-type: none"> ■ Improvement in the profitability of the Food Business ■ High growth in home shopping sales of products such as supplements ■ Articulation of a path toward improved cash flows in the Domestic Beverage Business 	<ul style="list-style-type: none"> ■ Strengthening development of vending machines in order to establish solid advantages in the vending machine market ■ Executing our company-wide rollout of smart operations (DyDo Beverage Service)
Making judgments about business continuity to facilitate strategic management	<ul style="list-style-type: none"> ■ International Beverage Business segment is on track for overall profitability 	<ul style="list-style-type: none"> ■ Turnaround of the beverage business in China ■ Rebuilding our international business strategy to facilitate the next phase of growth
Implementing a growth strategy to achieve Group Mission 2030	<ul style="list-style-type: none"> ■ Starting operation of the Daido <i>Yakuhin</i> pouch packaging line and the Kanto Plant ■ Concluding our first licensing agreement for the orphan drug business 	<ul style="list-style-type: none"> ■ Research and study of new investment opportunities

Mid-term Business Plan 2021 Guidelines and Achievements

As this mid-term business plan is still in the “Investment Stage,” we have indicated guidelines but have not yet set any quantitative targets.

Although we are gradually seeing the results of our efforts, the objective of improving operating cash flow is still in the offing.

We will continue to consolidate the foundation of the vending machine business, our core business concern, to ensure the recovery of our cash flow generating capability.

Guidelines			FY2019 results	FY2020 results
Sales	■ Organic growth in existing businesses along with new M&As		¥168.2 billion	¥158.2 billion
Operating margin	■ Operating margin in existing businesses (3%) minus investment strategy costs plus profit/loss from new M&As ■ Transition of the International Beverage Business to profitability		1.7%	3.5%
Cash flows (CFs)	■ Operating cash flows created by existing businesses	¥40 billion or greater About ¥28 billion	Sales cash flow: ¥11.4 billion Capital investment: ¥16.5 billion*	Cumulative sales cash flow: ¥24.0 billion Cumulative capital investment: ¥25.0 billion
	■ Capital investment necessary in existing businesses			
Investment strategy	■ Growth investments in existing businesses	About ¥12 billion		
	■ Investment in the health care domain to execute new M&As	About ¥30 billion	–	–
	■ Launch of the orphan drug business	About ¥3 billion	–	Concluded first ever license agreement
Return to shareholders	■ Return of profits to shareholders through stable dividends		¥60 per share	¥60 per share

*Amount of which is comprised by investment for growth in the Pharmaceutical-related Business (construction of the new Kanto Plant and a new pouch packaging line at the Nara Plant): ¥7.8 billion

Overview of Financial Situation and Business Results for FY2020

Overview of the Market Environment and DyDo Group Holdings amid the Pandemic in FY2020

	Market	DyDo
Domestic Beverage Business	■ Convenience store and vending machine sales remained soft even as overall sales exhibited a gradual recovery ■ Overall sales volume in the industry fell about 7% from the previous year	■ A canned coffee product with packaging featuring the TV anime <i>Demon Slayer (Kimetsu no Yaiba)</i> in October generated strong sales ■ The number of vending machines increased at the end of the fiscal year due to the results of initiatives launched in FY2019
Pharmaceutical-Related Business	■ Retail sales of quasi-drug drinks fell due to factors including slow office demand ■ We also faced challenges in terms of retail sales of beauty drinks	■ Orders were sluggish due to the effects of customers' inventory adjustments ■ Orders received via our investment partner TCI for beauty drinks for the Chinese market fell
International Beverage Business	(Turkey) ■ The COVID-19 pandemic surged again, prompting an economic slowdown due to the imposition in late November of even stricter restrictions than were implemented last spring ■ Domestic logistics costs are soaring and, in addition to soaring export-business logistics costs, delays have been occurring as well	(Turkey) ■ Profits rose on a local currency basis thanks to robust demand for mineral water and cost controls (Malaysia) ■ We sold our local subsidiary because there was no outlook for a recovery in sales
Food Business	■ The dry jelly market contracted slightly as sales of low-priced products rose due to consumer price consciousness ■ Sales in the pouch jelly market fell from the previous year due to changes in consumer lifestyles	■ Sales to volume retailers rose despite a contraction in sales to convenience stores, and we retained our top position in the dry jelly segment ■ Our market share rose in the pouch market as well

Status of Business Results

As mentioned above, in fiscal 2020 we responded flexibly to changes in the business environment and made steady progress in building a foundation for the future. Although sales were greatly affected by the pandemic, we were able to secure a certain level of profit due to the recovery of sales in the Domestic Beverage Business in the second half of the year.

In the second half of the year, sales in the Domestic Beverage Business exceeded the previous year's results, mainly because of developments such as being able to once again start increasing the number of vending machines and the sizable increase we saw in coffee beverage sales as a result of the collaboration with *Demon Slayer (Kimetsu no Yaiba)* ①. Many of those who purchased the collaborative product were younger people and women, which enabled us to gain recognition from new user segments that had no previous contact with our canned coffee, a major achievement that we feel will lead to future growth. At the same time, sales in the International Beverage Business decreased in the second half of the fiscal year due to the impact of the depreciation of the Turkish lira, resulting in decreased sales in

terms of Japanese yen, as well as the withdrawal of our Malaysian business concerns, which were excluded from consolidated accounts as of the fourth quarter ②. In the Pharmaceutical-related Business, orders for existing products remained low due to the pandemic, but in the Food Business, we were able to identify changes in consumer behavior and managed to expand sales at mass retailers, which greatly improved our profitability ③.

As for operating profit, in the Domestic Beverages Business, depreciation expenses decreased due to the change in the statutory useful life of vending machines from five years to ten years, which is in line with the actual number of years of use ④. However, this will return to the previous level over the next five years if capital investment remains constant. The Domestic Beverage Business has arrived at a significant increase in profit due to lower spending on advertising sales promotions and through cost controls ④. The significant decrease in profit in the Pharmaceutical-related Business was due to an increase in the Kanto Plant's depreciation burden relative to the previous fiscal year. The plant was completed in October 2019 (⑤B B').

Status of business results by segment

(Millions of yen)

	First half			Second half			Full year		
	FY2019	FY2020		FY2019	FY2020		FY2019	FY2020	
			% (YoY)			% (YoY)			% (YoY)
Domestic Beverage Business	60,809	54,822	(9.8%)	60,393	60,713	① ↑ 0.5%	121,203	115,536	(4.7%)
International Beverage Business	8,009	6,769	(15.5%)	7,995	5,421	② ↓ (32.2%)	16,004	12,191	(23.8%)
Pharmaceutical-Related Business	5,753	5,409	(6.0%)	5,343	4,914	(8.0%)	11,097	10,324	③ ↓ (7.0%)
Food Business	11,268	11,184	(0.7%)	9,375	9,715	3.6%	20,643	20,900	1.2%
Adjustment	(402)	(413)	–	(291)	(312)	–	(693)	(725)	–
Net sales	85,438	77,773	(9.0%)	82,817	80,453	(2.9%)	168,256	158,227	(6.0%)
Domestic Beverage Business	1,675	2,793	66.7%	2,272	4,316	④ ↑ 89.9%	3,948	7,110	80.1%
International Beverage Business	133	(41)	–	(439)	(133)	–	(306)	(175)	–
Pharmaceutical-Related Business	358	(63)	–	(147)	(361)	–	210	⑤ (425)	–
Food Business	574	857	49.4%	(109)	88	–	464	③ ↑ 103.6%	–
Other*	0	(75)	–	(148)	(241)	–	(148)	(317)	–
Adjustment	(707)	(694)	–	(567)	(842)	–	(1,275)	(1,536)	–
Operating profit	2,033	2,776	36.6%	860	2,825	228.4%	2,893	5,602	93.6%

*The "Other" category is for the business segment that is not included in the reported segment. It currently refers to the orphan drug business.

Status of capital investments

(Millions of yen)

	Capital investment			Depreciation expenses		
	FY2019	FY2020	Amount (YoY)	FY2019	FY2020	Amount (YoY)
Domestic Beverage Business	6,853	5,949	(903)	7,148	3,548	④ (3,599)
International Beverage Business	434	1,009	574	628	517	(111)
Pharmaceutical-Related Business	⑤ 7,466	439	(7,026)	696	1,122	④ B' 426
Food Business	1,252	864	(387)	765	810	45
Group-wide (including "Other")	537	257	(279)	408	383	(24)
Total	16,543	8,520	(8,022)	9,647	6,383	(3,263)

Financial Situation, Cash Flow

In fiscal 2020, interest-bearing debt increased due to the issuance of a total of 20 billion yen in corporate bonds. In addition, net assets decreased due to an increase in treasury stock. We do not plan to retire treasury stock in the foreseeable future, as we are mulling the possible use of it for M&A. The equity ratio at the end of fiscal 2020 was 51.8%, down 2.1% from the end of the previous fiscal year. However, we continue to be financially sound, with a current ratio of 210.5% and a fixed ratio of 94.7%.

Due to a reactionary decline resulting from our large-scale capital investment in the Pharmaceutical-related Business in fiscal 2019, in fiscal 2020 the free cash flow improved but EBITDA fell below the previous year's level. We will continue our efforts to improve our operating cash flow through the platform strengthening of our vending machine business.

Challenges to Improving Capital Efficiency

In order to improve the DyDo Group's capital productivity, we need to reinvest operating cash flows provided by existing businesses to generate growth and harness excess funds for strategic investments in new businesses. Under Group Mission 2030, the Mid-term Business Plan 2021 period is the "Platform-strengthening and Investment Stage" in which we pursue growth investments, however with regard to fiscal 2021 itself, we plan to focus on IoT investments in the Domestic Beverage Business.

Status of cash flows

(Millions of yen)

	FY2019	FY2020	Amount (YoY)
Cash flow from operating activities	11,495	12,540	1,045
Cash flow from investing activities	(15,472)	(7,635)	7,837
Cash flow from financing activities	(4,099)	(2,329)	1,770
Effect of exchange rate change on cash and cash equivalents	(86)	(141)	(54)
Net increase (decrease) in cash and cash equivalents	(8,163)	2,433	10,597
Cash and cash equivalents at beginning of period	38,413	30,253	(8,159)
Increase in cash and cash equivalents due to new consolidation	3	—	(3)
Cash and cash equivalent at end of period	30,253	32,687	2,433

Major factors affecting increases/decreases in free cash flow

(Millions of yen)

	FY2019	FY2020	Amount (YoY)
EBITDA*	12,932	12,357	(575)
Working capital cash flow increase (decrease)	182	(312)	(495)
Other	(1,620)	495	2,115
Cash flow from operating activities (a)	11,495	12,540	1,045
Purchase of property, plant and equipment and intangible assets (b)	(14,517)	(8,130)	6,387
Free cash flow (a-b)	(3,022)	4,410	7,432

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

The changes in accounts receivable and inventories reflect seasonal fluctuations

January 20, 2020

(Millions of yen)

Financial assets* ¹	73,240	Interest-bearing debt* ²	33,713
Accounts receivables	18,497	Accounts payable	18,623
Inventories	8,444	Other	21,835
Property, plant and equipment Intangible assets	50,831	Net assets	89,210
Other	12,369		
Total assets	163,383	Total liabilities and net assets	163,383

January 20, 2021

(Millions of yen)

Change from previous year shown underneath each figure

Financial assets* ¹	70,415 (2,824)	Interest-bearing debt* ²	36,949 3,236
Accounts receivables	16,010 (2,487)	Accounts payable	16,174 (2,449)
Inventories	8,103 (340)	Other	21,860 24
Property, plant and equipment Intangible assets	51,093 262	Net assets	82,609 (6,600)
Other	11,970 (399)		
Total assets	157,594 (5,789)	Total liabilities and net assets	157,594 (5,789)

*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

Status of Shares / Rating Information / Corporate Bond Information

(as of January 20, 2021)

Status of Shares

Total Shares / Number of Shareholders

Authorized number of shares: 50,000,000

Number of shares outstanding:

16,568,500 (including 678,172 shares of treasury stock)

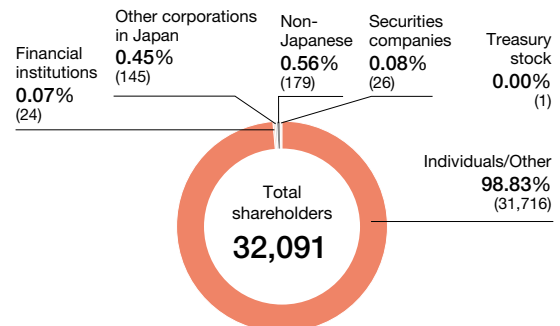
Minimum trading unit: 100 shares

Number of shareholders: 32,091

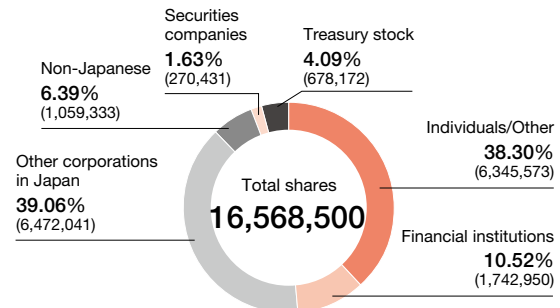
Major Shareholders

Shareholder name	Number of shares	Percentage of voting rights (%)
HighWood Co., Ltd.	2,470,800	15.54
Santomi	2,011,600	12.65
Taita Corporation	651,100	4.09
Tomihiro Takamatsu	495,000	3.11
Tomiya Takamatsu	495,000	3.11
Akira Takamatsu	494,000	3.10
The Master Trust Bank of Japan, Ltd. (Trust Account)	354,100	2.22
Lemongas Kagoshima Co., Ltd.	250,000	1.57
Custody Bank of Japan, Ltd. (Trust Account)	239,100	1.50
Lemongas Kumamoto Co., Ltd.	223,400	1.40

Number of Shareholders by Shareholder Category



Number of Shares by Shareholder Category



Trends in Total Shareholder Returns (over five years)

	FY2016	FY2017	FY2018	FY2019	FY2020
Share value at the end of the period (yen)	5,980	5,880	5,490	4,385	5,120
Dividend per share (yen)	60	60	60	60	60
Total shareholder return (%)	118.0%	117.2%	110.7%	90.3%	105.9%

(Comparative index: TOPIX net total return index)

TOPIX	Advance/decline rate compared with FY2016 (%)	117.1%	147.3%	124.1%	142.5%	154.8%
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Highest and Lowest Share Values by Fiscal Year

	FY2016	FY2017	FY2018	FY2019	FY2020
High (yen)	6,290	5,990	7,120	5,570	6,040
Low (yen)	4,935	5,070	5,110	4,000	2,761

Rating Information / Corporate Bond Information

Rating Information

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

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

Corporate Bond Information

Description	Second unsecured straight bond (with a limited inter-bond pari passu ranking clause)
Date of issue	July 16, 2020
Total amount issued	¥10 billion
Interest rate	0.300% (per year)
Redemption date	July 16, 2025
Description	Third unsecured straight bond (with a limited inter-bond pari passu ranking clause)
Date of issue	July 16, 2020
Total amount issued	¥10 billion
Interest rate	0.510% (per year)
Redemption date	July 16, 2030

Corporate Data / Group Companies (as of June 1, 2021)

Corporate Data

Company Name	DyDo Group Holdings, Inc.	Fiscal Year	From every January 21 to January 20 of the following year
Head Office	2-2-7 Nakanoshima, Kita-ku, Osaka 530-0005, Japan	Paid-in Capital	1,924 million yen
Representative	President and Representative Director Tomiya Takamatsu	Stock Exchange Listing	Tokyo Stock Exchange, 1st Section
Established	January 27, 1975	Securities Code	2590
		Number of Employees	Consolidated: 3,922 (as of January 20, 2021)

Group Companies

Domestic Beverage Business

DyDo DRINCO, INC.	Consolidated Subsidiary
Business Outline	Sales of soft drinks, etc.
Location	Osaka
DyDo Beverage Service, Inc.	Consolidated Subsidiary
Business Outline	Contract sales of soft drinks, etc.
Location	Osaka
DyDo Business Service, Inc.	Consolidated Subsidiary
Business Outline	Business processing services for the Group
Location	Osaka
DyDo Beverage Shizuoka, Inc.	Consolidated Subsidiary
Business Outline	Sales of soft drinks, etc.
Location	Fukuroi, Shizuoka
DyDo Vending Japan, Inc.	Consolidated Subsidiary
Business Outline	Sales of soft drinks, etc.
Location	Yonago, Tottori
DyDo DRINCO Service Kanto, Inc.	Consolidated Subsidiary
Business Outline	Sales of soft drinks, etc.
Location	Shimotsuga, Tochigi
DyDo Mitsufoji Beverage, Inc.	Consolidated Subsidiary
Business Outline	Sales of soft drinks, etc.
Location	Imabari, Ehime
DyDo-Takenaka Beverage, Inc.	Equity Method Affiliate
Business Outline	Manufacture and sales of soft drinks, etc.
Location	Muroto, Kochi
DyDo-Takenaka Vending, Inc.	Equity Method Affiliate
Business Outline	Sales of soft drinks, etc.
Location	Nankoku (registered location: Kochi), Kochi
Akita-DyDo Corporation	Equity Method Affiliate
Business Outline	Sales of soft drinks, etc.
Location	Akita
Gunma-DyDo Corporation	Equity Method Affiliate
Business Outline	Sales of soft drinks, etc.
Location	Sawa, Gunma
DyDo Vending Kinki, Inc.	Equity Method Affiliate
Business Outline	Sales of soft drinks, etc.
Location	Kawanishi, Hyogo
Shibusawa DyDo Group Logistics Co., Ltd.	Equity Method Affiliate
Business Outline	Freight forwarding on consignment
Location	Osaka

International Beverage Business

Shanghai DyDo DRINCO, Inc.	Consolidated Subsidiary
Business Outline	Sales of soft drinks, etc.
Location	Shanghai, China
DyDo DRINCO RUS, LLC	Consolidated Subsidiary
Business Outline	Sales of soft drinks, etc.
Location	Moscow, Russia
Della Gıda Sanayi ve Ticaret A.Ş.	Consolidated Subsidiary
Business Outline	Production of soft drinks, etc.
Location	Istanbul, Turkey
Bahar Su Sanayi ve Ticaret A.Ş.	Consolidated Subsidiary
Business Outline	Production of soft drinks, etc.
Location	Istanbul, Turkey
DyDo DRINCO TURKEY İçecek Satış ve Pazarlama A.Ş.	Consolidated Subsidiary
Business Outline	Sales of soft drinks, etc.
Location	Istanbul, Turkey
Mavidağ Gıda Pazarlama Sanayi ve Ticaret İthalat İhracat A.Ş.	Consolidated Subsidiary
Business Outline	Production of soft drinks, etc.
Location	Muğla, Turkey
DyDo DRINCO UK Ltd	Consolidated Subsidiary
Business Outline	Sales of soft drinks, etc.
Location	London, UK
DAIDO Pharmaceutical Corporation	Consolidated Subsidiary
Business Outline	Sales and production of drinkable preparations (medicines, quasi-medicines, soft drinks), etc.
Location	Katsuragi, Nara

Pharmaceutical-Related Business

Food Business

Tarami Corporation	Consolidated Subsidiary
Business Outline	Sales and production of fruit dessert jellies, etc.
Location	Nagasaki
Shunnotoki Inc.	Consolidated Subsidiary
Business Outline	Sales of fruit dessert jellies, etc.
Location	Isahaya, Nagasaki
DyDo Pharma, Inc.	Consolidated Subsidiary
Business Outline	Manufacture and sales of healthcare pharmaceuticals and equipment, etc.
Location	Osaka

Other

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Offering delicious products
for sound mind and body

DyDo Group Holdings, Inc.

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